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September 19, 1997

VIA OVERNIGHT DELIVERY

Ms. Blanco Bayo
Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0864

971326-TP

Re: Application for Authority to Transfer Control of USLD to LCI.

Dear Ms. Bayo:

Enclosed please find an original and 12 copies of the Application for Approval of a Transfer of Control of USLD Communications, Inc. and LCI International, Inc. for filing with the Commission. Also enclosed is a duplicate copy of this filing. Please date-stamp the duplicate and return it in the self-addressed, postage-paid envelope provided

Please do not hesitate to call me if you have any questions regarding this filing.

Very truly yours,

Marieann Machida

Marieann Z. Machida

Enclosure

ORIGINAL

Before the
STATE OF FLORIDA
PUBLIC SERVICE COMMISSION

Application of	)	
	)	
	)	
LCI INTERNATIONAL, INC.,	)	
USLD COMMUNICATIONS CORP.	)	Docket No.
and USLD COMMUNICATIONS, INC.	)	
	)	
	)	
For Approval of a Transfer of Control	)	

APPLICATION

LCI International, Inc. ("LCII"), USLD Communications Corp. ("USLDC") and USLD Communications, Inc. ("USLDI")[1] (collectively the "Applicants"), by their attorneys, hereby respectfully request authority from the Florida Public Service Commission ("Commission"), pursuant to Sections 364.33 and 364.345 of the Florida Statutes, to transfer control of USLDI from the current shareholders of USLDC to LCII. USLDI currently is certified to provide intrastate telecommunications services in Florida, and will continue to operate as a telecommunications services provider in Florida after the transfer of control. Due to the timing of the Applicants' business plans, they respectfully request that the Commission issue an order approving the transfer of control on or before ***December 15, 1997***. In support of their Application, the Applicants provide the following information:

[1] USLDI was formerly known as U.S. Long Distance, Inc.

I. THE APPLICANTS

LCII is a Delaware corporation headquartered at 8180 Greensboro Drive, Suite 800, McLean, Virginia 22102. The company is publicly traded on the New York Stock Exchange under the symbol "LCI". LCII's primary operating subsidiary, LCI International Telecom, Inc. ("LCIT"), is the sixth largest interexchange telecommunications company in the nation based upon presubscribed telephone lines as reported by the Federal Communications Commission ("FCC"). LCIT provides a full array of local and worldwide long distance voice and data transmission services to businesses, residential customers and other carriers over its own nationwide network of digital fiber optic facilities, transmission facilities leased from other carriers, and resold telecommunications services.[2]

Founded in 1985, USLDC is a Delaware corporation headquartered at 9311 San Pedro, Suite 100, San Antonio, Texas, 78216, and is publicly traded on the NASDAQ exchange under the symbol "USLD". USLDI, a Texas corporation located at the same address, is the wholly owned operating subsidiary of USLDC. USLDI is a fully integrated local and interexchange telecommunications company that offers a variety of services, including local exchange services, direct dial long distance, prepaid calling cards, travel cards, Internet access, data transmission services, and calling center services, to customers throughout the United States. USLDI received its authority to provide telecommunications services in Florida on May 21, 1990, and May 30, 1997, in Docket No. 900056-TI (interexchange) and Docket No. 970253-TX (local service), respectively. USLDI also is authorized by the FCC to provide interstate and international telecommunications services.

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[2] LCIT is authorized to provide intrastate interexchange services in 48 states, including Florida, and the District of Columbia. LCIT also is authorized to provide local exchange services in 32 states, including Florida. However, LCIT is not directly affected by the transfer of control proposed herein.

II. DESIGNATED CONTACTS

The designated contacts for purposes of this Application are:

Brad E. Mutschelknaus
Marieann Z. Machida
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
(202) 955-9600

Copies of all correspondence, notices, inquiries and orders should also be sent to:

For LCII:

Douglas W. Kinkoph
Director, Regulatory/Legislative Affairs
LCI INTERNATIONAL, INC.
8180 Greensboro Drive, Suite 800
McLean, Virginia 22102

For USLD:

Ken Melley
Vice President
USLD COMMUNICATIONS CORP.
9311 San Pedro, Suite 100
San Antonio, Texas 78216

III. REQUEST FOR APPROVAL TO TRANSFER OF CONTROL OF USLDI TO LCII

On September 18, 1997, LCII and USLDC entered into a definitive Agreement and Plan of Merger ("Merger Agreement") pursuant to which LCII will acquire USLDC by purchasing all of the company's outstanding shares from the current USLDC shareholders.[3] Since USLDI is wholly owned by USLDC, the acquisition of USLDC by LCII will result in a transfer of ultimate control of USLDI to LCII. The transfer of control will be accomplished through use of a reverse triangular merger whereby a newly formed, special-purpose subsidiary of LCII, LCI Acquisition Corp., will be merged with and into USLDC. USLDC will be the surviving entity, and will thereafter be a wholly owned subsidiary of

[3] A copy of the Merger Agreement is appended hereto as Attachment A.

LCII. USLDI will continue to exist as a wholly owned subsidiary of USLDC. The boards of directors of LCII and USLDC have approved the Merger Agreement.[4]

Under the terms of the Merger Agreement, for each of USLDC's 16,590,336 outstanding shares of common stock, LCII will exchange a fraction of one share of LCII common stock having a value of $20.00 based upon the average price of LCII common stock for the 20 trading days ending 3 days before the merger, subject to certain exceptions. Assuming an average price of LCII common stock equal to $24.00, LCII will exchange approximately .833 of one share of LCII common stock for each outstanding share of USLDC common stock. If the average price of LCII common stock is more than $26.40, the exchange ratio will be fixed at .7576 shares of LCII common stock for each share of USLDC common stock. If the average price is less than $21.60, the exchange ratio will be fixed at .9259 shares of LCII common stock for each outstanding share of USLDC common stock. If the average price of LCII common stock is less than $20.40, either LCII or USLDC may terminate the agreement unless LCII agrees to an exchange ratio that will provide at least $18.90 in value for each outstanding USLDC share, based upon the average stock price of LCII common stock.

After the transfer of control, USLDC will survive for an indefinite period as a wholly owned subsidiary of LCII, and USLDI will remain a subsidiary of USLDC. The company will continue to operate as it has in the past, pursuant to the same name, tariff and operating authority. Thus, the transfer of control will be seamless and will have no adverse impact on USLDI's customers in Florida. On the contrary, USLDI's access to LCII's capital,

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[4] Charts depicting the transfer of control are appended hereto as Attachment B.

economies of scale, and various service offerings will enable it to improve its services to both existing and new customers.

LCII possesses all financial, managerial and technical qualifications necessary to assume ultimate control of USLDI. As stated previously, based upon presubscribed telephone lines as reported by the FCC, LCIT already ranks as the nation's sixth largest interexchange carrier. In 1996, LCII reported revenues of approximately $1.1 billion and net income of approximately $74.8 million.[5] For the first half of calendar 1997, LCII reported revenues of approximately $653 million, and net income of approximately $41.9 million.[6] LCII is led by a highly qualified team of management personnel, all of whom have extensive backgrounds in the telecommunications industry.[7] LCII's telecommunications expertise, and the public's satisfaction with its services, is demonstrated by the fact that the company experienced a 64%, 45% and 36% growth in revenues during 1996, 1995 and 1994 respectively, as well as a 68%, 48% and 45% growth, respectively, in the volume of switched minutes of use during the same periods.

Based upon the most recently reported quarterly results for LCII and USLDC, the combined company will have total consolidated 1997 annualized revenues of $1.6 billion.[8] The combined company will have 12.4 billion long-distance minutes of usage on an annualized basis, and over 180 million circuit miles of digital fiber optic capacity in the

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[5] A copy of LCII's 1996 SEC Form 10-K is appended hereto as Attachment C.

[6] A copy of LCII's most recent SEC Form 10-Q is appended hereto as Attachment D.

[7] Brief biographical statements concerning each of LCII's senior management personnel are appended hereto as Attachment E. In addition, a profile of the LCI companies is appended hereto as Attachment F.

[8] USLDC's revenues for the year ended September 30, 1996 were $180.3 million. Reported third quarter 1997 revenues, ended June 30, 1997, were $60 million.

United States alone (with construction underway to add over 140 million more by early 1998).

IV. PUBLIC INTEREST ANALYSIS

Approving the transfer of ultimate control of USLDI from its current shareholders to LCII is in the public interest. The addition of USLDC and USLDI to the LCI family of companies will enhance both LCIT's and USLDI's ability to compete in the market for telecommunications services in Florida. Both companies will benefit from increased economies of scale that will permit them to operate more efficiently and thus to compete more effectively. Specifically, the transaction significantly expands LCII's direct geographic presence and market coverage into the Southwest and Northwest portions of the United States, and enhances its customer base in the West and Southwest. The acquisition also will give rise to considerable network synergies in areas where LCII has committed to build a substantial fiber optic network. Over time, consumers in Florida will benefit from the availability of increased local and long distance telecommunications product and service options.

WHEREFORE, the Applicants respectfully request that the Commission authorize a transfer of control of USLDI to LCII.

Respectfully submitted,

LCI INTERNATIONAL, INC.,
USLD COMMUNICATIONS CORP. and
USLD COMMUNICATIONS, INC.

By _____

Brad E. Mutschelknaus
Marieann Z. Machida
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036
(202) 955-9600

Their Attorneys

Dated: September 19, 1997

VERIFICATION OF APPLICANT

I represent LCI International, Inc. and each of its subsidiaries and am authorized to make this statement on their behalf. I have read the foregoing document and declare the statements therein to be true of my own knowledge, except as to matters which are stated on information and belief. As to those matters, I believe them to be true. I so declare under penalty of perjury that the foregoing is true and correct.

By: Lee M. Weiner

Name: LEE M. WEINER

Title: VP + GENERAL COUNSEL

Date: 9-18-97

SUBSCRIBED AND SWORN to before me this 18th day of September, 1997.

NOTARY PUBLIC in and for said County and State
I was commissioned Notary as Donna M. Aicholtz
My Commission Expires 12-31-99

DC01/MACHMA/28171.41

VERIFICATION OF APPLICANT

I represent U.S. Long Distance, Inc. and am authorized to make this statement on its behalf. I have read the foregoing document and declare the statements therein to be true of my own knowledge, except as to matters which are stated on information and belief. As to those matters, I believe them to be true. I so declare under penalty of perjury that the foregoing is true and correct.

By: _____

Name: Kenneth F. Melley, Jr.

Title: Vice President of Regulatory Affairs

Date: September 18, 1997

SUBSCRIBED AND SWORN to before me this 18 day of September, 1997.

_____
NOTARY PUBLIC in and for said County and State

VICKY ANN NICHOLSON
Notary Public, State of Texas
My Commission Expires
FEBRUARY 08, 2001

ATTACHMENT A

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

LCI INTERNATIONAL, INC.

LCI ACQUISITION CORP.

and

USLD COMMUNICATIONS CORP.

Dated as of September 17, 1997

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of September 17, 1997 (this "Agreement"), among LCI INTERNATIONAL, INC., a Delaware corporation ("Parent"), LCI ACQUISITION CORP., a Delaware corporation and a direct, wholly-owned subsidiary of Parent ("Merger Sub"), and USLD COMMUNICATIONS CORP., a Delaware corporation (the "Company").

WITNESSETH:

WHEREAS, the Boards of Directors of Parent, Merger Sub and the Company have each determined that it is advisable and in the best interests of their respective stockholders for Parent to cause Merger Sub to merge with and into the Company upon the terms and subject to the conditions set forth herein;

WHEREAS, in furtherance of such combination, the Boards of Directors of Parent, Merger Sub and the Company have each approved the merger (the "Merger") of Merger Sub with and into the Company in accordance with the applicable provisions of the Delaware General Corporation Law (the "DGCL"), and upon the terms and subject to the conditions set forth herein;

WHEREAS, Parent, Merger Sub and the Company intend, by approving resolutions authorizing this Agreement, to adopt this Agreement as a plan of reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder;

WHEREAS, Parent, Merger Sub and the Company intend that the Merger be accounted for as a pooling-of-interests for financial reporting purposes; and

WHEREAS, pursuant to the Merger, each outstanding share (a "Share") of the Company's Common Stock, par value $0.01 per share (together with the preferred stock purchase right associated therewith, the "Company Common Stock"), shall be converted into the right to receive the Merger Consideration (as defined in Section 1.7(b)), upon the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, Parent, Merger Sub and the Company hereby agree as follows:

ARTICLE I

THE MERGER

SECTION 1.1 The Merger. (a) Effective Time. At the Effective Time (as defined in Section 1.2), and subject to and upon the terms and conditions of this Agreement and the DGCL, Merger Sub shall be merged with and into the Company, the separate corporate existence of Merger Sub shall cease, and the Company shall continue as the surviving corporation. The Company as the surviving corporation after the Merger is hereinafter sometimes referred to as the "Surviving Corporation."

(b) Closing. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Section 7.1 and subject to the satisfaction or waiver of the conditions set forth in Article VI, the closing under this Agreement (the "Closing") will take place on or as promptly as practicable (and in any event within two Business Days) after satisfaction or waiver of the conditions set forth in Article VI at the offices of Kramer, Levin, Naftalis & Frankel, 919 Third Avenue, New York, New York, unless another date, time or place is agreed to in writing by the parties hereto. The day in which the Closing takes place is called the "Closing Date."

SECTION 1.2 Effective Time. On the Closing Date or as promptly as practicable thereafter (and in any event within one Business Day thereafter), the parties hereto shall cause the Merger to be consummated by filing a certificate of merger as contemplated by the DGCL (the "Certificate of Merger"), together with any required related certificates, with the Secretary of State of the State of Delaware, in such form as required by, and executed in accordance with the relevant provisions of, the DGCL (the time of such filing being the "Effective Time").

SECTION 1.3 Effect of the Merger. At the Effective Time, the effect of the Merger shall be as provided in this Agreement, the Certificate of Merger and the applicable provisions of the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

SECTION 1.4 Certificate of Incorporation; By-Laws. (a) Certificate of Incorporation. Unless otherwise determined by Parent prior to the Effective Time, at the Effective Time the Certificate of Incorporation of the Company, as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation until thereafter amended as provided by the DGCL and such Certificate of Incorporation; provided, however, that Section 3 thereof shall be amended and restated in its entirety to provide that the Surviving Corporation may engage in any lawful act or activity for which corporations may be organized under the DGCL.

(b) By-Laws. The By-Laws of the Company, as in effect immediately prior to the Effective Time, shall be the By-Laws of the Surviving Corporation until thereafter amended as provided by the DGCL, the Certificate of Incorporation of the Surviving Corporation and such By-Laws; provided, however, that Article III, Section 3.01 thereof shall be amended and restated in its entirety to provide that the Surviving Corporation's Board shall consist of not less than three members, all of a single class, with the exact number to be fixed from time to time by resolution of the Board of Directors.

SECTION 1.5 Directors and Officers. The directors of Merger Sub immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the Certificate of Incorporation and By-Laws of the Surviving Corporation, and the officers of the Company immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed and qualified.

SECTION 1.6 Effect on Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of the Parent, Merger Sub, the Company or the holders of any of the following securities:

(a) Conversion of Securities. Each Share issued and outstanding immediately prior to the Effective Time (excluding any Shares to be canceled pursuant to Section 1.6(b)) shall be cancelled and extinguished and automatically converted, subject to Section 1.6(f), into the right to receive validly issued, fully paid and nonassessable shares of Common Stock, par value $0.01, of Parent (together with the preferred stock purchase rights associated therewith, the "Parent Common Stock") in the applicable ratio (the "Exchange Ratio") as follows:

- If the Average Stock Price (as hereinafter defined) is greater than or equal to $21.60 but less than or equal to $26.40, the Exchange Ratio shall be equal to $20.00 divided by the Average Stock Price.
- If the Average Stock Price is more than $26.40, the Exchange Ratio shall be equal to .7576.
- Except as provided in the following paragraph, if the Average Stock Price is less than $21.60, the Exchange Ratio shall be equal to .9259.
- If the Average Stock Price is less than $20.40 and the Company and Parent deliver their respective notices specified in Section 7.1(i), the Exchange Ratio shall be equal to $18.90 divided by the Average Stock Price (or such higher ratio as specified in Parent's notice).

Capitalized terms used in this section have the following meanings:

"Average Stock Price" means the average of the Daily Per Share Prices for the twenty (20) consecutive trading days ending on the third trading day prior to the

Company Stockholders Meeting (as defined in Section 2.28); provided, however, that, except with respect to Section 7.1(i), if the Closing Date occurs more than three trading days after the Company Stockholders Meeting, such consecutive trading days shall end on the second trading day prior to the Closing Date.

"Daily Per Share Price" for any trading day means the weighted average of the per share selling prices on the New York Stock Exchange, Inc. (the "NYSE") of Parent Common Stock (as reported in the NYSE Composite Transactions) for that day; provided, however, that if the Parent Common Stock does not trade on any day in such period, the Daily Per Share Price for such day means the average of the closing bid and asked prices of Parent Common Stock on such day.

(b) Cancellation. Each Share held in the treasury of the Company and each Share owned by Parent, Merger Sub or any direct or indirect wholly owned subsidiary of the Company or Parent immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, cease to be outstanding, be canceled and retired without payment of any consideration therefor and cease to exist.

(c) Assumption of Outstanding Stock Options and Warrants. (i) Each option outstanding at the Effective Time to purchase shares of Company Common Stock (a "Stock Option") granted under the USLD Communications Corp. 1990 Employee Stock Option Plan, as amended, the USLD Communications Corp. 1993 Non-Employee Director Plan, as amended, or any other stock plan or agreement of the Company, which by its terms is not extinguished in the Merger (collectively, the "Company Stock Option Plans"), shall be assumed by Parent and deemed to constitute an option to acquire, on the same terms and conditions *mutatis mutandis* as were applicable under such Stock Option prior to the Effective Time, the number of shares of Parent Common Stock as the holder of such Stock Option would have been entitled to receive pursuant to the Merger had such holder exercised such option in full immediately prior to the Effective Time (not taking into account whether or not such option was in fact exercisable) at a price per share equal to (x) the aggregate exercise price for Company Common Stock otherwise purchasable pursuant to such Stock Option divided by (y) the number of shares of Parent Common Stock deemed purchasable pursuant to such Stock Option; provided, however, that the number of shares of Parent Common Stock that may be purchased upon exercise of any such Stock Option shall not include any fractional share and, upon exercise of the Stock Option, a cash payment shall be made for any fractional share based upon the Closing Price (as hereinafter defined) of a share of Parent Common Stock on the trading day immediately preceding the date of exercise. "Closing Price" shall mean, on any day, the last reported sale price of one share of Parent Common Stock on the NYSE. Within three Business Days after the Effective Time, Parent shall cause to be delivered to each holder of an outstanding Stock Option an appropriate notice setting forth such holder's rights pursuant thereto, and such Stock Option shall continue in effect on the same terms and conditions. Parent shall comply with the terms of the Company Stock Option Plans pursuant to which the Stock Options were granted from and after the Effective Time.

(ii) At the Effective Time, each warrant to purchase shares of Company Common Stock (a "Warrant"), shall be assumed by Parent and deemed to constitute a warrant to acquire, on the same terms and conditions *mutatis mutandis* as were applicable under such Warrant prior to the Effective Time, the number of shares of Parent Common Stock as the holder of such Warrant would have been entitled to receive pursuant to the Merger had such holder exercised such Warrant in full immediately prior to the Effective Time (not taking into account whether or not such Warrant was in fact exercisable) at a price per share equal to (x) the aggregate exercise price for Company Common Stock otherwise purchasable pursuant to such Warrant divided by (y) the number of shares of Parent Common Stock deemed purchasable pursuant to such Warrant; provided, however, that the number of shares of Parent Common Stock that may be purchased upon exercise of any such Warrant shall not include any fractional share and, upon exercise of such Warrant, a cash payment shall be made for any fractional share based upon the Closing Price (as hereinafter defined) of a share of Parent Common Stock on the trading day immediately preceding the date of exercise.

(iii) Parent shall cause to be taken all corporate action necessary to reserve for issuance a sufficient number of shares of Parent Common Stock for delivery upon exercise of Stock Options and Warrants in accordance with this Section 1.6(c). Within three Business Days after the Effective Time, Parent shall cause the Parent Common Stock subject to Stock Options to be registered under the Securities Act of 1933, as amended and the rules of the Securities and Exchange Commission (the "SEC") thereunder (the "Securities Act"), pursuant to a registration statement on Form S-8 (or any successor or other appropriate forms), and shall use its best efforts to cause the effectiveness of such registration statement (and the current status of the prospectus or prospectuses contained therein) to be maintained for so long as the Stock Options remain outstanding.

(iv) The Company shall take such action as is necessary to cause the ending date of the then current offering period under its Employee Stock Purchase Plan (as such term is defined in Section 2.14 of the Company Disclosure Schedule) to be prior to the Effective Time and on such date as is determined in accordance with the terms of such plan (the "Final Purchase Date"); provided, that, such change in the offering period shall be conditioned upon the consummation of the Merger. On the Final Purchase Date, the Company shall apply the funds credited as of such date under such Employee Stock Purchase Plan within each participant's payroll withholding account to the purchase of whole shares of Company Common Stock in accordance with the terms of such Employee Stock Purchase Plan.

(v) Employees of the Company as of the Effective Time shall be permitted to participate in the Parent's Employee Stock Purchase Plan commencing on the first enrollment date of such plan following the Effective Time, subject to the eligibility provisions of such plan (with employees receiving credit, for purposes of such eligibility provisions, for service with the Company or Parent).

(d) Capital Stock of Merger Sub. The one share of common stock, $.01 par value, of Merger Sub issued and outstanding immediately prior to the Effective Time

shall be converted into and exchanged for 16,590,336 validly issued, fully paid and nonassessable shares of common stock, $0.01 par value, of the Surviving Corporation.

(e) Adjustments to Exchange Ratio. The Exchange Ratio shall be appropriately adjusted to reflect fully the effect of any stock split, reverse split, stock dividend (including any dividend or distribution of securities convertible into Parent Common Stock), reorganization, recapitalization or other like change with respect to Parent Common Stock occurring after the date hereof and prior to the Effective Time.

(f) Fractional Shares. No certificates or scrip representing less than one share of Parent Common Stock shall be issued upon the surrender for exchange of a certificate or certificates which immediately prior to the Effective Time represented outstanding Shares (the "Certificates"). In lieu of any such fractional share, each holder of Shares who would otherwise have been entitled to a fraction of a share of Parent Common Stock upon surrender of Certificates for exchange shall be paid upon such surrender cash (without interest) in an amount equal to such fraction multiplied by the Closing Price of Parent Common Stock on the date of the Effective Time.

SECTION 1.7 Exchange of Certificates. (a) Exchange Agent. Parent shall cause to be supplied, to or for such bank or trust company as shall be mutually designated by the Company and Parent (the "Exchange Agent"), in trust for the benefit of the holders of Company Common Stock, for exchange in accordance with this Section 1.7, through the Exchange Agent, certificates evidencing the shares of Parent Common Stock issuable pursuant to Section 1.6 in exchange for outstanding Shares and the cash to be paid in lieu of fractional shares.

(b) Exchange Procedures. As soon as reasonably practicable after the Effective Time, Parent will instruct the Exchange Agent to mail to each holder of record of Certificates (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as Parent may reasonably specify), and (ii) instructions to effect the surrender of the Certificates in exchange for the certificates evidencing shares of Parent Common Stock. Upon surrender of a Certificate for cancellation to the Exchange Agent together with such letter of transmittal, duly executed, and such other customary documents as may be required pursuant to such instructions, the holder of such Certificate shall be entitled to receive in exchange therefor (A) certificates evidencing that number of whole shares of Parent Common Stock which such holder has the right to receive in accordance with the Exchange Ratio in respect of the Shares formerly evidenced by such Certificate, (B) any dividends or other distributions to which such holder is entitled pursuant to Section 1.7(c), and (C) cash in respect of fractional shares as provided in Section 1.6(f) (the shares of Parent Common Stock and cash being, collectively, the "Merger Consideration"), and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Shares which is not registered in the transfer records of the Company as of the Effective Time, shares of Parent Common Stock, dividends, distributions and cash in respect of fractional shares may be issued and paid in accordance with this Article I to a transferee if the Certificate evidencing

such Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer pursuant to this Section 1.7(b) and by evidence that any applicable stock transfer taxes have been paid. Until so surrendered, each outstanding Certificate that, prior to the Effective Time, represented Shares will be deemed from and after the Effective Time, for all corporate purposes, other than the payment of dividends and, subject to Section 1.6(f), to evidence the ownership of the number of whole shares of Parent Common Stock, and cash in respect of fractional shares, into which such Shares shall have been converted pursuant to the provisions hereof.

(c) Distributions With Respect to Unexchanged Shares. No dividends or other distributions declared or made after the Effective Time with respect to shares of Parent Common Stock payable to stockholders of record as of a date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock they are entitled to receive pursuant to the provisions hereof until the holder of such Certificate shall surrender such Certificate pursuant to Section 1.7(b). Subject to applicable law, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing whole shares of Parent Common Stock issued in exchange therefor, without interest, at the time of such surrender, the amount of dividends or other distributions payable to stockholders of record as of a date after the Effective Time and theretofore paid with respect to such whole shares of Parent Common Stock.

(d) Transfers of Ownership. If any certificate for shares of Parent Common Stock is to be issued in a name other than that in which the Certificate surrendered in exchange therefor is registered, it will be a condition of the issuance thereof that the Certificate so surrendered will be properly endorsed and otherwise in proper form for transfer and that the Person requesting such exchange will have paid to Parent or any agent designated by it any transfer or other taxes required by reason of the issuance of a certificate for shares of Parent Common Stock in any name other than that of the registered holder of the certificate surrendered, or established to the satisfaction of Parent or any agent designated by it that such tax has been paid or is not payable.

(e) No Liability. Neither Parent, Merger Sub nor the Company shall be liable to any holder of Company Common Stock for any Merger Consideration delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(f) Withholding Rights. Parent or the Exchange Agent shall be entitled to deduct and withhold from the Merger Consideration otherwise payable pursuant to this Agreement to any holder of Company Common Stock such amounts as Parent or the Exchange Agent is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by Parent or the Exchange Agent, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the Shares in respect of which such deduction and withholding was made by Parent or the Exchange Agent.

SECTION 1.8 Stock Transfer Books. At the Effective Time, the stock transfer books of the Company shall be closed, and there shall be no further registration of transfers of the Company Common Stock thereafter on the records of the Company.

SECTION 1.9 No Further Ownership Rights in Company Common Stock. The Merger Consideration delivered upon the surrender for exchange of Shares in accordance with the terms hereof shall be deemed to have been issued in full satisfaction of all rights pertaining to such Shares, and there shall be no further registration of transfers on the records of the Surviving Corporation of Shares which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Article I.

SECTION 1.10 Lost, Stolen or Destroyed Certificates. In the event any Certificate shall have been lost, stolen or destroyed, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificate, upon the making of an affidavit of that fact by the holder thereof, such shares of Parent Common Stock as may be required pursuant to Section 1.6; provided, however, that Parent may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed Certificate to deliver a bond in such sum as it may reasonably direct as indemnity against any claim that may be made against Parent or the Exchange Agent with respect to the Certificate alleged to have been lost, stolen or destroyed.

SECTION 1.11 Tax and Accounting Consequences. It is intended by the parties hereto that the Merger shall (i) constitute a reorganization within the meaning of section 368 of the Code, and (ii) subject to applicable accounting standards, qualify for accounting treatment as a pooling of interests. The parties hereto hereby adopt this Agreement as a "plan of reorganization" within the meaning of sections 1.368-2(g) and 1.368-3(a) of the United States Treasury Regulations.

SECTION 1.12 Taking of Necessary Action; Further Action. Each of Parent, Merger Sub and the Company will take all such reasonable and lawful action as may be necessary or appropriate in order to effectuate the Merger in accordance with this Agreement as promptly as possible. If, at any time after the Effective Time, any such further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the Company and Merger Sub, the officers and directors of the Company and Merger Sub immediately prior to the Effective Time are fully authorized in the name of their respective corporations or otherwise to take, and will take, all such lawful and necessary action.

SECTION 1.13 Material Adverse Effect. When used in connection with the Company or any of its Subsidiaries or Parent or any of its Subsidiaries, as the case may be, the term "Material Adverse Effect" means any change, effect or circumstance that is or is reasonably likely to be materially adverse to the business, operations, assets (including intangible assets), condition (financial or otherwise), liabilities or results of operations of the

Company and its Subsidiaries or Parent and its Subsidiaries, as the case may be, in each case taken as a whole, other than such changes, effects or circumstances that affect generally providers of telecommunications services similar to the Company or Parent, as the case may be.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Parent and Merger Sub that, except as set forth in the written disclosure schedule delivered by the Company to Parent (the "Company Disclosure Schedule"):

SECTION 2.1 Corporate Organization. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, operate and lease its properties and assets as and where the same are owned, operated or leased and to conduct its business as it is now being conducted. The Company is in good standing and duly qualified or licensed as a foreign corporation to do business in those jurisdictions listed in Section 2.1 of the Company Disclosure Schedule, such jurisdictions being the only jurisdictions in which the location of the property and assets owned, operated or leased by the Company or the nature of the business conducted by the Company makes such qualification or licensing necessary, except where the failure to be so qualified or licensed would not reasonably be expected to have a Material Adverse Effect. The Company has heretofore delivered to the Purchaser complete and correct copies of the Company's Certificate of Incorporation and By-laws, as amended to and as in effect on the date hereof.

SECTION 2.2 Capitalization. (a) The authorized capital stock of the Company consists of 50,000,000 shares of Company Common Stock and 10,000,000 shares of preferred stock, par value $0.01 per share ("Company Preferred Stock"). As of the date hereof, 16,590,336 shares of Company Common Stock and no shares of Company Preferred Stock are issued and outstanding.

(b) All outstanding shares of Company Common Stock are validly issued and outstanding, fully paid and nonassessable, and, except as set forth in the Company's Certificate of Incorporation, there are no preemptive or similar rights in respect of the Company Common Stock. All shares of Company Common Stock issuable upon the exercise of Stock Options and Warrants will, when issued in accordance therewith, be validly issued, fully paid and nonassessable. All outstanding shares of Company Common Stock issued since July 1, 1994 were issued in compliance in all material respects with all requirements of all applicable federal and state securities laws.

(c) Section 2.2 of the Company Disclosure Schedule sets forth a complete and correct list of (i) all Stock Options, and (ii) all Warrants, indicating as to each holder

thereof, the number of shares of Company Common Stock subject thereto and the exercisability, exercise price and termination date therefor.

SECTION 2.3 Subsidiaries. (a) Except for the Subsidiaries listed in Section 2.3(a) of the Company Disclosure Schedule, there are no entities 20% or more of whose outstanding voting securities or other equity interests are owned, directly or indirectly through one or more intermediaries, by the Company. Each Subsidiary of the Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation (which jurisdiction is indicated in Section 2.3(a) of the Company Disclosure Schedule) and has all requisite corporate power and authority to own, operate and lease its properties and assets as and where the same are owned, operated or leased by such Subsidiary and to conduct its business as it is now being conducted. Each Subsidiary is in good standing and duly qualified or licensed as a foreign corporation to do business in each of the jurisdictions in which the location of the property and assets owned, operated or leased by such Subsidiary or the nature of the business conducted by such Subsidiary makes such qualification or licensing necessary, except where the failure to be so qualified or licensed would not reasonably be expected to have a Material Adverse Effect. The Company has heretofore delivered to Parent complete and correct copies of each of its Subsidiaries' certificate of incorporation and by-laws (or similar organizational document), in each case as amended to and as in effect on the date hereof.

(b) Section 2.3 of the Company Disclosure Schedule sets forth the authorized capital stock of each Subsidiary of the Company, the number of outstanding shares of each class of such capital stock and the Company's (or, in the case of Subsidiaries indirectly owned by the Company, a specified Subsidiary's) ownership of each such class. The Company or such Subsidiary has good and valid title to all such shares free and clear of all mortgages, pledges, claims, liens, security interests or other restrictions or encumbrances of any kind or nature whatsoever ("Encumbrances"). All of the outstanding shares of capital stock of each Subsidiary of the Company are validly issued, fully paid and nonassessable, and there are no preemptive or similar rights in respect of any shares of capital stock of any Subsidiary, other than preemptive rights held solely by the Company. All of the outstanding shares of each Subsidiary of the Company were issued in compliance in all material respects with all requirements of all applicable federal and state securities laws. Except as set forth in Section 2.3(b) of the Company Disclosure Schedule, neither the Company nor any Subsidiary of the Company owns any capital stock of or other equity interest of any kind or nature in any Person.

SECTION 2.4 No Commitments to Issue Capital Stock. Except for the Stock Options and the Warrants and as set forth in Section 2.4 of the Company Disclosure Schedule, there are no outstanding options, warrants, calls, convertible securities or other rights, agreements, commitments or other instruments pursuant to which the Company or any of its Subsidiaries is or may become obligated to authorize, issue or transfer any shares of its capital stock or any other equity interest. Except as set forth in Section 2.4 of the Company Disclosure Schedule, there are no agreements or understandings in effect among any of the stockholders of the Company or any such Subsidiary or with any other Person and by which the Company or any such Subsidiary is bound with respect to the voting, transfer, disposition

or registration under the Securities Act of any shares of capital stock of the Company or any of its Subsidiaries.

SECTION 2.5 Authorization; Execution and Delivery. The Company has all requisite corporate power and authority to execute and deliver this Agreement and, subject to obtaining any necessary stockholder approval of the Agreement, to carry out its obligations hereunder. The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of the Company, except that the Company's stockholders are required to approve and adopt this Agreement. This Agreement has been duly executed and delivered by the Company and, subject to such stockholder approval and, assuming the due authorization, execution and delivery by the other parties hereto, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) bankruptcy laws and similar laws affecting creditor's rights generally and (ii) general principles of equity, regardless of whether asserted in a proceeding in equity or at law.

SECTION 2.6 Governmental Approvals and Filings. No approval, authorization, consent, license, clearance or order of, declaration or notification to, or filing or registration with, any governmental or regulatory authority is required in order (a) to permit the Company to consummate the Merger or perform its obligations under this Agreement, or (b) to prevent the termination of, or materially and adversely affect, any governmental right, privilege, authority, franchise, license, permit or certificate of the Company or any of its Subsidiaries to provide its services or carry on its business ("Governmental Licenses"), or to prevent any material loss or disadvantage to the Company's business, by reason of the Merger, except for (i) filing and recording of the Certificate of Merger as required by the DGCL, (ii) filings and other required submissions under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (iii) such other consents, authorizations, filing, approvals and registrations (other than Governmental Licenses relating to the provision of telecommunication services) which if not made or obtained would not reasonably be expected to have a Material Adverse Effect, and (iv) as set forth in Section 2.6 of the Company Disclosure Schedule.

SECTION 2.7 No Conflict. Subject to compliance with the Governmental Licenses described in Section 2.6 of the Company Disclosure Schedule and obtaining the other consents and waivers that are set forth and described in Section 2.7 of the Company Disclosure Schedule (the "Private Consents"), neither the execution, delivery and performance of this Agreement by the Company, nor the consummation by the Company of the transactions contemplated hereby, will (i) conflict with, or result in a breach or violation of, any provision of the certificate of incorporation (or similar organizational document) or by-laws of the Company or any of its Subsidiaries; (ii) conflict with, result in a breach or violation of, give rise to a default, or result in the acceleration of performance, or permit the acceleration or performance, under (whether or not after the giving of notice or lapse of time or both) any Encumbrance, note, bond, indenture, guaranty, lease, license, agreement or other instrument, writ, injunction, order, judgment or decree to which the Company or any

of its Subsidiaries or any of their respective properties or assets is subject; (iii) give rise to a declaration or imposition of any Encumbrance upon any of the properties or assets of the Company or any of its Subsidiaries; or (iv) impair the Company's business or adversely affect any Governmental License necessary to enable the Company and its Subsidiaries to carry on their business as presently conducted, except, in the case of clauses (ii), (iii) or (iv), for any conflict, breach, violation, default, acceleration, declaration, imposition or impairment that would not reasonably be expected to have a Material Adverse Effect.

SECTION 2.8 SEC Filings. (a) The Company has filed all forms, reports and documents required to be filed with the SEC since October 1, 1993 and has made available to Parent (i) its Annual Reports on Form 10-K for the fiscal years ended September 30, 1994, 1995 and 1996; (ii) its Quarterly Reports on Form 10-Q for the quarterly periods ended December 31, 1996, March 31, 1997 and June 30, 1997; (iii) all proxy statements relating to the Company's meetings of stockholders (whether annual or special) held since October 1, 1993; (iv) all other reports or registration statements (other than Reports on Form 10-Q not referred to in clause (ii) above or on Form 8-K filed before October 1, 1996) filed by the Company with the SEC since October 1, 1993; and (v) all amendments, supplements, exhibits and documents incorporated by reference to all such reports and registration statements filed by the Company with the SEC (collectively, the "Company SEC Reports"). Except as disclosed in Section 2.8 of the Company Disclosure Schedule, the Company SEC Reports (i) were prepared in accordance, and complied as of their respective dates in all material respects, with the requirements of the Securities Act or the Securities Exchange Act of 1934, as amended and the SEC's rules thereunder (the "Exchange Act"), as the case may be, and (ii) did not at the time they were filed (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company has filed with the SEC as exhibits to the Company SEC Reports all agreements, contracts and other documents or instruments required to be so filed, and such exhibits are correct and complete copies of such agreements, contracts and other documents or instruments. None of the Company's Subsidiaries is required to file any forms, reports or other documents with the SEC.

SECTION 2.9 Financial Statements; Absence of Undisclosed Liabilities; Receivables. (a) The Company has heretofore delivered to Parent complete and correct copies of the following financial statements (the "Company Financial Statements"), all of which have been prepared from the books and records of the Company and its Subsidiaries in accordance with generally accepted accounting principles ("GAAP") consistently applied and maintained throughout the periods indicated (except as may be indicated in the notes thereto and except that the unaudited Company Financial Statements may not include all notes thereto required by GAAP) and fairly present in all material respects the financial condition of the Company and its Subsidiaries at their respective dates and the results of their operations and cash flows for the periods covered thereby, except that unaudited interim results were or are subject to normal and recurring year-end adjustments which were not or are not expected to be material in amount:

(i) audited consolidated balance sheets at September 30, 1995 and September 30, 1996 and audited consolidated statements of income, cash flows and stockholders' equity of the Company and its Subsidiaries for the fiscal years then ended, audited by Arthur Andersen LLP, independent certified public accountants; and

(ii) unaudited consolidated balance sheet (the "Company Interim Balance Sheet") of the Company and its Subsidiaries at June 30, 1997 (the "Company Interim Balance Sheet Date") and consolidated statements of income and cash flows for the three and nine months then ended.

Such statements of income do not contain any material item of special or nonrecurring revenue or income or any material item of revenue or income not earned in the ordinary course of business, except as expressly specified therein.

(b) Except as and to the extent reflected or reserved against on the Company Interim Balance Sheet, and except for liabilities which will not have a Material Adverse Effect, neither the Company nor any of its Subsidiaries had, as of the Company Interim Balance Sheet Date, any liabilities, debts or obligations (whether absolute, accrued, contingent or otherwise) of any nature that would be required as of such date to have been included on a balance sheet prepared in accordance with GAAP. Since the Company Interim Balance Sheet Date, neither the Company nor any of its Subsidiaries has incurred or suffered to exist any liability, debt or obligation (whether absolute, accrued, contingent or otherwise), except liabilities, debt and obligations incurred in the ordinary course of business, consistent with past practice, none of which will have a Material Adverse Effect.

(c) All receivables of the Company and its Subsidiaries (including accounts receivable, loans receivable and advances) which are reflected in the Company Interim Balance Sheet, and all such receivables which have arisen thereafter and prior to the Effective Time, have arisen or will have arisen only from bona fide transactions in the ordinary course of business, the carrying value of such receivables approximate their fair market values, and adequate reserves for the Company's receivables have been established in accordance with prior practice and GAAP.

SECTION 2.10 Certain Other Financial Representations. (a) Except as set forth in Section 2.10(a) of the Company Disclosure Schedule, the Company has not since October 1, 1996 provided any material special promotions, discounts or other incentives to its employees, agents, distributors or customers in connection with the solicitation of new orders for service provided by the Company or any Subsidiary, nor has any customer pre-paid any material amount for services to be provided by the Company or any Subsidiary in the future, except in connection with the purchasing of debit cards.

(b) To the Company's Knowledge, the Company and its Subsidiaries have paid or fully provided for all access charges properly payable to local exchange carriers for access facilities and have properly reported its percentage of interstate use ("PIU") to such carriers, except where the failure to do so would not result in a material liability of the

Company or its Subsidiaries. As of the date hereof, to the Company's Knowledge, the Company and its Subsidiaries do not have, and at the Closing the Company and its Subsidiaries will not have, any material liability on account of PIU.

SECTION 2.11 Absence of Changes. Except as set forth in Section 2.11 of the Company Disclosure Schedule or the Company SEC Reports, since October 1, 1996 the Company and its Subsidiaries have conducted their respective businesses only in the ordinary course and neither the Company nor any of its Subsidiaries has:

(a) other than certain of the Stock Options and Warrants as set forth in Section 2.4 or 2.11 of the Company Disclosure Schedule, issued or sold or authorized for issuance or sale, or granted any options or made other agreements of the type referred to in Section 2.4 with respect to, any shares of its capital stock or any other of its securities, or altered any term of any of its outstanding securities or made any change in its outstanding shares of capital stock or other ownership interests or its capitalization, whether by reason of a reclassification, recapitalization, stock split or combination, exchange or readjustment of shares, stock dividend or otherwise or redeemed, purchased or otherwise acquired any of its or its parent's capital stock; provided, however, the Company contemplates effecting the conversions set forth in Section 1.6;

(b) terminated or received any notice of termination of any material contract, lease, license or other agreement or any Governmental License, or suffered any damage, destruction or loss (whether or not covered by insurance) that would reasonably be expected to have a Material Adverse Effect;

(c) made any change in the rate of compensation, commission, bonus or other remuneration payable, or paid or agreed or orally promised to pay, conditionally or otherwise, any bonus, extra compensation, pension or severance or vacation pay, to any director or officer, or any material such change to any employee of the Company or any of its Subsidiaries, except in any case in the ordinary course of business consistent with prior practice or as required in accordance with the agreements described in Section 2.13(b), or plans disclosed in Section 2.14(a) of the Company Disclosure Schedule that were in effect as of October 1, 1996;

(d) made any increase in or commitment to increase any employee benefits, adopted or made any commitment to adopt any additional employee benefit plan or made any contribution, other than regularly scheduled contributions, to any Employee Benefit Plan, as defined in Section 2.14(a);

(e) changed any accounting practices, policies or procedures utilized in the preparation of the Company Financial Statements, except as required by GAAP, the SEC, the Financial Accounting Standards Board or as otherwise set forth in the Company SEC Reports;

(f) suffered any change, event or condition that, in any case or in the aggregate, has had or is reasonably likely to result in a Material Adverse Effect; or

(g) entered into any agreement or made any commitment to take any of the types of action described in subparagraphs (a) through (f) of this Section 2.11.

SECTION 2.12 Tax Matters. (a) For purposes of this Agreement, "Tax" or "Taxes" shall mean taxes, fees, levies, duties, tariffs, imposts and governmental impositions or charges of any kind in the nature of (or similar to) taxes, payable to any federal, state, local or foreign taxing authority, including (without limitation) (i) income, franchise, profits, gross receipts, *ad valorem*, net worth, value added, sales, use, service, real or personal property, special assessments, capital stock, license, payroll, withholding, employment, social security, workers' compensation, unemployment compensation, utility, severance, production, excise, stamp, occupation, premiums, windfall profits, transfer and gains taxes, and (ii) interest, penalties, additional taxes and additions to tax imposed with respect thereto; and "Tax Returns" shall mean returns, reports, and information statements with respect to Taxes required to be filed with the Internal Revenue Service (the "IRS") or any other taxing authority, domestic or foreign, including, without limitation, consolidated, combined and unitary tax returns, including returns required in connection with any Employee Benefit Plan (as defined in Section 2.14(a)).

(b) The Company on behalf of itself and all of its Subsidiaries hereby represents that, other than as disclosed in Section 2.12(b) of the Company Disclosure Schedule or the Company SEC Reports: The Company and its Subsidiaries have timely filed all United States federal income Tax Returns and all other material Tax Returns required to be filed by them. All such Tax Returns are complete and correct in all material respects (except to the extent a reserve has been established as reflected in the Company Interim Balance Sheet). The Company and its Subsidiaries have timely paid and discharged all Taxes due in connection with or with respect to the periods or transactions covered by such Tax Returns and have paid all other Taxes as are due, except such as are being contested in good faith by appropriate proceedings (to the extent that any such proceedings are required), and there are no other Taxes that would be due if asserted by a taxing authority, except with respect to which the Company is maintaining reserves unless the failure to do so would not have a Material Adverse Effect. Except as does not involve or would not result in liability to the Company or any of its Subsidiaries that would have a Material Adverse Effect, (i) there are no tax liens on any assets of the Company or any of its Subsidiaries; (ii) neither the Company nor any of its Subsidiaries has granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any Tax; (iii) no unpaid (or unreserved) deficiencies for Taxes have been claimed, proposed or assessed by any taxing or other governmental authority with respect to the Company or any of its Subsidiaries; (iv) there are no pending or, to the Company's Knowledge, threatened audits, investigations or claims for or relating to any liability in respect of Taxes of the Company or any of its Subsidiaries; and (v) neither the Company nor any of its Subsidiaries has requested any extension of time within which to file any currently unfiled Tax Returns. The accruals and reserves for Taxes (including deferred taxes) reflected in the Company Interim Balance Sheet are in all material respects adequate to cover all Taxes accruable through the date thereof (including Taxes being contested) in accordance with GAAP.

(c) The Company on behalf of itself and all its Subsidiaries hereby represents that, other than as disclosed in Section 2.12(c) of the Company Disclosure Schedule or the Company SEC Reports, and other than with respect to items the inaccuracy of which would not have a Material Adverse Effect: (i) neither the Company nor any of its Subsidiaries is obligated under any agreement with respect to industrial development bonds or other obligations with respect to which the excludability from gross income of the holder for federal or state income tax purposes could be affected by the transactions contemplated hereunder; (ii) neither the Company nor any of its Subsidiaries is, or has been, a United States real property holding corporation (as defined in section 897(c)(2) of the Code) during the applicable period specified in section 897(c)(1)(A)(ii) of the Code; (iii) neither the Company nor any of its Subsidiaries has filed or been included in a combined, consolidated or unitary return (or substantial equivalent thereof) of any Person other than the Company and its Subsidiaries; (iv) neither the Company nor any of its Subsidiaries is liable for Taxes of any Person other than the Company and its Subsidiaries, or currently under any contractual obligation to indemnify any Person with respect to Taxes, or a party to any tax sharing agreement or any other agreement providing for payments by the Company or any of its Subsidiaries with respect to Taxes; (v) except entities the beneficial ownership of which is wholly owned by the Company and/or its Subsidiaries, neither the Company nor any of its Subsidiaries is a party to any joint venture, partnership or other arrangement or contract which could be treated as a partnership for United States federal income tax purposes; (vi) neither the Company nor any of its Subsidiaries is a party to any agreement, contract, arrangement or plan that would result (taking into account the transactions contemplated by this Agreement), separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of section 280G of the Code; (vii) the prices for any property or services (or for the use of property) provided by the Company or any of its Subsidiaries to any other Subsidiary or to the Company have been arm's length prices determined using a method permitted by the Treasury Regulations under section 482 of the Code; (viii) neither the Company nor any of its Subsidiaries is a "consenting corporation" under section 341(f) of the Code or any corresponding provision of state, local or foreign law; (ix) neither the Company nor any of its Subsidiaries has made an election or is required to treat any of its assets as owned by another Person for federal income tax purposes or as tax-exempt bond financed property or tax-exempt use property within the meaning of section 168 of the Code (or any corresponding provision of state, local or foreign law); and (x) the Company is not an investment company within the meaning of section 368(a)(2)(F)(iii) of the Code.

SECTION 2.13 Relations with Employees and Sales Agents. (a) Except as set forth in Section 2.13(a) of the Company Disclosure Schedule:

(i) No collective bargaining agreement with respect to the business of the Company or any of its Subsidiaries is currently in effect or being negotiated. Neither the Company nor any of its Subsidiaries has any obligation to negotiate any such collective bargaining agreement.

(ii) There are no strikes or work stoppages pending or, to the Company's Knowledge, threatened with respect to the employees of the Company or any of its Subsidiaries, nor has any such strike or work stoppage occurred or, to the Company's

Knowledge, been threatened since October 1, 1994. There is no representation claim or petition or complaint pending before the National Labor Relations Board or any state or local labor agency and, to the Company's Knowledge, no question concerning representation has been raised or threatened since October 1, 1994 respecting the employees of the Company or any of its Subsidiaries.

(iii) To the Company's Knowledge, no charges with respect to or relating to the business of the Company or any its Subsidiaries are pending before the Equal Employment Opportunity Commission, or any state or local agency responsible for the prevention of unlawful employment practices, which would reasonably be expected to have a Material Adverse Effect.

(b) Section 2.13(b) of the Company Disclosure Schedule contains a complete and correct list of all material current employment, management or other consulting agreements with any Persons employed or retained by the Company or any of its Subsidiaries (including independent consultants and commission agents), complete and correct copies of which have been delivered to Parent, except that, with respect to agreements with commission agents, complete and correct copies of all forms of agreements used by the Company have been delivered to Parent. All of the Company's agreements with commission agents are substantially similar to such forms of agreements.

SECTION 2.14 Benefit Plans. (a) Section 2.14(a) of the Company Disclosure Schedule sets forth with respect to all current employees a full and complete list of all executive compensation, deferred compensation, stock ownership, stock purchase, stock option, restricted stock, performance share, bonus and other incentive plans, pension, profit sharing, savings, thrift or retirement plans, employee stock ownership plans, life, health, dental and disability plans, vacation, severance pay, sick leave, dependent care, cafeteria and tuition reimbursement plans, and any other "employee benefit plans" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), currently maintained by the Company or any of its Subsidiaries or with respect to which the Company or any of its Subsidiaries may have any liability or obligation (direct, indirect, contingent or otherwise) to any employee, former employee, director or former director (or any of their dependents or beneficiaries) of the Company or any of its Subsidiaries or to any governmental entity (individually, an "Employee Benefit Plan" and collectively, the "Employee Benefit Plans"). There have been delivered to Parent or its counsel complete and correct copies of all written Employee Benefit Plans.

(b) No Employee Benefit Plan is, a "defined benefit plan" within the meaning of section 3(35) of ERISA to which ERISA applies and neither the Company nor any of its Subsidiaries has any liability with respect to any such plan. Neither the Company nor any of its Subsidiaries has ever contributed to, or withdrawn in a complete or partial withdrawal from, any multiemployer plan (within the meaning of Subtitle E of Title IV of ERISA) or incurred contingent liability under section 4204 of ERISA. No Employee Benefit Plan provides for medical or health benefits (through insurance or otherwise) to individuals other than current employees of the Company or any of its Subsidiaries (or spouses and dependents of such employees), except to the extent necessary to comply with "Applicable

Benefits Law" (including section 4980B of the Code). "Applicable Benefits Law" refers to the legal requirements imposed upon employee benefit plans by the United States or any political subdivision thereof (including COBRA and any requirements enforced by the IRS with respect to employee benefit plans intended to confer tax benefits on the Company, any of its Subsidiaries, any of their respective employees, or any trust maintained in connection with such Employee Benefit Plan).

(c) Each Employee Benefit Plan (and each related trust, insurance contract and fund) is in compliance in all material respects in form and in operation with all applicable requirements of Applicable Benefits Law (including ERISA and the Code), and is being administered in all material respects in accordance with all relevant plan documents to the extent consistent with Applicable Benefits Law. There has been no prohibited transaction with respect to any Employee Benefit Plan which would result in the imposition of any material unpaid excise tax. To the Company's Knowledge, no Employee Benefit Plan is under investigation or audit by the Department of Labor or Internal Revenue Service other than as part of a routine tax audit of the Company. There are no legal actions or suits pending or, to the Company's Knowledge, threatened against or with respect to any Employee Benefit Plan or the assets of any such Employee Benefit Plan or against any fiduciary of any such Employee Benefit Plan and the Company has no Knowledge of any facts that could give rise to any such actions. There has been full compliance in all material respects with the notice and continuation requirements of section 4980B of the Code applicable to any Employee Benefit Plan.

(d) Except to the extent set forth in Section 2.14(d) of the Company Disclosure Schedule, no provision of any Employee Benefit Plan becomes effective in the event of a change in control of the employer maintaining such Employee Benefit Plan; neither the Company nor any of its Subsidiaries has agreed to the creation of any new employee benefit plan or, with respect to any existing Employee Benefit Plan, any increase in benefits or change in employee coverage which would materially increase the expense of maintaining such Employee Benefit Plan; no provision of any Employee Benefit Plan prohibits the employer maintaining it from amending or terminating such Employee Benefit Plan at any time and to the fullest extent that law permits. Except to the extent set forth in Section 2.14(d) of the Company Disclosure Schedule, the consummation of the Merger or any other transaction contemplated by this Agreement, in and of itself, will not result in an increase in the amount of compensation or benefits or accelerate the vesting or timing of payment of any benefits or compensation payable under any Employee Benefit Plan in respect of any employee of the Company or any of its Subsidiaries; and no employee or former employee of the Company or any of its Subsidiaries will be entitled to any severance benefits under the terms of any Employee Benefit Plan solely by reason of the consummation of the Merger or any other transaction contemplated by this Agreement.

(e) At no time since the organization of the Company or any of its Subsidiaries has any entity (other than the Company, any such Subsidiary or Billing Information Concepts Corp., or any Subsidiary of Billing Information Concepts Corp.) been an "ERISA affiliate" of the Company, any such Subsidiary, or both. "ERISA affiliate" means any trade or business, whether or not incorporated, which together with the Company

or any such Subsidiary, is or was at any time during such period treated as a "single employer" within the meaning of section 414(b), (c), (m) or (o) of the Code or a part of the same "controlled group" as the Company or any such Subsidiary within the meaning of section 4001 of ERISA. The aggregate number of leased employees (within the meaning of section 414(n) or (o) of the Code) of the Company and its Subsidiaries does not exceed 10% of the aggregate number of employees of the Company and its Subsidiaries.

(f) All actions required to be taken on behalf of any Employee Benefit Plan that is a stockholder of the Company, in order to effectuate the Merger or the other transactions contemplated by this Agreement, shall have been duly authorized by the appropriate fiduciaries of such Employee Benefit Plan, and shall comply with the terms of such Employee Benefit Plan, ERISA and other applicable laws.

SECTION 2.15 Title to Properties. Except as set forth in the Company SEC Reports or Section 2.15 of the Company Disclosure Schedule, the Company and each of its Subsidiaries have good and indefeasible title to all of their properties and assets, free and clear of all Encumbrances, except liens for taxes not yet due and payable and such Encumbrances or other imperfections of title, if any, as do not materially detract from the value of or interfere with the present use of the property affected thereby or which would not reasonably be expected to have a Material Adverse Effect, and except for Encumbrances which secure indebtedness reflected in the Company Interim Balance Sheet.

SECTION 2.16 Compliance with Laws; Legal Proceedings. (a) Neither the Company nor any of its Subsidiaries is in violation of, or in default with respect to, any applicable statute, regulation, ordinance, writ, injunction, order, judgment, decree or any Governmental License which violation or default would reasonably be expected to have a Material Adverse Effect.

(b) Except as set forth in the Company SEC Reports or Section 2.16(b) of the Company Disclosure Schedule, there is no order, writ, injunction, judgment or decree outstanding and no legal, administrative, arbitration or other governmental proceeding or investigation pending or, to the Company's Knowledge, threatened, and there are no claims (including unasserted claims of which the Company has Knowledge) against or relating to the Company or any of its Subsidiaries or any of their respective properties, assets or businesses that would reasonably be expected to have a Material Adverse Effect.

SECTION 2.17 Brokers. Except for ABN AMRO Chicago Corporation ("AACC"), no broker, finder or investment advisor acted directly or indirectly as such for the Company, any Subsidiary of the Company or, to the Company's Knowledge, any stockholder of the Company in connection with this Agreement or the Merger, and no broker, finder, investment advisor or other Person is entitled to any fee or other commission, or other remuneration, in respect thereof based in any way on any action, agreement, arrangement or understanding taken or made by or on behalf of the Company, any Subsidiary of the Company or, to the Company's Knowledge, any stockholder of the Company. The Company has heretofore furnished to Parent a complete and correct copy of the agreement

between AACC and the Company pursuant to which such firm would be entitled to any payment relating to the transactions contemplated hereunder.

SECTION 2.18 Intellectual Property. (a) The Company and/or each of its Subsidiaries owns, or is licensed or otherwise possesses legally enforceable rights to use, all patents, trademarks, trade names, service marks, copyrights, and any applications therefor, technology, know-how, computer software programs or applications and tangible or intangible proprietary information or material that are used in the business of the Company and its Subsidiaries as currently conducted, except as would not reasonably be expected to have a Material Adverse Effect.

(b) Except as disclosed in Section 2.18(b) of the Company Disclosure Schedule or the Company SEC Reports or as would not reasonably be expected to have a Material Adverse Effect: (i) The Company is not, nor will it be as a result of the execution and delivery of this Agreement or the performance of its obligations hereunder, in violation of any licenses, sublicenses and other agreements as to which the Company is a party and pursuant to which the Company is authorized to use any patents, trademarks, service marks or copyrights owned by others ("Company Third-Party Intellectual Property Rights"); (ii) No claims with respect to the patents, registered and material unregistered trademarks and service marks, registered copyrights, trade names and any applications therefor owned by the Company or any of its Subsidiaries (the "Company Intellectual Property Rights"), any trade secret material to the Company, or Company Third Party Intellectual Property Rights to the extent arising out of any use, reproduction or distribution of Company Third Party Intellectual Property Rights by or through the Company or any of its Subsidiaries, are currently pending or, to the Company's Knowledge, have been threatened by any Person; or (iii) The Company has no Knowledge of any valid grounds for any bona fide claims (1) to the effect that the sale, licensing or use of any product or service as now sold, licensed or used, or proposed for sale, license or use, by the Company or any of its Subsidiaries infringes on any copyright, patent, trademark, service mark or trade secret; (2) against the use by the Company or any of its Subsidiaries, of any trademarks, trade names, trade secrets, copyrights, patents, technology, know-how or computer software programs and applications used in the business of the Company or any of its Subsidiaries as currently conducted or as proposed to be conducted; (3) challenging the ownership, validity or effectiveness of any of the Company Intellectual Property Rights or other trade secret material to the Company; or (4) challenging the license or legally enforceable right to use of Company Third Party Intellectual Rights by the Company or any of its Subsidiaries.

(c) To the Company's Knowledge, there is no material unauthorized use, infringement or misappropriation of any of the Company Intellectual Property Rights by any third party, including any employee or former employee of the Company or any of its Subsidiaries.

SECTION 2.19 Insurance. The Company has heretofore provided Parent with true, complete and correct copies of all material fire and casualty, general liability, business interruption, product liability and other insurance policies maintained by the

Company and its Subsidiaries. Neither the Company nor any of its Subsidiaries has, since October 1, 1994, been denied or had revoked or rescinded any policy of insurance.

SECTION 2.20 Contracts; etc. (a) Set forth in Section 2.20 of the Company Disclosure Schedule is a complete and correct list of each of the following agreements, leases and other instruments to which the Company or any of its Subsidiaries is a party or by which Company or any of its Subsidiaries or their respective properties or assets are bound:

(i) each service or other similar type of agreement under which services are provided by any other Person to the Company or any of its Subsidiaries which provides for a material change in the cost to the Company or its Subsidiaries of such services or the type thereof as a result of the transactions contemplated hereunder;

(ii) each operating lease (as lessor, lessee, sublessor or sublessee) of any real or tangible personal property or assets that is material to the Company and its Subsidiaries taken as a whole which provides for a material change in the payments made or received by the Company or its Subsidiaries, as the case may be, as a result of the transactions contemplated hereunder;

(iii) each agreement under which services are provided by the Company or any of its Subsidiaries to any material customer which provides for a material decrease in the fees charged to such customer or a material increase in the type or kind of services to be provided by the Company or its Subsidiaries without a corresponding and appropriate increase in the payments to be received by the Company or its Subsidiaries, as the case may be, as a result of the transactions contemplated hereunder;

(iv) any other material agreement, lease and other instrument to which the Company or any of its Subsidiaries are a party or by which they are bound, which provides for a material change in the terms thereof as a result of the transactions contemplated hereunder;

(v) each agreement (including capital leases) under which any money has been or may be borrowed or loaned (other than loans to customers made in the ordinary course of business consistent with past practice) or any note, bond, indenture or other evidence of indebtedness (other than trade payables) has been issued or assumed (other than those under which there remain no ongoing obligations of the Company or any of its Subsidiaries), and each guaranty of any evidence of indebtedness or other obligation, or of the net worth, of any Person (other than endorsements for the purpose of collection in the ordinary course of business); and

(vi) any agreement or other undertaking that restricts, in any material respect, the Company or any of its Subsidiaries from providing any telecommunications services, engaging in any telecommunications business in any territory or hiring any employees.

A complete and correct copy of each written agreement, lease or other type of document required to be disclosed pursuant to this Section 2.20(a) has been delivered to Parent.

(b) Each agreement, lease or other type of document required to be filed as an exhibit to the Company's SEC Reports to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries or their respective properties or assets are bound, except for those contracts, the loss of which would not reasonably be expected to have a Material Adverse Effect (collectively, the "Company Contracts"), is valid, binding and in full force and effect and is enforceable by the Company or such Subsidiary in accordance with its terms. Neither the Company nor any such Subsidiary is (with or without the lapse of time or the giving of notice, or both) in breach of or in default under any of the Company Contracts, and, to the Company's Knowledge, no other party to any of the Company Contracts is (with or without the lapse of time or the giving of notice, or both) in breach of or in default under any of the Company Contracts, where such breach or default would reasonably be expected to have a Material Adverse Effect. No existing or completed agreement to which the Company or any of its Subsidiaries is a party is subject to renegotiation with any governmental body.

SECTION 2.21 Permits, Authorizations, etc. All Governmental Licenses and each other material approval, authorization, consent, license, certificate of public convenience, order or other permit of all governmental agencies, whether federal, state, local or foreign, necessary to enable the Company and its Subsidiaries to own, operate and lease their properties and assets as and where such properties and assets are owned, leased or operated and to provide service and carry on their business as presently provided and conducted (collectively, the "Company Permits") or required to permit the continued conduct of such business following the Merger in the manner conducted on the date of this Agreement are valid and in good standing with the issuing agencies and not subject to any proceedings for suspension, modification or revocation, except for such Company Permits which would not reasonably be expected to have a Material Adverse Effect.

SECTION 2.22 Environmental Matters. (a) For purposes of this Agreement, the capitalized terms defined below shall have the meanings ascribed to them below.

(i) "Environmental Law(s)" means all federal, state or local law (including common law), statute, ordinance, rule, regulation, code, or other requirement relating to the environment, natural resources, or public or employee health and safety and includes, but is not limited to the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA"), 42 U.S.C. § 9601 et seq., the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 et seq., The Resource Conservation and Recovery Act ("RCRA"), 42 U.S.C. § 6901 et seq., the Clean Water Act, 33 U.S.C. Section § 1251 et seq., the Clean Air Act, 33 U.S.C. § 2601 et seq., the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq., the Oil Pollution Act of 1990, 33 U.S.C. § 2701 et seq., and the Occupational Safety and Health Act, 29 U.S.C. § 651 et seq., as such laws have been amended or

supplemented, and the regulations promulgated pursuant thereto, and all analogous state or local statutes and any applicable transfer statutes.

(ii) "Environmental Permits" means all approvals, authorizations, consents, permits, licenses, registrations and certificates required by any applicable Environmental Law.

(iii) "Hazardous Substance(s)" means, without limitation, any flammable explosives, radioactive materials, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products (including but not limited to waste petroleum and petroleum products), methane, hazardous materials, hazardous wastes, pollutants, contaminants and hazardous or toxic substances, as defined in or regulated under any applicable Environmental Laws.

(iv) "Release" means any past or present spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing of a Hazardous Substance into the Environment.

(b) The Company and each Subsidiary of the Company has obtained all Environmental Permits that are required for the lawful operation of its business except for such Environmental Permits the failure of which to obtain would not reasonably be expected to have a Material Adverse Effect. The Company and its Subsidiaries (i) are in compliance with all terms and conditions of their Environmental Permits and of any applicable Environmental Law, except for such failure to be in compliance that would not reasonably be expected to have Material Adverse Effect, and (ii) have not received written notice of any material violation by or material claim against the Company or any such Subsidiary under any Environmental Law.

(c) There have been no Releases, or threatened Releases of any Hazardous Substances into, on or under any of the properties owned or operated (or formerly owned or operated) by the Company or any such Subsidiary, in any case in such a way as to create any liability (including the costs of investigation and remediation) under any applicable Environmental Law that would reasonably be expected to have a Material Adverse Effect.

(d) Neither the Company nor any of its Subsidiaries has been identified as a potentially responsible party at any federal or state National Priority List ("Superfund") site.

SECTION 2.23 Company Acquisitions. Section 2.23 of the Company Disclosure Schedule hereto contains a complete and correct list of all agreements ("Acquisition Agreements") executed by the Company or any of its Subsidiaries since October 1, 1996 pursuant to which the Company or any of its Subsidiaries has acquired or agreed to acquire all or any part of the stock or assets (including any customer list) of any Person. A complete and correct copy of each of the Acquisition Agreements has been delivered to Parent. Neither the Company nor any such Subsidiary has any further material obligation or liability under any of the Acquisition Agreements or as a result of the transactions provided

for therein, except as described in reasonable detail in Section 2.23 of the Company Disclosure Schedule.

SECTION 2.24 Books and Records. All accounts, books, ledgers and official and other records prepared and kept by the Company and its Subsidiaries have been kept and completed in all material respects, and there are no material inaccuracies or discrepancies contained or reflected therein.

SECTION 2.25 Interested Party Transactions. Except as set forth in Section 2.25 of the Company Disclosure Schedule or the Company SEC Reports, since October 1, 1996 no event has occurred that would be required to be reported as a Certain Relationship or Related Transaction, pursuant to Item 404 of Regulation S-K promulgated by the SEC.

SECTION 2.26 Opinion of Financial Advisor. The Company has been advised by its financial advisor, AACC, to the effect that in its opinion, as of the date hereof, the Exchange Ratio is fair from a financial point of view to the holders of Shares.

SECTION 2.27 Pooling Matters. The Company has provided to the Company's independent accountants all information concerning actions taken or agreed to be taken by the Company or any of its Affiliates on or before the date of this Agreement that could reasonably be expected to adversely affect the ability of Parent to account for the business combination to be effected by the Merger as a pooling of interests. The Company has provided to Parent a letter from the Company's independent public accountants to the effect that, after review, such accountants know of no reason relating to the Company that should prevent the Parent from accounting for the Merger as a pooling of interests.

SECTION 2.28 Registration Statement; Joint Proxy Statement/Prospectus. The information supplied by the Company with respect to the Company and its Subsidiaries and their respective officers, directors, stockholders and other Affiliates (collectively, the "Company Information") for inclusion in the Registration Statement (as defined in Section 3.23) shall not at the time the Registration Statement is declared effective by the SEC contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company Information supplied by the Company for inclusion in the joint proxy statement/prospectus to be sent to the stockholders of the Company in connection with the meeting of the stockholders of the Company to consider the Merger (the "Company Stockholders Meeting") and, if required, to the stockholders of the Parent in connection with the meeting of the stockholders of the Parent (the "Parent Stockholders Meeting" and, together with the Company Stockholders Meeting, the "Stockholders Meetings") to consider the Parent Common Stock Issuance (as defined in Section 5.3) (such joint proxy statement/prospectus as amended or supplemented is referred to herein as the "Joint Proxy Statement/Prospectus") will not, on the date the Joint Proxy Statement/Prospectus (or any amendment thereof or supplement thereto) is first mailed to stockholders, at the time of the Stockholders Meetings, or at the Effective Time, contain any statement which, at such time and in light of the circumstances under which it shall be made, is false or misleading with respect to any material fact, or shall omit to state any material

fact necessary in order to make the statements made therein, in light of the circumstances under which they are made, not false or misleading; or omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Stockholders Meetings which has become false or misleading. If at any time prior to the Effective Time any event relating to the Company or its Subsidiaries or any of their respective officers, directors, stockholders or other Affiliates should be discovered by the Company which should be set forth in an amendment to the Registration Statement or a supplement to the Joint Proxy Statement/Prospectus, the Company shall promptly inform Parent. The Joint Proxy Statement/Prospectus shall comply in all material respects with the requirements of the Securities Act and the Exchange Act. Notwithstanding the foregoing, the Company makes no representation or warranty with respect to any information supplied by Parent or Merger Sub which is contained or incorporated by reference in, or furnished in connection with the preparation of, the Registration Statement or the Joint Proxy Statement/Prospectus.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub, jointly and severally, hereby represent and warrant to the Company that, except as set forth in the written disclosure schedule delivered by Parent to the Company (the "Parent Disclosure Schedule"):

SECTION 3.1 Corporate Organization. Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, operate and lease its properties and assets as and where the same are owned, operated or leased and to conduct its business as it is now being conducted. Parent is in good standing and duly qualified or licensed as a foreign corporation to do business in those jurisdictions in which the location of the property and assets owned, operated or leased by Parent or the nature of the business conducted by Parent makes such qualification or licensing necessary, except where the failure to be so qualified or licensed would not reasonably be expected to have a Material Adverse Effect. Parent has heretofore delivered to the Company complete and correct copies of Parent's Certificate of Incorporation and By-laws, as amended to and as in effect on the date hereof.

SECTION 3.2 Capitalization. (a) The authorized capital stock of Parent consists of 300,000,000 shares of Parent Common Stock and 15,000,000 shares of preferred stock, par value $0.01 per share ("Parent Preferred Stock"). As of the date hereof, 78,554,214 shares of Parent Common Stock and no shares of Parent Preferred Stock are issued and outstanding.

(b) All outstanding shares of Parent Common Stock are validly issued and outstanding, fully paid and nonassessable, and, except as set forth in Parent's Certificate of

Incorporation, there are no preemptive or similar rights in respect of Parent Common Stock. All outstanding shares of Parent Common Stock issued since July 1, 1994 were issued in compliance in all material respects with all requirements of all applicable federal and state securities laws.

SECTION 3.3 Subsidiaries. (a) The Subsidiaries of Parent listed in the exhibits to Parent's SEC Reports (as defined in Section 3.8) constitute the only material Subsidiaries of Parent. Each Subsidiary of Parent is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, operate and lease its properties and assets as and where the same are owned, operated or leased by such Subsidiary and to conduct its business as it is now being conducted. Each such Subsidiary is in good standing and duly qualified or licensed as a foreign corporation to do business in each of the jurisdictions in which the location of the property and assets owned, operated or leased by such Subsidiary or the nature of the business conducted by such Subsidiary makes such qualification or licensing necessary, except where the failure to be so qualified or licensed would not reasonably be expected to have a Material Adverse Effect.

(b) Parent or a Subsidiary of Parent has good and valid title to all shares of each such Subsidiary owned by Parent or another Subsidiary of Parent, free and clear of all Encumbrances. All of the outstanding shares of capital stock of each Subsidiary of Parent are validly issued, fully paid and nonassessable, and there are no preemptive or similar rights in respect of any shares of capital stock of any such Subsidiary. All of the outstanding shares of each Subsidiary of Parent were issued in compliance with all requirements of all applicable federal and state securities laws. Except as set forth in Section 3.3(b) of the Parent Disclosure Schedule, neither the Parent nor any Subsidiary of the Parent owns any capital stock of or other equity interest of any kind or nature in any Person.

SECTION 3.4 No Commitments to Issue Capital Stock. Other than pursuant to this Agreement and except for the stock options and warrants set forth in Section 3.4 of the Parent Disclosure Schedule and in this Agreement, there are no outstanding options, warrants, calls, convertible securities or other rights, agreements, commitments or other instruments pursuant to which Parent or any of its Subsidiaries is or may become obligated to authorize, issue or transfer any shares of its capital stock or any other equity interest.

SECTION 3.5 Authorization; Execution and Delivery. Parent and Merger Sub each has all requisite corporate power and authority to execute and deliver and, subject to obtaining any necessary stockholder approval with respect to the transactions contemplated hereunder, perform its obligations under this Agreement. The execution, delivery and performance of this Agreement by Parent and Merger Sub and the consummation by Parent or Merger Sub of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of Parent and Merger Sub, except that the stockholders' of Parent may be required to approve the Parent Common Stock Issuance. This Agreement has been duly executed and delivered by Parent and Merger Sub and, subject to such stockholder approval and assuming the due authorization, execution and delivery by the other parties hereto, constitutes the legal, valid and binding obligation of Parent and Merger Sub,

enforceable against Parent and Merger Sub in accordance with its terms, except as such enforceability may be limited by (i) bankruptcy laws and similar laws affecting creditor's rights generally and (ii) general principles of equity, regardless of whether asserted in a proceeding in equity or at law. The shares of Parent Common Stock to be issued as part of the Merger Consideration and upon the exercise of the Stock Options and Warrants have been duly reserved and authorized for issuance upon consummation of the Merger, and when issued pursuant to and in accordance with this Agreement or such Stock Option or Warrants will be duly authorized, validly issued, fully paid and nonassessable shares of Parent Common Stock.

SECTION 3.6 Governmental Approvals and Filings. No approval, authorization, consent, license, clearance or order of, declaration or notification to, or filing or registration with, any governmental or regulatory authority is required in order (a) to permit Parent or Merger Sub to consummate the Merger or perform its obligations under this Agreement, or (b) to prevent the termination of, or materially and adversely affect, any Governmental License of Parent or any of its Subsidiaries to provide its services or carry on its business, or to prevent any material loss or disadvantage to Parent's business, by reason of the Merger, except for (i) filing and recording of the Certificate of Merger as required by the DGCL, (ii) filings and other required submissions under the HSR Act, (iii) such other consents, authorizations, filing, approvals and registrations which if not made would not reasonably be expected to have a Material Adverse Effect, and (iv) as set forth in Section 3.6 of the Parent Disclosure Schedule.

SECTION 3.7 No Conflict. Subject to compliance with any Governmental Licenses described in Section 3.6 of the Parent Disclosure Schedule and obtaining the consents and waivers that are set forth and described in Section 3.7 of the Parent Disclosure Schedule (the "Private Consents"), neither the execution, delivery and performance of this Agreement by Parent or Merger Sub, nor the consummation by Parent or Merger Sub of the transactions contemplated hereby, will (i) conflict with, or result in a breach or violation of, any provision of the certificate of incorporation (or similar organizational document) or by-laws of Parent or any of its Subsidiaries; (ii) conflict with, result in a breach or violation of, give rise to a default, or result in the acceleration of performance, or permit the acceleration or performance, under (whether or not after the giving of notice or lapse of time or both) any Encumbrance, note, bond, indenture, guaranty, lease, license, agreement or other instrument, writ, injunction, order, judgment or decree to which Parent or any of its Subsidiaries or any of their respective properties or assets is subject; (iii) give rise to a declaration or imposition of any Encumbrance upon any of the properties or assets of Parent or any of its Subsidiaries; or (iv) impair Parent's business or adversely affect any Governmental License necessary to enable Parent and its Subsidiaries to carry on their business as presently conducted, except, in the cases of clauses (ii), (iii) or (iv), for any conflict, breach, violation, default, acceleration, declaration, imposition or impairment that would not reasonably be expected to have a Material Adverse Effect.

SECTION 3.8 SEC Filings. (a) The Parent has filed all forms, reports and documents required to be filed with the SEC since January 1, 1994 and has made available to the Company (i) its Annual Reports on Form 10-K for the fiscal years ended December 31,

1994, 1995 and 1996; (ii) its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 1997 and June 30, 1997; (iii) all proxy statements relating to Parent's meetings of stockholders (whether annual or special) held since January 1, 1994; (iv) all other reports or registration statements (other than Reports on Form 10-Q not referred to in clause (ii) above or on Form 8-K filed before January 1, 1997) filed by Parent with the SEC since January 1, 1994; and (v) all amendments, supplements, exhibits and documents incorporated therein by reference to all such reports and registration statements filed by Parent with the SEC (collectively, the "Parent SEC Reports"). Except as disclosed in Section 3.8 of the Parent Disclosure Schedule, the Parent SEC Reports (i) were prepared in accordance, and complied as of their respective dates in all material respects, with the requirements of the Securities Act or the Exchange Act, as the case may be, and (ii) did not at the time they were filed (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Parent has filed with the SEC as exhibits to the Parent SEC Reports all agreements, contracts and other documents or instruments required to be so filed, and such exhibits are correct and complete copies of such agreements, contracts and other documents or instruments. None of Parent's Subsidiaries is required to file any forms, reports or other documents with the SEC.

SECTION 3.9 Financial Statements; Absence of Undisclosed Liabilities; Receivables. (a) Parent has heretofore delivered to the Company complete and correct copies of the following financial statements (collectively, the "Parent Financial Statements"), all of which have been prepared from the books and records of Parent and its Subsidiaries in accordance with GAAP consistently applied and maintained throughout the periods indicated (except as may be indicated in the notes thereto and except that the unaudited Parent Financial Statements may not include all notes thereto required by GAAP) and fairly present in all material respects the financial condition of Parent and its Subsidiaries as at their respective dates and the results of their operations and cash flows for the periods covered thereby, except that unaudited interim results were or are subject to normal and recurring year-end adjustments which were not or are not expected to be material in amount:

(i) audited consolidated balance sheets at December 31, 1995 and December 31, 1996 and audited consolidated statements of income, cash flows and stockholders' equity of Parent and its Subsidiaries for the fiscal years then ended, audited by Arthur Andersen LLP, independent certified public accountants; and

(ii) unaudited consolidated balance sheet (the "Parent Interim Balance Sheet") of Parent and its Subsidiaries as at June 30, 1997 (the "Parent Interim Balance Sheet Date") and consolidated statements of income and cash flows for the three and six months then ended.

Such statements of income do not contain any material item of special or nonrecurring revenue or income or any material item of revenue or income not earned in the ordinary course of business, except as expressly specified therein.

(b) Except as and to the extent reflected or reserved against on the Parent Interim Balance Sheet, and except for liabilities which will not have a Material Adverse Effect, neither Parent nor any of its Subsidiaries had, as of the Parent Interim Balance Sheet Date, any liabilities, debts or obligations (whether absolute, accrued, contingent or otherwise) of any nature that would be required as of such date to have been included on a balance sheet prepared in accordance with GAAP. Since the Parent Interim Balance Sheet Date, neither Parent nor any of its Subsidiaries has incurred or suffered to exist any liability, debt or obligation (whether absolute, accrued, contingent or otherwise), except liabilities, debt and obligations incurred in the ordinary course of business, consistent with past practice, none of which will have a Material Adverse Effect.

(c) Except as set forth in Section 3.9 of the Parent Disclosure Schedule, all receivables of the Parent and its Subsidiaries (including accounts receivable, loans receivable and advances) which are reflected in the Parent Interim Balance Sheet, and all such receivables which have arisen thereafter and prior to the Effective Time, have arisen or will have arisen only from bona fide transactions in the ordinary course of business, the carrying value of such receivables approximate their fair market values and adequate reserves for Parent's receivables have been established in accordance with prior practice and GAAP.

SECTION 3.10 Absence of Changes. Except as set forth in Section 3.10 of the Parent Disclosure Schedule or the Parent SEC Reports, since January 1, 1997, Parent and its Subsidiaries have conducted their respective businesses only in the ordinary course, and neither Parent nor any of its Subsidiaries has:

(a) terminated or received any notice of termination of any material contract, lease, license or other agreement or any Governmental License, or suffered any damage, destruction or loss (whether or not covered by insurance) that would reasonably be expected to have a Material Adverse Effect;

(b) changed any accounting practices, policies or procedures utilized in the preparation of the Parent Financial Statements, except as required by GAAP, the SEC, the Financial Accounting Standards Board or as otherwise set forth in the Parent SEC Reports;

(c) suffered any change, event or condition that, in any case or in the aggregate, has had or is reasonably likely to result in a Material Adverse Effect; or

(d) entered into any agreement or made any commitment to take any of the types of action described in subparagraphs (a) through (c) of this Section 3.10.

SECTION 3.11 Tax Matters. (a) Parent on behalf of itself and all of its Subsidiaries hereby represents that, other than as disclosed in Section 3.11(a) of the Parent Disclosure Schedule or the Parent SEC Reports, Parent and its Subsidiaries have timely filed

all United States federal income Tax Returns and all other material Tax Returns required to be filed by them. All such Tax Returns are complete and correct in all material respects (except to the extent a reserve has been established as reflected in the Parent Interim Balance Sheet). Parent and its Subsidiaries have timely paid and discharged all Taxes due in connection with or with respect to the periods or transactions covered by such Tax Returns and have paid all other Taxes as are due, except such as are being contested in good faith by appropriate proceedings (to the extent that any such proceedings are required), and there are no other Taxes that would be due if asserted by a taxing authority, except with respect to which Parent is maintaining reserves unless the failure to do so would not have a Material Adverse Effect. Except as does not involve or would not result in liability to Parent or any of its Subsidiaries that would have a Material Adverse Effect, (i) there are no tax liens on any assets of Parent or any of its Subsidiaries; (ii) neither Parent nor any of its Subsidiaries has granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any Tax; (iii) no unpaid (or unreserved) deficiencies for Taxes have been claimed, proposed or assessed by any taxing or other governmental authority with respect to Parent or any of its Subsidiaries; (iv) there are no pending or, the Parent's Knowledge, threatened audits, investigations or claims for or relating to any liability in respect of Taxes of Parent or any of its Subsidiaries; and (v) neither Parent nor any of its Subsidiaries has requested any extension of time within which to file any currently unfiled Tax Returns. The accruals and reserves for Taxes (including deferred taxes) reflected in the Parent Interim Balance Sheet are in all material respects adequate to cover all Taxes accruable through the date thereof (including Taxes being contested) in accordance with GAAP.

(b) Parent on behalf of itself and all its Subsidiaries hereby represents that, other than as disclosed in Section 3.11(b) of the Parent Disclosure Schedule or the Parent SEC Reports, and other than with respect to items the inaccuracy of which would not have a Material Adverse Effect: (i) neither Parent nor any of its Subsidiaries is obligated under any agreement with respect to industrial development bonds or other obligations with respect to which the excludability from gross income of the holder for federal or state income tax purposes could be affected by the transactions contemplated hereunder; (ii) neither Parent nor any of its Subsidiaries is, or has been, a United States real property holding corporation (as defined in section 897(c)(2) of the Code) during the applicable period specified in section 897(c)(1)(A)(ii) of the Code; (iii) neither Parent nor any of its Subsidiaries has filed or been included in a combined, consolidated or unitary return (or substantial equivalent thereof) of any Person other than Parent and its Subsidiaries; (iv) neither Parent nor any of its Subsidiaries is liable for Taxes of any Person other than Parent and its Subsidiaries, or currently under any contractual obligation to indemnify any Person with respect to Taxes, or a party to any tax sharing agreement or any other agreement providing for payments by Parent or any of its Subsidiaries with respect to Taxes; (v) except entities the beneficial ownership of which is wholly owned by Parent and/or its Subsidiaries, neither Parent nor any of its Subsidiaries is a party to any joint venture, partnership or other arrangement or contract which could be treated as a partnership for United States federal income tax purposes; (vi) neither Parent nor any of its Subsidiaries is a party to any agreement, contract, arrangement or plan that would result (taking into account the transactions contemplated by this Agreement), separately or in the aggregate, in the payment of any "excess parachute

payments" within the meaning of section 280G of the Code; (vii) the prices for any property or services (or for the use of property) provided by Parent or any of its Subsidiaries to any other Subsidiary or to the Parent have been arm's length prices determined using a method permitted by the Treasury Regulations under section 482 of the Code; (viii) neither Parent nor any of its Subsidiaries is a "consenting corporation" under section 341(f) of the Code or any corresponding provision of state, local or foreign law; (ix) neither Parent nor any of its Subsidiaries has made an election or is required to treat any of its assets as owned by another Person for federal income tax purposes or as tax-exempt bond financed property or tax-exempt use property within the meaning of section 168 of the Code (or any corresponding provision of state, local or foreign law); and (x) Parent is not an investment company within the meaning of section 368(a)(2)(F)(iii) of the Code.

SECTION 3.12 Relations with Employees and Sales Agents. (a) Except as set forth in Section 3.12 of the Parent Disclosure Schedule:

(a) No collective bargaining agreement with respect to the business of Parent or any of its Subsidiaries is currently in effect or being negotiated. Neither Parent nor any of its Subsidiaries has any obligation to negotiate any such collective bargaining agreement.

(b) There are no strikes or work stoppages pending or, to Parent's Knowledge, threatened with respect to the employees of Parent or any of its Subsidiaries, nor has any such strike or work stoppage occurred or, to Parent's Knowledge, been threatened since January 1, 1995. There is no representation claim or petition or complaint pending before the National Labor Relations Board or any state or local labor agency and, to Parent's Knowledge, no question concerning representation has been raised or threatened since January 1, 1995 respecting the employees of Parent or any of its Subsidiaries.

(c) To Parent's Knowledge, no charges with respect to or relating to the business of Parent or any its Subsidiaries are pending before the Equal Employment Opportunity Commission, or any state or local agency responsible for the prevention of unlawful employment practices, which would reasonably be expected to have a Material Adverse Effect.

SECTION 3.13 Benefit Plans. (a) Complete and correct copies of all material written Employee Benefit Plans of Parent and its Subsidiaries have been filed as exhibits to the Parent's SEC Reports.

(b) No Employee Benefit Plan of Parent or any of its Subsidiaries is, and no material employee benefit plan formerly maintained by Parent and/or any of its Subsidiaries was, a "defined benefit plan" within the meaning of section 3(35) of ERISA to which ERISA applies. Neither the Parent nor any of its Subsidiaries has ever contributed to, or withdrawn in a complete or partial withdrawal from, any multiemployer plan (within the meaning of Subtitle E of Title IV of ERISA) or incurred contingent liability under section 4204 of ERISA.

(c) Each Employee Benefit Plan of Parent and its Subsidiaries (and each related trust, insurance contract and fund) is in compliance in all material respects in form and in operation with all applicable requirements of Applicable Benefits Law (including ERISA and the Code), and is being administered in all material respects in accordance with all relevant plan documents to the extent consistent with Applicable Benefits Law. There has been no prohibited transaction with respect to any Employee Benefit Plan of Parent or any of its Subsidiaries which would result in the imposition of any material unpaid excise tax. No Employee Benefit Plan of Parent or any of its Subsidiaries is under investigation or audit by the Department of Labor or Internal Revenue Service other than as part of a routine tax audit of Parent. There are no legal actions or suits pending or, to Parent's Knowledge, threatened against any Employee Benefit Plan of Parent or any of its Subsidiaries or the assets of any such Employee Benefit Plan or against any fiduciary of any such Employee Benefit Plan and Parent has no Knowledge of any facts that could give rise to any such actions. There has been full compliance in all material respects with the notice and continuation requirements of section 4980B of the Code applicable to any Employee Benefit Plan of Parent and its Subsidiaries.

(d) The consummation of the Merger or any other transaction contemplated by this Agreement, in and of itself, will not result in a material increase in the amount of compensation or benefits or accelerate the vesting or timing of payment of any benefits or compensation payable under any Employee Benefit Plan in respect of any employee of Parent or any of its Subsidiaries.

(e) At no time since the organization of Parent or any of its Subsidiaries has any entity (other than Parent or any such Subsidiary) been an "ERISA affiliate" of Parent, any such Subsidiary, or both.

SECTION 3.14 Title to Properties. Except as set forth in the Parent SEC Reports or Section 3.14 of the Parent Disclosure Schedule, Parent and each of its Subsidiaries have good and indefeasible title to all of their properties and assets, free and clear of all Encumbrances, except liens for taxes not yet due and payable and such Encumbrances or other imperfections of title, if any, as do not materially detract from the value of or interfere with the present use of the property affected thereby or which would not reasonably be expected to have a Material Adverse Effect, and except for Encumbrances which secure indebtedness reflected in the Parent Interim Balance Sheet.

SECTION 3.15 Compliance with Laws; Legal Proceedings. (a) Neither Parent nor any of its Subsidiaries is in violation of, or in default with respect to, any applicable statute, regulation, ordinance, writ, injunction, order, judgment, decree or any Governmental License which violation or default would reasonably be expected to have a Material Adverse Effect.

(b) Except as set forth in the Parent SEC Reports or Section 3.15(b) of the Parent Disclosure Schedule, there is no order, writ, injunction, judgment or decree outstanding and no legal, administrative, arbitration or other governmental proceeding or investigation pending or, to Parent's Knowledge, threatened, and there are no claims (in-

cluding unasserted claims of which Parent has Knowledge) against or relating to Parent or any of its Subsidiaries or any of their respective properties, assets or businesses that would reasonably be expected to have a Material Adverse Effect.

SECTION 3.16 Brokers. Except for Lehman Brothers, no broker, finder or investment advisor acted directly or indirectly as such for Parent, any Subsidiary of Parent or, to Parent's Knowledge, any stockholder of Parent in connection with this Agreement or the Merger, and no broker, finder, investment advisor or other Person is entitled to any fee or other commission, or other remuneration, in respect thereof based in any way on any action, agreement, arrangement or understanding taken or made by or on behalf of Parent, any Subsidiary of Parent or, to Parent's Knowledge, any stockholder of the Parent.

SECTION 3.17 Intellectual Property. (a) Parent and/or each of its Subsidiaries owns, or is licensed or otherwise possesses legally enforceable rights to use, all patents, trademarks, trade names, service marks, copyrights, and any applications therefor, technology, know-how, computer software programs or applications and tangible or intangible proprietary information or material that are used in the business of Parent and its Subsidiaries as currently conducted, except as would not reasonably be expected to have a Material Adverse Effect.

(b) Except as disclosed in Section 3.17(b) of the Parent Disclosure Schedule or the Parent SEC Reports or as would not reasonably be expected to have a Material Adverse Effect: (i) Parent is not, nor will it be as a result of the execution and delivery of this Agreement or the performance of its obligations hereunder, in violation of any licenses, sublicenses and other agreements as to which Parent is a party and pursuant to which Parent is authorized to use any patents, trademarks, service marks or copyrights owned by others ("Parent Third-Party Intellectual Property Rights"); (ii) No claims with respect to the patents, registered and material unregistered trademarks and service marks, registered copyrights, trade names and any applications therefor owned by Parent or any of its Subsidiaries ("Parent Intellectual Property Rights"), any trade secret material to Parent, or Parent Third Party Intellectual Property Rights to the extent arising out of any use, reproduction or distribution of Parent Third Party Intellectual Property Rights by or through Parent or any of its Subsidiaries, are currently pending or, to Parent's Knowledge, have been threatened by any Person; or (iii) Parent has no Knowledge of any valid grounds for any bona fide claims (1) to the effect that the sale, licensing or use of any product or service as now sold, licensed or used, or proposed for sale, license or use, by Parent or any of its Subsidiaries infringes on any copyright, patent, trademark, service mark or trade secret; (2) against the use by Parent or any of its Subsidiaries of any trademarks, trade names, trade secrets, copyrights, patents, technology, know-how or computer software programs and applications used in the business of Parent or any of its Subsidiaries as currently conducted or as proposed to be conducted; (3) challenging the ownership, validity or effectiveness of any of Parent Intellectual Property Rights or other trade secret material to Parent; or (4) challenging the license or legally enforceable right to use of Parent Third Party Intellectual Rights by Parent or any of its Subsidiaries.

(c) To Parent's Knowledge, there is no material unauthorized use, infringement or misappropriation of any of Parent Intellectual Property Rights by any third party, including any employee or former employee of the Parent or any of its Subsidiaries.

SECTION 3.18 Contracts; etc. (a) Each agreement, lease or other type of document required to be filed as an exhibit to the Parent's SEC Reports to which Parent or any of its Subsidiaries is a party or by which Parent or any of its Subsidiaries or their respective properties or assets are bound, except for those contracts, the loss of which would not reasonably be expected to have a Material Adverse Effect (collectively, the "Parent Contracts"), is valid, binding and in full force and effect and is enforceable by Parent or such Subsidiary in accordance with its terms. Neither Parent nor any such Subsidiary is (with or without the lapse of time or the giving of notice, or both) in breach of or in default under any of the Parent Contracts, and, to Parent's Knowledge, no other party to any of the Parent Contracts is (with or without the lapse of time or the giving of notice, or both) in breach of or in default under any of the Parent Contracts, where such breach or default would reasonably be expected to have a Material Adverse Effect. No existing or completed agreement to which Parent or any of its Subsidiaries is a party is subject to renegotiation with any governmental body.

SECTION 3.19 Permits, Authorizations, etc. All Governmental Licenses and each other material approval, authorization, consent, license, certificate of public convenience, order or other permit of all governmental agencies, whether federal, state, local or foreign, necessary to enable Parent and its Subsidiaries to own, operate and lease their properties and assets as and where such properties and assets are owned, leased or operated and to provide service and carry on their business as presently provided and conducted or required to permit the continued conduct of such business following the Merger in the manner conducted on the date of this Agreement (collectively, the "Parent Permits") are valid and in good standing with the issuing agencies and not subject to any proceedings for suspension, modification or revocation, except for such Parent Permits which would not reasonably be expected to have a Material Adverse Effect.

SECTION 3.20 Environmental Matters. (a) Parent and each Subsidiary of Parent has obtained all Environmental Permits that are required for the lawful operation of its business except for such Environmental Permits the failure of which to obtain would not reasonably be expected to have a Material Adverse Effect. Parent and its Subsidiaries (i) are in compliance with all terms and conditions of their Environmental Permits and are in compliance with and not in default under any applicable Environmental Law, except for such failure to be in compliance that would not reasonably be expected to have Material Adverse Effect, and (ii) have not received written notice of any material violation by or material claim against Parent or any such Subsidiary under any Environmental Law.

(b) There have been no Releases or threatened Releases of any Hazardous Substances (i) into, on or under any of the properties owned or operated (or formerly owned or operated) by Parent or any such Subsidiary in such a way as to create any liability (including the costs of investigation or remediation) under any applicable Environmental Law that would reasonably be expected to have a Material Adverse Effect.

(c) Neither the Parent or its Subsidiaries have been identified as a potentially responsible party at any federal or stated National Priority List ("superfund") site.

SECTION 3.21 Books and Records. All accounts, books, ledgers and official and other records prepared and kept by Parent and its Subsidiaries have been kept and completed in all material respects, and there are no material inaccuracies or discrepancies contained or reflected therein.

SECTION 3.22 Pooling Matters. Parent has provided to Parent's independent accountants all information concerning actions taken or agreed to be taken by Parent or any of its Affiliates on or before the date of this Agreement that could reasonably be expected to adversely affect the ability of Parent to account for the business combination to be effected by the Merger as a pooling of interests. Parent has provided Company a letter from Parent's independent public accountants to the effect that, after review, such accountants know of no reason relating to the Parent that should prevent the Parent from accounting for the Merger as a pooling of interests.

SECTION 3.23 Registration Statement; Joint Proxy Statement/Prospectus. Subject to the accuracy of the representations of the Company in Section 2.28, the registration statement (the "Registration Statement") pursuant to which the Parent Common Stock to be issued in the Merger will be registered with the SEC shall not at the time the Registration Statement is declared effective by the SEC contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The information supplied by Parent in writing specifically for inclusion in the Joint Proxy Statement/Prospectus will not, on the date the Joint Proxy Statement/Prospectus (or any amendment thereof or supplement thereto) is first mailed to stockholders, at the time of the Stockholders Meetings, or at the Effective Time, contain any statement which, at such time and in light of the circumstances under which it shall be made, is false or misleading with respect to any material fact, or shall omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they are made, not false or misleading; or omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Stockholders Meetings which has become false or misleading. If at any time prior to the Effective Time any event relating to Parent or any of its Subsidiaries or any of their respective officers, directors, stockholders or Affiliates should be discovered by Parent which should be set forth in an amendment to the Registration Statement or a supplement to the Joint Proxy Statement/Prospectus, Parent shall promptly inform the Company. The Joint Proxy Statement/Prospectus shall comply in all material respects with the requirements of the Securities Act and the Exchange Act. Notwithstanding the foregoing, Parent makes no representation or warranty with respect to any Company Information which is contained or incorporated by reference in, or furnished in connection with the preparation of, the Registration Statement or the Joint Proxy Statement/Prospectus.

SECTION 3.24 Ownership of Merger Sub; No Prior Activities. (a) Merger Sub is a direct, wholly-owned subsidiary of Parent and was formed solely for the purpose of engaging in the transactions contemplated by this Agreement.

(b) As of the date hereof and the Effective Time, expect for obligations or liabilities incurred in connection with its incorporation or organization and the transactions contemplated by this Agreement and except for this Agreement and any other agreements or arrangements contemplated by this Agreement, Merger Sub has not and will not have incurred, directly or indirectly, through any subsidiary or affiliate, any obligations or liabilities or engaged in any business activities of any type or kind whatsoever or entered into any agreements or arrangements with any Person.

ARTICLE IV

CONDUCT OF BUSINESS PENDING THE MERGER

SECTION 4.1 Conduct of Business by the Company Pending the Merger. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, the Company covenants and agrees that, unless Parent shall otherwise agree in writing, the Company shall conduct its business and shall cause the businesses of its Subsidiaries to be conducted only in, and the Company and its Subsidiaries shall not take any action except in, the ordinary course of business and in a manner consistent with past practice, other than actions taken by the Company or its Subsidiaries in order to facilitate the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereunder which actions would not breach any of the Company's representations, warranties, covenants or agreements herein; and the Company shall use reasonable commercial efforts to preserve substantially intact the business organization of the Company and its Subsidiaries, to keep available the services of the present officers, employees, agents, distributors and consultants of the Company and its Subsidiaries and to preserve the present relationships of the Company and its Subsidiaries with customers, suppliers and other Persons with which the Company or any of its Subsidiaries has significant business relations. By way of amplification and not limitation, except as contemplated by this Agreement, neither the Company nor any of its Subsidiaries shall, during the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, directly or indirectly do, or propose to do, any of the following without the prior written consent of Parent:

(a) amend or otherwise change the Company's Certificate of Incorporation or By-Laws;

(b) issue, sell, pledge, dispose of or encumber, or authorize the issuance, sale, pledge, disposition or encumbrance of, any shares of capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of capital stock, or any other ownership interest (including, without

limitation, any phantom interest) in the Company or any of its Subsidiaries or Affiliates (except for the issuance of shares of Company Common Stock issuable upon the exercise of the Warrants or Stock Options, which Warrants and Stock Options are outstanding on the date hereof or pursuant to the Company's Employee Stock Purchase Plan);

(c) sell, pledge, dispose of or encumber any assets of the Company or any of its Subsidiaries (except for sales, pledges, dispositions and encumbrances of assets in the ordinary course of business);

(d) (i) declare, set aside, make or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of any of its capital stock, except that a wholly owned Subsidiary of the Company may declare and pay a dividend to its parent, (ii) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or (iii) amend the terms or change the period of exercisability of, purchase, repurchase, redeem or otherwise acquire, or permit any Subsidiary to purchase, repurchase, redeem or otherwise acquire, any of its securities or any securities of its Subsidiaries, including, without limitation, shares of Company Common Stock or any option, warrant or right, directly or indirectly, to acquire shares of Company Common Stock;

(e) (i) acquire (by merger, consolidation, or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof; (ii) incur any material indebtedness for borrowed money, except for borrowings and reborrowing under the Company's existing credit facilities or issue any debt securities or assume, guarantee (other than guarantees of bank debt of the Company's Subsidiaries under existing credit facilities entered into in the ordinary course of business); (iii) endorse or otherwise as an accommodation become responsible for, the obligations of any Person, or make any material loans or advances, except for endorsements, accommodations, loans or advancements in the ordinary course of business consistent with prior practice; (iv) authorize any capital expenditures or purchases of fixed assets other than in the ordinary course of business consistent with prior practice and in the aggregate less than $10,000,000 prior to December 31, 1997 and $18,000,000 prior to March 31, 1998; or (v) enter into or amend any contract, agreement, commitment or arrangement to effect any of the matters prohibited by this Section 4.1(e);

(f) make any change in the rate of compensation, commission, bonus or other remuneration payable, or pay or agree or promise to pay, conditionally or otherwise, any bonus, extra compensation, pension or severance or vacation pay, to any director, officer, employee, salesman, distributor or agent of the Company or any of its Subsidiaries except in the ordinary course of business consistent with prior practice or as currently scheduled for various officers of the Company beginning October 1, 1997 as required by such officers' employment agreements, correct and complete copies of which agreements have heretofore been delivered by the Company

to Parent, or make any increase in or commitment to increase any employee benefits, adopt or make any commitment to adopt any additional employee benefit plan or make any contribution, other than regularly scheduled contributions, to any Employee Benefit Plan;

(g) take any action to change accounting practices, policies or procedures (including, without limitation, procedures with respect to revenue recognition, payments of accounts payable or collection of accounts receivable) except as required by the SEC, the Financial Accounting Standards Board or GAAP;

(h) make any material tax election inconsistent with past practice or settle or compromise any material federal, state, local or foreign Tax liability or agree to an extension of a statute of limitations, except to the extent the amount of any such settlement has been reserved for in the financial statements contained in the Company SEC Reports filed with the SEC prior to the date of this Agreement and except as described in Section 4.1(h) of the Company Disclosure Schedule;

(i) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, contingent or otherwise) that are individually or in the aggregate material to the Company and its Subsidiaries, other than the payment, discharge or satisfaction in the ordinary course of business and consistent with past practice of liabilities reflected or reserved against in the Company Financial Statements or incurred thereafter in the ordinary course of business and consistent with past practice;

(j) take any action to delist a security of the Company from any securities exchange;

(k) recommend or take any action to adopt a plan of dissolution or liquidation with respect to the Company or any of its Subsidiaries; or

(l) take, or agree in writing or otherwise to take, any of the actions described in Sections 4.1(a) through (k) above, or any action which would make any of the representations or warranties of the Company contained in this Agreement untrue or incorrect in any material respect or prevent the Company from performing or cause the Company not to perform in all material respects its covenants herein.

SECTION 4.2 No Solicitation. (a) Upon execution of this Agreement, the Company does not have, or shall immediately terminate any discussions with, any third party concerning an Alternative Acquisition (as defined below). From and after the date of this Agreement until the earlier of the Effective Time or the termination of this Agreement in accordance with its terms, the Company shall not, and shall not permit any officer, director, employee, investment banker or other agent of the Company or any Subsidiary of the Company to, directly or indirectly, (i) solicit, engage in discussions or negotiate with any Person (whether such discussions or negotiations are initiated by the Company or otherwise) or take any other action intended or designed to facilitate the efforts of any Person, other than Parent, relating to the possible acquisition of the Company or any of its Subsidiaries

(whether by way of merger, purchase of capital stock, purchase of assets or otherwise) or any material portion of its or their capital stock or assets (with any such efforts by any such Person, including a firm proposal to make such an acquisition, to be referred to as an "Alternative Acquisition"), (ii) provide information with respect to the Company or any of its Subsidiaries to any Person, other than Parent, relating to a possible Alternative Acquisition by any Person, other than Parent, (iii) enter into an agreement with any person, other than Parent, providing for a possible Alternative Acquisition, or (iv) make or authorize any statement, recommendation or solicitation in support of any possible Alternative Acquisition by any Person, other than by Parent.

(b) Notwithstanding the foregoing, the restrictions set forth in Section 4.2(a) shall not prevent the Board of Directors of the Company (or its agents pursuant to its instructions) from taking any of the following actions: (i) furnishing information concerning the Company and its business, properties and assets to any third party or (ii) engaging in discussions or negotiating with such third party concerning an Alternative Acquisition, in either such case provided that all of the following events shall have occurred: (1) such third party is not an Affiliate of the Company and has made a written, bona fide proposal to the Board of Directors of the Company to acquire the Company (which proposal may be conditional) through an Alternative Acquisition which proposal identifies a price or range of values to be paid for all of the outstanding securities (including Stock Options and Warrants) or substantially all of the assets of the Company, and if consummated, based on the advice of the Company's investment bankers, the Board of Directors of the Company has determined, in good faith, is more favorable to the stockholders of the Company, from a financial point of view, than the terms of the Merger (a "Superior Proposal"); (2) the Company's Board of Directors has determined, based on the advice of its investment bankers, that such third party is financially capable of consummating such Superior Proposal; (3) the Board of Directors of the Company shall have determined, after consultation with its outside legal counsel, that, the fiduciary duties of the Board of Directors of the Company require the Company to furnish information to and negotiate with such third party; and (4) Parent shall have been notified in writing of such Alternative Acquisition, including all of its terms and conditions, and shall have been given copies of such proposal. Furthermore, nothing contained in this Agreement shall prevent the Company from taking any position with respect to an Alternative Acquisition pursuant to Rules 14d-9 and 14e-2 under the Exchange Act which is consistent with the advice of counsel concerning the fiduciary duties of the Board of Directors of the Company under applicable law with respect to a tender offer commenced by a third party other than an Affiliate of the Company.

(c) Notwithstanding the foregoing, the Company shall not provide any non-public information to such third party unless (i) it has prior to or contemporaneously therewith provided such information to Parent or Parent's representatives; and (ii) the Company provides such non-public information pursuant to a nondisclosure agreement with terms which are at least as restrictive as the nondisclosure agreement heretofore entered into between Parent and the Company.

(d) In addition to the foregoing, the Company shall not accept or enter into any agreement concerning an Alternative Acquisition for a period of not less than 48 hours

after Parent's receipt of a notice of the material terms of such proposal of an Alternative Acquisition. Upon compliance with all of the foregoing provisions of this Section 4.2, the Company shall be entitled to (i) change its recommendation concerning the Merger, and (ii) enter into an agreement with such third party concerning an Alternative Acquisition provided that the Company shall immediately make payment in full to Parent of the Fee as defined in Section 7.3 below.

(e) the Company shall ensure that the officers and directors of the Company and its Subsidiaries and any investment banker or other financial advisor or representative retained by the Company or any Subsidiary of the Company are aware of the restrictions described in this Section 4.2.

(f) the Company shall be entitled to provide copies of this Section 4.2 to third parties who on an entirely unsolicited basis after the date hereof, contact the Company concerning an Alternative Acquisition; provided that Parent shall concurrently be notified of such contact and the delivery of such copy.

SECTION 4.3 Conduct of Business by Parent Pending the Merger. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, Parent covenants and agrees that, unless the Company shall otherwise agree in writing, Parent shall conduct its business, and cause the businesses of its Subsidiaries to be conducted only in, and Parent and its Subsidiaries shall not take any action except in, the ordinary course of business and consistent with past practice, except for actions taken by Parent or its Subsidiaries in order to facilitate the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereunder which actions would not breach any of Parent's or Merger Sub's representations, warranties, covenants and agreements herein, and shall not directly or indirectly do, or propose to do, any of the following without the prior written consent of the Company:

(a) amend or otherwise change Parent's Certificate of Incorporation or By-Laws;

(b) declare, set aside, make or pay any cash dividend or other distribution in respect of any of its capital stock, except that a wholly owned Subsidiary of Parent may declare and pay a dividend to its parent;

(c) take any action to delist a security of Parent from any securities exchange;

(d) recommend or take any action to adopt a plan of dissolution or liquidation with respect to Parent or any of its Subsidiaries; or

(e) take or agree in writing or otherwise to take any action described in Sections 4.3(a) through (d) above or any action which would make any of the representations or warranties of Parent or Merger Sub contained in this Agreement

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untrue or incorrect or prevent Parent or Merger Sub from performing or cause Parent or Merger Sub not to perform its covenants herein.

Nothing in this Section 4.3 or any other provision of this Agreement shall prevent Parent from engaging in any discussions or entering into or consummating any agreements or other arrangements with respect to (i) the sale of all or substantially all of the Parent's capital stock or assets, (ii) any material strategic alliance or (iii) the material acquisition (by merger, consolidation or acquisition of stock or assets or otherwise) of any corporation, partnership or other business organization or division thereof ((i), (ii) and (iii) each a "Material Parent Transaction") and no such actions by Parent or any of its Subsidiaries with respect to a Material Parent Transaction shall constitute a breach of any representation, warranty, covenant or agreement of Parent or Merger Sub herein; provided, however, that after the Joint Proxy Statement/Prospectus has been mailed to the stockholders of the Company and prior to the then scheduled date of the Company Stockholders Meeting, Parent will not initiate any discussions with respect to any Material Parent Transaction, it being understood and agreed that nothing in this proviso shall in any way affect Parent's right to respond to any such discussions initiated by any third party who is not an Affiliate of the Company.

ARTICLE V

ADDITIONAL AGREEMENTS

SECTION 5.1 Joint Proxy Statement/Prospectus; Registration Statement. As promptly as practicable after the execution of this Agreement, and after the furnishing by the Company and Parent of all information required to be contained therein, which respective information each of Parent and Company covenant to use their best efforts as promptly as possible following the date hereof to so furnish, the Company and Parent shall file with the SEC a Registration Statement on Form S-4 (or on such other form as shall be appropriate), which shall include the Joint Proxy Statement/Prospectus relating to the adoption of this Agreement and, consistent with Section 4.2, approval of the transactions contemplated hereby by the stockholders of the Company and Parent pursuant to this Agreement, and shall use all reasonable efforts to cause the Registration Statement to become effective as soon thereafter as practicable. The Joint Proxy Statement/Prospectus shall include the recommendation of the Boards of Directors of the Company in favor of the Merger and of Parent in favor of the Parent Common Stock Issuance, and such recommendations shall not be withdrawn modified or changed in a manner adverse to Parent or Merger Sub or the Company, respectively, subject to the last sentence of Section 5.2.

SECTION 5.2 Company Stockholders Meeting. The Company shall call the Company Stockholders Meeting as promptly as practicable for the purpose of voting upon the approval of the Merger, and the Company shall use its reasonable best efforts to hold the Company Stockholders Meeting as soon as practicable after the date on which the Registration Statement becomes effective. Unless otherwise required under the applicable fiduciary duties of the directors of the Company, as determined in accordance with Section

4.2, the Company shall solicit from its stockholders proxies in favor of approval of the Merger and this Agreement, shall take all other reasonable action necessary or advisable to secure the vote or consent of stockholders in favor of such approval and shall not take any action that could reasonably be expected to prevent the vote or consent of stockholders in favor of such approval.

SECTION 5.3 Parent Stockholders Meeting. Parent shall call the Parent Stockholders Meeting as promptly as practicable for the purpose of authorizing and approving the issuance by Parent of the Parent Common Stock in the Merger, as contemplated by this Agreement (the "Parent Common Stock Issuance") as required by the NYSE, and if so required by the NYSE, Parent shall use its reasonable best efforts to hold the Parent Stockholders Meeting as soon as practicable after the date on which the Registration Statement becomes effective. Parent shall solicit from its stockholders proxies in favor of approval of the Parent Common Stock Issuance, shall take all other reasonable action necessary or advisable to secure the vote or consent of stockholders in favor of such approval, if required, and shall not take any action that could reasonably be expected to prevent such vote or consent of stockholders in favor of such approval.

SECTION 5.4 Access to Information; Confidentiality. Upon reasonable notice and subject to restrictions contained in confidentiality agreements to which such party is subject (from which such party shall use reasonable efforts to be released), the Company and Parent shall each (and shall cause each of their Subsidiaries to) afford to the officers, employees, accountants, counsel and other representatives of the other reasonable access, during the period prior to the Effective Time, to all its properties, books, contracts, commitments and records and, during such period, the Company and Parent each shall (and shall cause each of their Subsidiaries to) furnish promptly to the other all information concerning its business, properties and personnel as such other party may reasonably request, and each shall make available to the other the appropriate individuals (including attorneys, accountants and other professionals) for discussion of the other's business, properties and personnel as either Parent or the Company may reasonably request. Each party shall keep such information confidential in accordance with the terms of the confidentiality letter (the "Confidentiality Letter") between Parent and the Company.

SECTION 5.5 Consents; Approvals. The Company and Parent shall each in good faith use their reasonable best efforts to obtain all consents, waivers, approvals, authorizations or orders (including, without limitation, all United States and foreign governmental and regulatory rulings and approvals), and the Company and Parent shall make all filings (including, without limitation, all filings with United States and foreign governmental or regulatory agencies) required in connection with the authorization, execution and delivery of this Agreement by the Company and Parent and the consummation by them of the transactions contemplated hereby. The Company and Parent shall furnish all information required to be included in the Joint Proxy Statement/Prospectus and the Registration Statement or for any application or other filing to be made pursuant to the rules and regulations of any United States or foreign governmental body in connection with the transactions contemplated by this Agreement.

SECTION 5.6 Agreements with Respect to Affiliates. The Company shall deliver to Parent, prior to the date the Registration Statement becomes effective under the Securities Act, a letter (the "Affiliate Letter") identifying all Persons who are, at the time of the Company Stockholders Meeting, anticipated to be "Affiliates" of the Company for purposes of Rule 145 under the Securities Act ("Rule 145"), or the rules and regulations of the SEC relating to pooling of interests accounting treatment for merger transactions (the "Pooling Rules"). The Company shall use its reasonable best efforts to cause each Person who is identified as an "affiliate" in the Affiliate Letter to deliver to Parent, no less than 30 days prior to the date of the Company Stockholders Meeting, a written agreement (an "Affiliate Agreement") in connection with restrictions on Affiliates under Rule 145 and pooling of interests accounting treatment, in form mutually agreeable to the Company and Parent.

SECTION 5.7 Indemnification and Insurance. (a) The By-Laws and Certificate of Incorporation of the Surviving Corporation shall contain the provisions with respect to indemnification set forth in the By-Laws and Certificate of Incorporation of the Company, which provisions shall not be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would adversely affect the rights thereunder as of the Effective Time of individuals who at the Effective Time were directors, officers, employees or agents of the Company or its Subsidiaries, unless such modification is required after the Effective Time by law.

(b) The Surviving Corporation shall, to the fullest extent permitted under applicable law or under the Surviving Corporation's Certificate of Incorporation or By-Laws, indemnify and hold harmless each present and former director, officer, employee or agent of the Company or any of its subsidiaries (collectively, the "Indemnified Parties") against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages, liabilities and amounts paid in settlement in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative (collectively, "Actions"), (x) arising out of or pertaining to the transactions contemplated by this Agreement, or (y) otherwise with respect to any acts or omissions occurring at or prior to the Effective Time, in each case to the same extent (including any provision for the advancement of expenses) as provided in the Company's Certificate of Incorporation or By-Laws or any applicable contract or agreement as in effect on the date hereof, in each case for a period of six years after the Effective Time; provided, however, that, in the event that any claim or claims for indemnification are asserted or made within such six-year period, all rights to indemnification in respect of any such claim or claims shall continue until the disposition of any and all such claims. In the event of any such Action (whether arising before or after the Effective Time), the Indemnified Parties shall promptly notify the Surviving Corporation in writing, but the failure to so notify shall not relieve the Surviving Corporation of its obligations under this Section 5.7(b) except to the extent it is materially prejudiced by such failure, and the Surviving Corporation shall have the right to assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Parties. The Indemnified Parties shall have the right to employ separate counsel in any such Action and to participate in (but not control) the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Parties unless (a) the

Surviving Corporation has agreed to pay such fees and expenses, (b) the Surviving Corporation shall have failed to assume the defense of such Action or (c) the named parties to any such Action (including any impleaded parties) include both the Surviving Corporation and the Indemnified Parties and such Indemnified Parties shall have been reasonably advised by counsel that there may be one or more legal defenses available to the Indemnified Parties which are in conflict with those available to the Surviving Corporation. In the event such Indemnified Parties employ separate counsel at the expense of the Surviving Corporation pursuant to clauses (b) or (c) of the previous sentence, (i) any counsel retained by the Indemnified Parties for any period after the Effective Time shall be reasonably satisfactory to the Surviving Corporation; (ii) the Indemnified Parties as a group may retain only one law firm to represent them in each applicable jurisdiction with respect to any single Action unless there is, under applicable standards of professional conduct, a conflict on any significant issue between the positions of any two or more Indemnified Parties, in which case each Indemnified Person with respect to whom such a conflict exists (or group of such Indemnified Persons who among them have no such conflict) may retain one separate law firm in each applicable jurisdiction; (iii) after the Effective Time, the Surviving Corporation shall pay the reasonable fees and expenses of such counsel, promptly after statements therefor are received; and (iv) the Surviving Corporation will cooperate in the defense of any such Action. The Surviving Corporation shall not be liable for any settlement of any such Action effected without its written consent.

(c) The Surviving Corporation shall honor and fulfill in all respects the obligations of the Company pursuant to indemnification agreements and employment agreements (the employee parties under such agreements being referred to as the "Officer Employees") with the Company's directors and officers existing on the date hereof.

(d) For a period of six years after the Effective Time, Parent shall cause the Surviving Corporation to maintain in effect, if available, directors' and officers' liability insurance covering those Persons who are currently covered by the Company's directors' and officers' liability insurance policy (a correct and complete copy of which has been made available to Parent) on terms comparable to those now applicable to directors and officers of the Company; provided, however, that in no event shall the Surviving Corporation be required to expend in excess of 300% of the annual premium currently paid by the Company for such coverage; and provided further, that if the premium for such coverage exceeds such amount, Parent or the Surviving Corporation shall purchase a policy with the greatest coverage available for such 300% of such annual premium.

(e) The provisions of this Section 5.7 shall survive the consummation of the Merger at the Effective Time, is intended to benefit the Company, the Surviving Corporation, the Indemnified Parties and the Officer Employees, shall be binding on all successors and assigns of the Surviving Corporation and shall be enforceable by the Indemnified Parties and the Officer Employees.

SECTION 5.8 Notification of Certain Matters. The Company shall give prompt notice to Parent, and Parent shall give prompt notice to the Company, of (i) the occurrence or nonoccurrence of any event the occurrence or nonoccurrence of which would

SECTION 5.17 Receipt of Acknowledgments. The Company shall use its best efforts to obtain prior to the Effective Time an acknowledgment in form and substance reasonably satisfactory to Parent from all holders of Stock Options, and shall obtain such acknowledgment from all holders of Stock Options who are officers or directors of the Company, that such Stock Options from and after the Effective Time are exercisable for shares of Parent Common Stock as provided in Section 1.6(c) of this Agreement.

ARTICLE VI

CONDITIONS TO THE MERGER

SECTION 6.1 Conditions to Obligation of Each Party to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) Effectiveness of the Registration Statement. The Registration Statement shall have been declared effective by the SEC under the Securities Act. No stop order suspending the effectiveness of the Registration Statement shall have been issued by the SEC and no proceedings for that purpose and no similar proceeding in respect of the Joint Proxy Statement/Prospectus shall have been initiated or threatened by the SEC;

(b) Stockholder Approval. The Merger and this Agreement shall have been approved by the requisite vote of the stockholders of the Company, and the Parent Common Stock Issuance shall have been approved by the requisite vote of the stockholders of Parent, if required;

(c) Listing. The shares of Parent Common Stock issuable in the Merger shall have been authorized for listing on the NYSE upon official notice of issuance;

(d) HSR Act. All waiting periods applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated;

(e) Governmental Actions. There shall not have been instituted, pending or threatened any action or proceeding (or any investigation or other inquiry that might result in such an action or proceeding) by any governmental authority or administrative agency before any governmental authority, administrative agency or court of competent jurisdiction, domestic or foreign, nor shall there be in effect any judgment, decree or order of any governmental authority, administrative agency or court of competent jurisdiction, or any other legal restraint (i) preventing or seeking to prevent consummation of the Merger, (ii) prohibiting or seeking to prohibit or limiting or seeking to limit Parent from exercising all material rights and privileges pertaining to its ownership of the Surviving Corporation or the ownership or operation by Parent or any of its Subsidiaries of all or a material portion of the business or

assets of Parent or any of its Subsidiaries (including the Surviving Corporation or any of its Subsidiaries), or (iii) compelling or seeking to compel Parent or any of its Subsidiaries to dispose of or hold separate all or any material portion of the business or assets of Parent or any of its Subsidiaries (including the Surviving Corporation and its Subsidiaries), as a result of the Merger or the transactions contemplated by this Agreement;

(f) Illegality. No statute, rule, regulation or order shall be enacted, entered, enforced or deemed applicable to the Merger which makes the consummation of the Merger illegal;

(g) Opinions of Counsel. The Company shall have received the written opinion of Kramer, Levin, Naftalis & Frankel, in form reasonably satisfactory to the Company, as to certain customary corporate and legal matters relating to Parent, Merger Sub, the Merger, this Agreement and the transactions contemplated hereby. Parent and Merger Sub shall have received the written opinion of Arter & Hadden, in form reasonably satisfactory to Parent, as to certain customary corporate and legal matters relating to the Company, the Merger, this Agreement and the transactions contemplated hereby; and

(h) Tax Opinions. The Company shall have received a written opinion of Arter & Hadden, and Parent shall have received a written opinion of Kramer, Levin, Naftalis & Frankel, in form and substance reasonably satisfactory to each of them to the effect that the Merger will constitute a reorganization within the meaning of section 368 of the Code. Each party agrees to make all reasonable representations and covenants in connection with the rendering of such opinions.

(i) Pooling. The Merger shall be accounted for as a pooling of interests.

SECTION 6.2 Additional Conditions to Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to effect the Merger are also subject to the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company contained in this Agreement shall be true and correct in all respects on and as of the Effective Time with the same force and effect as if made on and as of the Effective Time, except for (i) changes contemplated by this Agreement, (ii) those representations and warranties which address matters only as of a particular date (which shall have been true and correct as of such date, subject to clause (iii)), or (iii) where the failure to be true and correct would not reasonably be expected to have a Material Adverse Effect, and Parent and Merger Sub shall have received a certificate to such effect signed by the Chief Executive Officer and Chief Financial Officer of the Company;

(b) Agreements and Covenants. The Company shall have performed or complied in all material respects with all agreements and covenants required by this

Agreement to be performed or complied with by it on or prior to the Effective Time, and Parent and Merger Sub shall have received a certificate dated as of the Effective Time to such effect signed by the Chief Executive Officer and Chief Financial Officer of the Company;

(c) Consents Obtained. All material consents, waivers, approvals, authorizations or orders required to be obtained, and all material filings required to be made, by the Company for the authorization, execution and delivery of this Agreement, the consummation by it of the transactions contemplated hereby and the continuation in full force and effect of any and all material rights, documents, agreements or instruments of the Company shall have been obtained and made by the Company, except where the failure to receive such consents, waivers, approvals, authorizations or orders or make such filings would not reasonably be expected to have a Material Adverse Effect on the Surviving Corporation or Parent;

(d) Opinion of Accountant. Parent shall have received an opinion of Arthur Andersen LLP, independent certified public accountants, regarding the qualification of the Merger as a pooling of interests for accounting purposes, and Company shall have received an opinion of Arthur Andersen LLP, independent certified public accountants, regarding the qualification of the Merger as a pooling of interests for accounting purposes. Such opinions shall be in form and substance reasonably satisfactory to Parent; and

(e) Affiliate Agreements. Parent shall have received from each Person who is identified in the Affiliate Letter as an "affiliate" of the Company, an Affiliate Agreement, and such Affiliate Agreement shall be in full force and effect.

(f) Agreements with Warrant Holders. Parent shall have received from each Warrant holder and from the holders of Stock Options to purchase at least 2.5 million shares of Company Common Stock an acknowledgement in form and substance reasonably satisfactory to Parent that such Warrant and Stock Options from and after the Effective Time are exercisable for shares of Parent Common Stock as provided in section 1.6(c) of this Agreement.

SECTION 6.3 Additional Conditions to Obligation of the Company. The obligation of the Company to effect the Merger is also subject to the following conditions:

(a) Representations and Warranties. The representations and warranties of Parent and Merger Sub contained in this Agreement shall be true and correct in all respects on and as of the Effective Time with the same force and effect as if made on and as of the Effective Time, except for (i) changes contemplated by this Agreement, (ii) those representations and warranties which address matters only as of a particular date (which shall have been true and correct as of such date, subject to clause (iii)), or (iii) where the failure to be true and correct would not reasonably be expected to have a Material Adverse Effect, and the Company shall have received a certificate to such effect signed by the Chief Financial Officer of Parent;

(b) Agreements and Covenants. Parent and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by them on or prior to the Effective Time, and the Company shall have received a certificate dated as of the Effective Time to such effect signed by the President and Chief Financial Officer of Parent; and

(c) Consents Obtained. All material consents, waivers, approvals, authorizations or orders required to be obtained, and all material filings required to be made, by Parent or Merger Sub for the authorization, execution and delivery of this Agreement, the consummation by them of the transactions contemplated hereby and the continuation in full force and effect of any and all material rights, documents, agreements or instruments of Parent shall have been obtained and made by Parent and Merger Sub, except where the failure to receive such consents, waivers, approvals, authorizations or orders or make such filings would not be reasonably be expected to have a Material Adverse Effect on the Surviving Corporation or Parent, and except where Parent has requested the Company to take such reasonable actions, including the transfer of assets and the execution of management agreements or similar arrangements with Affiliates of the Company, where, as a result of the consummation of such actions, the failure to receive such consents, waivers, approvals, authorizations or orders would not have a Material Adverse Effect on the Surviving Corporation or Parent.

ARTICLE VII

TERMINATION

SECTION 7.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, notwithstanding approval thereof by the stockholders of the Company or Parent:

(a) by mutual written consent duly authorized by the Boards of Directors of Parent and the Company; or

(b) by either Parent or the Company if the Merger shall not have been consummated by February 28, 1998 (provided that the right to terminate this Agreement under this Section 7.1(b) shall not be available (i) to any party whose failure to fulfill any obligation under this Agreement has been the cause of or resulted in the failure of the Merger to occur on or before such date or (ii) to Parent in the event that a Material Parent Transaction has been the cause of or resulted in the failure of the Merger to occur on or before such date); or

(c) by either Parent or the Company if a court of competent jurisdiction or governmental, regulatory or administrative agency or commission shall have issued a

nonappealable final order, decree or ruling or taken any other action having the effect of permanently restraining, enjoining or otherwise prohibiting the Merger (provided that the right to terminate this Agreement under this Section 7.1(c) shall not be available to any party who has not complied with its obligations under Section 5.9 and such noncompliance materially contributed to the issuance of any such order, decree or ruling or the taking of such action); or

(d) by either Parent or the Company if :

(i) subject to clause (iii) below, (x) the requisite vote of the stockholders of the Company shall not have been obtained by February 28, 1998, or (y) if required, the requisite vote of the stockholders of Parent shall not have been obtained by February 28, 1998 ;

(ii) (x) the stockholders of the Company shall not have approved the Merger and this Agreement at the Company Stockholders Meeting or (y) if required, the stockholders of Parent shall not have approved the Parent Common Stock Issuance at the Parent Stockholders Meeting;

(iii) in the event that a Material Parent Transaction prevents holding the Company Stockholders Meeting or the Parent Stockholders Meeting, as the case may be, by February 28, 1998, (x) the requisite vote of the stockholders of the Company shall not have been obtained by the earlier of (1) the 45th consecutive day that the Registration Statement is effective and (2) December 31, 1998 or (y) if required, the requisite vote of the stockholders of Parent shall not have been obtained by the earlier of (1) the 45th consecutive day that the Registration Statement is effective and (2) December 31, 1998; or

(e) by the Company or Parent, if the Board of Directors of the Company shall withdraw, modify or change its approval of this Agreement or the Merger in a manner adverse to Parent or Merger Sub or shall have resolved to do so, in each case in compliance with the provisions of Section 4.2; or

(f) by Parent or the Company if any representation or warranty of the Company, or Parent and Merger Sub, respectively, set forth in this Agreement shall be untrue when made, such that the conditions set forth in Sections 6.2(a) or 6.3(a), as the case may be, would not be satisfied (a "Terminating Misrepresentation"); provided, however, that, if such Terminating Misrepresentation is curable prior to the Closing Date by the Company or Parent, as the case may be, through the exercise of its commercially reasonable efforts and for so long as the Company or Parent, as the case may be, continues to exercise such commercially reasonable efforts, neither Parent nor the Company, respectively, may terminate this Agreement under this Section 7.1(f); or

(g) by Parent if any representation or warranty of the Company shall have become untrue such that the condition set forth in Section 6.2(a) would not be

satisfied (a "Company Terminating Change"), or by the Company if any representation or warranty of Parent and Merger Sub shall have become untrue such that the condition set forth in Section 6.3(a) would not be satisfied (a "Parent Terminating Change" and together with a Company Terminating Change, a "Terminating Change"), in either case other than by reason of a Terminating Breach (as hereinafter defined); provided, however, that if any such Terminating Change is curable prior to Closing Date by the Company or Parent, as the case may be, through the exercise of its commercially reasonable efforts, and for so long as the Company or Parent, as the case may be, continues to exercise such commercially reasonable efforts, neither Parent nor the Company, respectively, may terminate this Agreement under this Section 7.1(g); or

(h) by Parent or the Company upon a breach of any covenant or agreement on the part of the Company or Parent, respectively, set forth in this Agreement, such that the conditions set forth in Sections 6.2(b) or 6.3(b), as the case may be, would not be satisfied (a "Terminating Breach"); provided, however, that, if such Terminating Breach is curable prior to the Closing Date by the Company or Parent, as the case may be, through the exercise of its commercially reasonable efforts and for so long as the Company or Parent, as the case may be, continues to exercise such commercially reasonable efforts, neither Parent nor the Company, respectively, may terminate this Agreement under this Section 7.1(h); or

(i) by the Company, if (x) the Average Stock Price for the twenty (20) consecutive trading days ending on the third trading day prior to the Company Stockholders Meeting is less than $20.40, (y) on or before the second trading day prior to the date of the Company Stockholders Meeting, the Company delivers to Parent written notice of its intention, subject to the following clause (z), to terminate this Agreement, and (z) Parent has not agreed by notice to the Company in writing on or before one trading day prior to the date of the Company Stockholders Meeting to an Exchange Ratio at least equal to $18.90 divided by the Average Stock Price. In the event Parent delivers its notice specified in clause (z) of this Section 7.1(i), the Company shall not have the right to terminate this Agreement pursuant to this Section 7.1(i); or

(j) by Parent, if the Average Stock Price is less than $20.40.

SECTION 7.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 7.1, this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto or of any of its Affiliates, directors, officers or stockholders except (i) as set forth in Section 7.3 and Section 8.1, and (ii) nothing herein shall relieve any party from liability for any breach hereof.

SECTION 7.3 Fees and Expenses. (a) Except as set forth in this Section 7.3, all fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, whether or not the Merger is consummated; provided, however, that Parent and the Company shall share

equally all SEC filing fees and printing expenses incurred in connection with the printing and filing of the Joint Proxy Statement/Prospectus (including any preliminary materials related thereto) and the Registration Statement (including financial statements and exhibits) and any amendments or supplements thereto.

(b) The Company shall pay Parent a fee of $11,000,000 upon (i) the termination of this Agreement pursuant to Section 7.1(d)(i)(x) or Section 7.1(d)(iii)(x)(1), provided that in either such case, such failure to obtain the requisite vote is the result of a Terminating Misrepresentation by the Company or a Terminating Breach by the Company, (ii) the termination of this Agreement pursuant to Section 7.1(d)(ii)(x), provided, the average of the closing prices (or the average of the closing bid and asked prices for any day on which the Parent Common Stock does not trade) of the Parent Common Stock on the NYSE for the three trading days immediately prior to the Company Stockholders Meeting is not below $20.40, (iii) the termination of this Agreement pursuant to Section 7.1(e) or (iv) the termination of this Agreement for any reason other than a Terminating Breach by Parent, a Terminating Misrepresentation by Parent, a Terminating Change or pursuant to Section 7.1(a), Section 7.1(c), Section 7.1(d)(i)(y), (ii)(y) or (iii)(y)(1), Section 7.1(i) or Section 7.1(j), and the Company enters into an agreement with a third party within six months of the date of the termination of this Agreement relating to the possible acquisition of the Company or any of its Subsidiaries (whether by way of merger, purchase of capital stock, purchase of assets or otherwise) or any material portion of its or their capital stock or assets.

(c) Parent shall pay the Company a fee of $11,000,000 upon (i) the termination of this Agreement pursuant to Section 7.1(d)(i)(y) or Section 7.1(d)(iii)(y)(1), provided that in either such case, such failure to obtain the requisite vote is the result of a Terminating Misrepresentation by Parent or a Terminating Breach by Parent or (ii) the termination of this Agreement pursuant to Section 7.1(d)(ii)(y).

(d) Upon termination of this Agreement by either Parent or the Company, the respective parties hereto may seek any and all remedies available to it under applicable law.

(e) The fee payable pursuant to Section 7.3(b) or 7.3(c) shall be paid within one Business Day after a demand for payment following the occurrence of any of the events described in Section 7.3(b) or Section 7.3(c); provided, however, that, in no event shall the Company or Parent, as the case may be, be required to pay such fee to the other party, if, immediately prior to the termination of this Agreement, the party entitled to receive such fee was in material breach of its obligations under this Agreement.

ARTICLE VIII

GENERAL PROVISIONS

SECTION 8.1 Effectiveness of Representations, Warranties and Agreements. (a) Except as otherwise provided in this Section 8.1, the representations, warranties, covenants and agreements of each party hereto shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any other party hereto, any Person controlling any such party or any of their officers, directors or representatives, whether prior to or after the execution of this Agreement. The representations, warranties and agreements in this Agreement shall terminate at the Effective Time or upon the termination of this Agreement pursuant to Section 7.1, as the case may be, except that the covenants and agreements set forth in Article I and Section 5.7 or 7.2 shall survive the Effective Time and those set forth in Section 7.3 shall survive such termination. The Confidentiality Letter shall survive termination of this Agreement as provided therein.

(b) Any disclosure made with reference to one or more Sections of the Company Disclosure Schedule or the Parent Disclosure Schedule shall be deemed disclosed with respect to each other section therein as to which such disclosure is relevant provided that such relevance is reasonably apparent. Disclosure of any matter in the Company Disclosure Schedule or the Parent Disclosure Schedule shall not be deemed an admission that such matter is material.

SECTION 8.2 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made if and when delivered personally or by overnight courier to the parties at the following addresses or sent by electronic transmission, with confirmation received, to the telecopy numbers specified below (or at such other address or telecopy number (or to such other Person's attention) for a party as shall be specified by like notice):

(a) If to Parent or Merger Sub:

LCI International, Inc.
8180 Greensboro Drive
Suite 800
McLean, VA 22102
Telecopier No.: (703)714-1750
Telephone No.: (703) 848-4446
Attention: Lee M. Weiner, Esq.
Vice President and General Counsel

With a copy to:

Kramer, Levin, Naftalis & Frankel
919 Third Avenue
New York, NY 10022
Telecopier No.: (212) 715-8000
Telephone No.: (212) 715-9100
Attention: Peter S. Kolevzon, Esq.

(b) If to the Company:

USLD Communications Corp.
9311 San Pedro, Suite 100
San Antonio, TX 78216
Telecopier No.: (210) 525-0389
Telephone No.: (210) 525-9009
Attention: W. Audie Long, Esq.
General Counsel

With a copy to:

Arter & Hadden
1717 Main Street, Suite 4100
Dallas, Texas 75201
Telecopier No.: (214) 741-7139
Telephone No.: (214) 761-4779
Attention: Joseph A. Hoffman, Esq.

SECTION 8.3 Certain Definitions. For purposes of this Agreement, the term:

(a) "Affiliates" means a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned Person;

(b) "Business Day" means any day other than a day on which banks in New York are required or authorized to be closed;

(c) "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of stock, as trustee or executor, by contract or credit arrangement or otherwise;

(d) "Knowledge" means the actual knowledge of the directors and executive officers of such Person and its significant Subsidiaries who are listed in Section 8.3 of the Company Disclosure Schedule, with respect to the Company and its Subsidiaries, and Section 8.3 of the Parent Disclosure Schedule, with respect to Parent and its Subsidiaries.

(e) "Person" means an individual, corporation, partnership, limited liability company, association, trust, unincorporated organization other entity or group (as defined in Section 13(d)(3) of the Exchange Act); and

(f) "Subsidiary" or "Subsidiaries" of the Company, the Surviving Corporation, Parent or any other Person means any significant corporation, partnership, limited liability company, or other legal entity of which the Company, the Surviving Corporation, Parent or such other Person, as the case may be (either alone or through or together with any other Subsidiary), owns, directly or indirectly, more than 50% of the stock or other equity interests the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

SECTION 8.4 Amendment. This Agreement may be amended by the parties hereto by action taken by or on behalf of their respective Boards of Directors at any time prior to the Effective Time; provided, however, that, after approval of the Merger and this Agreement by the stockholders of the Company, no amendment may be made which by law requires further approval by such stockholders without such further approval. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

SECTION 8.5 Waiver. At any time prior to the Effective Time, any party hereto may with respect to any other party hereto (a) extend the time for the performance of any of the obligations or other acts, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto, or (c) waive compliance with any of the agreements or conditions contained herein. Any such extension or waiver shall be valid if set forth in an instrument in writing signed by the party or parties to be bound thereby.

SECTION 8.6 Headings; Construction. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. In this Agreement (a) words denoting the singular include the plural and vice versa, (b) "it" or "its" or words denoting any gender include all genders, (c) the word "including" shall mean "including without limitation," whether or not expressed, (d) any reference to a statute shall mean the statute and any regulations thereunder in force as of the date of this Agreement or the Effective Time, as applicable, unless otherwise expressly provided, (e) any reference herein to a Section, Article or Schedule refers to a Section or Article of or a Schedule to this Agreement, unless otherwise stated, (f) when calculating the period of time within or following which any act is to be done or steps taken, the date which is the reference day in calculating such period shall be excluded and if the last day of such

period is not a Business Day, then the period shall end on the next day which is a Business Day, and (g) any reference to a party's "best efforts" or "commercially reasonable efforts" or like or similar phrases shall not include any obligation of such party to pay, or guarantee the payment of, money or other consideration to any third party or to agree to the imposition on such party or its Affiliates of any condition reasonably considered by such party to be materially burdensome to such party or its Affiliates.

SECTION 8.7 Severability. (a) If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent reasonably possible.

(b) The Company and Parent agree that the fees provided in Sections 7.3(b) and 7.3(c) are fair and reasonable in the circumstances. If a court of competent jurisdiction shall nonetheless, by a final, non-appealable judgment, determine that the amount of any such fee exceeds the maximum amount permitted by law, then the amount of such fee shall be reduced to the maximum amount permitted by law in the circumstances, as determined by such court of competent jurisdiction.

SECTION 8.8 Entire Agreement. This Agreement, together with any written agreements relating to the transactions contemplated hereby entered into contemporaneously with this Agreement, constitutes the entire agreement and supersedes all prior agreements and undertakings (other than the Confidentiality Letter), both written and oral, among the parties, or any of them, with respect to the subject matter hereof, except as otherwise expressly provided herein.

SECTION 8.9 Assignment; Merger Sub. This Agreement shall not be assigned by operation of law or otherwise, except that all or any of the rights of Merger Sub hereunder may be assigned to any direct, wholly-owned Subsidiary of Parent provided that no such assignment shall relieve the assigning party of its obligations hereunder. Parent guarantees the full and punctual performance by Merger Sub of all the obligations hereunder of Merger Sub or any such assignees.

SECTION 8.10 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, including, without limitation, by way of subrogation, other than Section 5.7 (which is intended to be for the benefit of the Indemnified Parties and Officer Employees and may be enforced by such Indemnified Parties and Officer Employees).

SECTION 8.11 Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty, covenant or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

SECTION 8.12 Governing Law. This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of Delaware applicable to contracts executed and fully performed within the State of Delaware.

SECTION 8.13 Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

SECTION 8.14 WAIVER OF JURY TRIAL. EACH OF PARENT, MERGER SUB AND THE COMPANY, AND EACH INDEMNIFIED PARTY AND OFFICER EMPLOYEE, HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

[This space intentionally left blank.]

IN WITNESS WHEREOF, Parent, Merger Sub and the Company have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

LCI INTERNATIONAL, INC.

By _____
H. Brian Thompson
Chairman of the Board and
Chief Executive Officer

LCI ACQUISITION CORP.

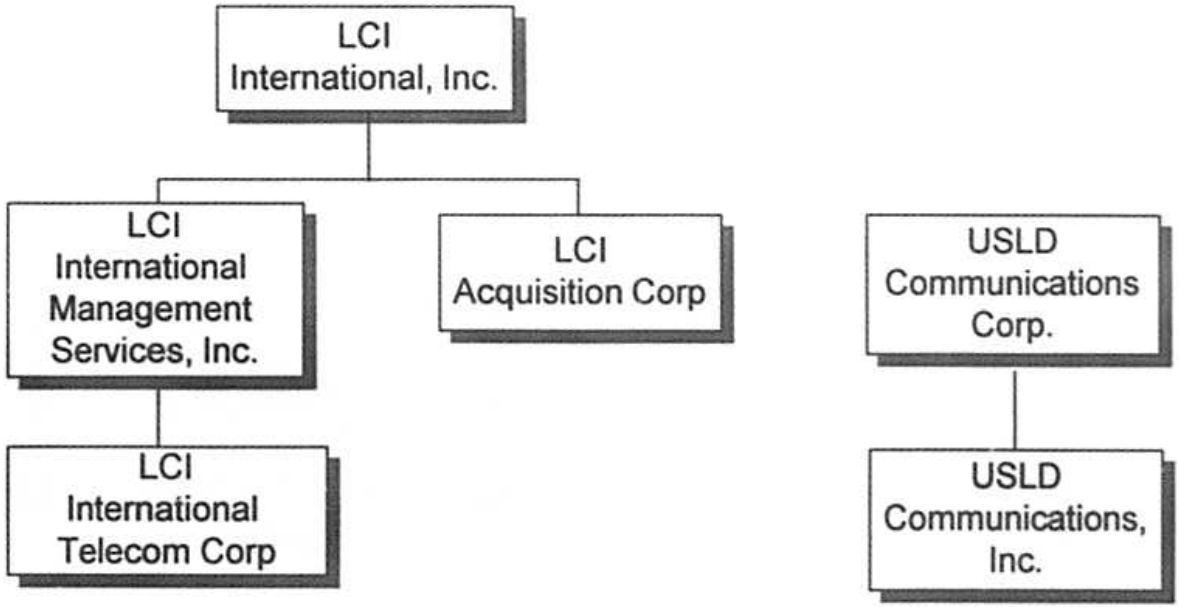
By _____
H. Brian Thompson
Chairman of the Board and
Chief Executive Officer

USLD COMMUNICATIONS CORP.

By _____
Larry M. James
Chairman of the Board,
Chief Executive Officer and
President

KL2:212066.14

PRE-TRANSFER OF CONTROL



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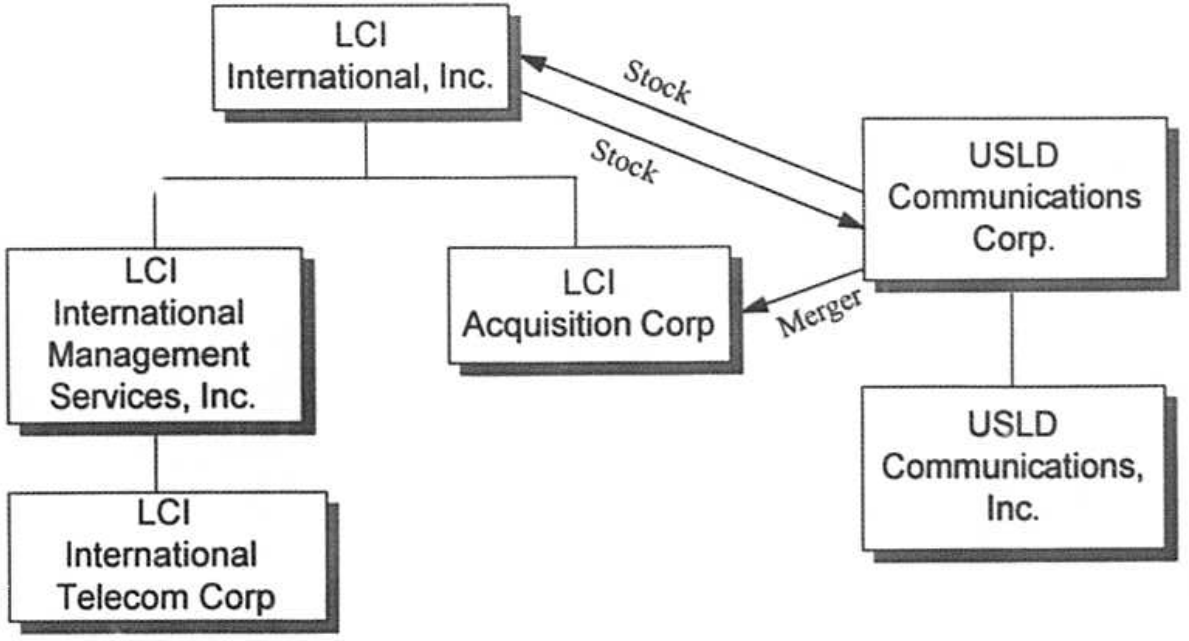
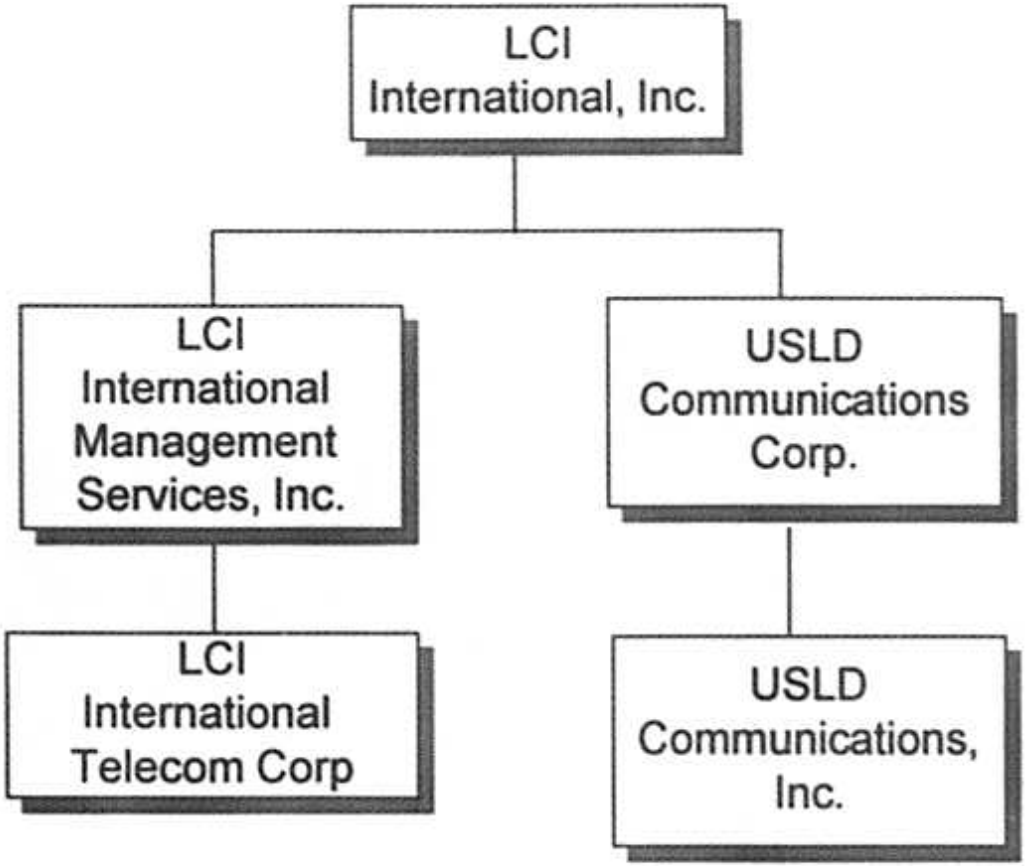


POST-TRANSFER OF CONTROL



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ATTACHMENT C

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

FORM 10-K

(Mark One)

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]**

For the fiscal year ended December 31,1996

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the transition period from _____ to
Commission file number 0-21602

LCI INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other Jurisdiction of Incorporation or Organization)	13-3498232 (I.R.S. Employer Identification Number)
8180 GREENSBORO DRIVE, SUITE 800 McLEAN, VA (Address of principal executive offices)	22102 (Zip Code)

Registrant's telephone number, including area code: 1-800-29o-0220

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:
None
(title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes X No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of LCI International, Inc. was $1,596,251,000 at February 28, 1997

As of February 28, 1997, there were 77,617,276 shares of LCI International, Inc. Common Stock (par value $.01 per share) outstanding

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1996 Annual Report to Shareowners - Part II Portions of the Proxy Statement for the 1997 Annual Meeting of Shareowners - Part III

LCI INTERNATIONAL, INC.
1996 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

LCI International, Inc., together with its subsidiaries, (LCI or the Company), is a facilities-based, long-distance telecommunications carrier that provides a broad range of domestic and international telecommunications service offerings in all market segments: commercial, wholesale and residential/small business. The Company serves its customers through leased and owned digital fiber-optic facilities spanning the U.S. and more than 200 countries (the Network). LCI's Network includes eleven switches in Atlanta, Baltimore, Chicago, Cleveland, Columbus, Charlotte, Detroit, Delta, Jersey City, Los Angeles, and Memphis - connecting LCI to metropolitan areas that account for 95% of U.S. call volume.

LCI International, Inc., a Delaware corporation, was incorporated in 1988 and is a holding company. The Company's operations are conducted through LCI's direct wholly owned subsidiaries, LCI International Management Services, Inc. (LCI Management Services), LCI SPC I, Inc. and LCI International SC, Inc., as well as, its indirect wholly owned subsidiaries, LCI International Telecom Corp. (LCIT) and LCI International of Virginia, Inc.

INDUSTRY BACKGROUND

Historically, the Company has operated in the $80 billion long-distance telecommunications industry. The long-distance industry is highly competitive and is currently dominated by the three largest interexchange carriers: AT&T Corporation (AT&T), MCI Communications Corporation (MCI) and Sprint Corporation (Sprint). In 1996, fewer than ten publicly traded long-distance carriers, including the Company, had annual revenues exceeding $1 billion. The balance of the long-distance industry comprises several hundred smaller interexchange carriers, resellers, and agents. Recent legislative and regulatory activity is designed to create one telecommunications industry to encompass both long-distance and local telecommunication services. The local telecommunications industry is approximately $95 billion and is dominated by the seven Regional Bell Operating Companies (RBOCs) and GTE Communications Corporation (GTE). The RBOCs have been granted the authority to provide long-distance service between Local Access Transport Areas (interLATA) outside their respective regions. The nature of competition in this combined industry is expected to change significantly as legislative and regulatory activities progress. The Company intends to provide combined local and long-distance services to compete in what is expected to be a $150 billion combined market.

The present long-distance telecommunications marketplace was shaped by the 1984 court-ordered divestiture by AT&T of its 22 Bell Operating Companies, known as "BOCs." As part of the AT&T Divestiture Consent Decree, the United States was divided into geographic areas known as Local Access Transport Areas (LATAs). The local exchange carriers (LECs), which include the Bell Operating Companies and independent local exchange carriers, provide local telephone service, local access services and short-haul toll service. Interexchange carriers (IXCs), including the Company and certain independent local exchange carriers, provide interLATA long-distance service and long-distance service within LATAs.

The Company's ability to compete and grow is subject to changing industry conditions. Recent legislation and the resulting judicial and regulatory action have had a significant impact on the current industry environment. These changes will alter the nature and degree of competition in both the local and long-distance segments of the industry.

TELECOMMUNICATIONS SERVICES

The Company provides a broad array of long-distance telecommunications services to its customers, which include residential/small business, medium-sized and large businesses, national accounts, other interexchange carriers, government agencies and academic institutions. The Company's switched services include basic long-distance or measured toll service (MTS), accessible via "1 plus" dialing or dialing a five digit access code (10xxx). The Company also provides a variety of wide area telecommunications services (WATS) available through switched or dedicated lines. Due to the almost universal use of high quality digital transmission facilities, the Company believes that quality of transmission is no longer a substantial competitive advantage.

The Company has developed a marketing strategy that focuses on differentiating LCI through "simple, fair and inexpensive" domestic and international telecommunications service offerings in all market segments. The Company provides low, easy to understand rates, that vary primarily based on the time a call is placed (i.e., during or after business hours) and not by the distance of an interstate call. Calls are billed primarily based on an initial charge, with additional increments of six seconds, as opposed to full minute intervals charged by many of the Company's competitors for residential service. This service offers discounted evening rates beginning at 6 p.m. and does not require waiting until later hours for discounts. The Company does not attach any complex conditions to the simple, fair and inexpensive service, such as minimum monthly charge or term requirements, or requiring customers to sign up other customers to earn full discounts. For commercial customers, LCI also focuses on offering a full complement of high quality, competitively priced services to small, medium-sized and large customers including calling card services, toll-free services, audioconferencing, frame relay data service, Internet access, and specialized high-volume data transmission services. Although the Company provides long-distance services to a wide range of market segments, the Company does not seek to compete with every service offered by the Company's competitors. The Company's strategy for competitive flexibility includes a balance across all market segments with selective service offerings.

The Company's strategic direction is supported by growth through geographic expansion of sales presence and Network operating facilities, as well as expansion in sales channels, targeted service offerings to each market segment, and selective acquisitions. This approach is dependent on maintaining efficient, low cost operations in order to preserve pricing flexibility and operating margins. The Company has historically managed its selling, general and administrative expenses at a percentage of revenue which is lower than its three largest competitors.

COMPETITION

The long-distance telecommunications market is highly competitive. The principal competitive factors affecting the success of the Company's strategy are the industry environment as described above, pricing, efficient low-cost operations, customer service and diversity of services and features. The Company's pricing approach is to offer a simple, flat-rate pricing structure with rates generally below those of AT&T, MCI and Sprint. This pricing strategy is supported by a continuous focus on lowering the unit cost of the Company's cost of service, which enables the Company to competitively price its services. Recently, certain long-distance carriers have introduced a variety of pricing programs that have increased competitive pricing pressures. LCI continues to believe that its simple, fair and inexpensive marketing and service pricing approach is very competitive in retaining existing customers, as well as in obtaining new customers. The Company's ability to compete effectively will depend on maintaining high-quality, market-driven services at prices generally equal to or below those charged by its major competitors.

As a result of the passage of the Telecommunications Act of 1996 and the effect of other regulatory matters discussed below (see Legislation and Regulatory Matters), the structure of the industry is expected to change by initially allowing local service to be provided by carriers other than LECs, while eventually permitting RBOCs to provide interLATA long-distance service within their service territories. Consequently, the Company expects competition within the industry to increase in both the long-distance and local markets over time.

TARGETED SERVICE OFFERINGS

Residential/small business customers and medium-sized businesses primarily purchase switched services, while carriers and large commercial customers typically purchase both switched and dedicated access services. Switched services, charged on a usage-sensitive basis, are telecommunication services provided to each customer through switching and transmission facilities. Private line services, a type of dedicated access service, are charged on a fixed price basis for which transmission capacity is reserved for that customer's traffic.

The Company uses a variety of channels to market its services. In addition to its internal sales force, the Company uses a combination of advertising, telemarketing and third-party sales agents. During 1997, the Company continued to expand its sales presence across the country through all of these channels. With respect to third-party sales agents, compensation for sales is paid to agents in the form of an ongoing commission based upon collected revenue attributable to customers identified by the agents. Responsibility for the customer relationship, including billing and customer service, is maintained by the Company. American Communications Network, Inc. (ACN), a nationwide network of third-party sales agents, continued to be the most successful of the Company's sales agents and accounted for a significant portion of the Company's residential/small business sales growth. ACN is authorized to sell certain defined services that currently exist; new services may or may not be authorized in the future.

In June 1996, the Company extended its contract with ACN through April 2011. In consideration for the contract extension, as well as ACN's exclusivity and non-compete provisions, the Company committed to make two payments on designated dates which will be amortized over the life of the contract. A portion of these payments is contingent on future performance by ACN. The agreement also contains a provision whereby ACN will receive a payment if there is a change in the control of the Company. In consideration for this change in control payment, the Company will receive a 31% reduction in the ongoing commission rates paid to ACN. The change in control payment is calculated based on a multiple of three times the average monthly collected revenue generated by customers identified by ACN. The monthly collected revenue average is calculated over a 24-month performance period subsequent to the change in control. The amount of this payment is therefore dependent upon ACN's level of performance during the entire performance period, and cannot be reasonably estimated at this time.

BUSINESS SERVICES. In 1996, 1995 and 1994 business long-distance customers, including wholesale customers, accounted for approximately 70%, 80% and 90% of the Company's revenues, respectively. The Company has expanded its marketing to include a full range of large and small businesses throughout the United States. In response to the fast-growing market of small and home-based businesses, the Company delivered services specially tailored to the needs of these customers. Unlike other plans for businesses, the Company offers plans that do not require term commitments, contracts, subscription fees or penalties. The Company's popular commercial services, Simply Guaranteed(R), Integrity(R) and Simply Business(R), have continued to be successful and have been extended to the small and medium-sized business customer. The Company's simple, fair and inexpensive philosophy also includes pricing for international calls, with rates based on the countries involved.

The Company also offers private line telecommunications services to its business and wholesale customers. Point to point services are interexchange facilities dedicated exclusively for a single customer's use, connected to customer locations on both ends with dedicated access facilities. Revenues from point to point services, included in business revenues above, were approximately 10% of total revenues for each of 1996, 1995 and 1994. Historically gross margins on sales of these services have been higher than the Company's overall average due to fixed transmission facilities in place to handle these services.

Another important source of revenue for the Company is the sale of transmission capacity and services to other long-distance wholesalers and to resellers of long-distance service. Although gross margins on sales to such customers are generally lower than the Company's overall average, the service expenses associated with this segment are also lower, resulting in an operating margin in line with the Company's overall average.

RESIDENTIAL SERVICES. Within the past three years the Company has implemented marketing and service development efforts intended to expand its share of the U.S. residential long-distance market. As a result, the Company's residential revenue grew in excess of 100% in each of the past three years and represented approximately 30% of the Company's revenues by the end of 1996. This is compared with approximately 20% and 10% of the Company's revenues at the end of 1995 and 1994, respectively.

The Company has experienced an increase in selling, general and administrative expenses as a result of the growth in the residential/small business service line. Residential service revenues are primarily billed through LECs, resulting in higher billing service expenses for this service line. In addition, increased commission expense, and higher sales allowance and bad debt expense are incurred with this shift in customer mix. The residential/small business segment incurs higher proportional selling, general and administrative costs, but also provides a higher gross margin than other segments.

The significant residential services growth rates were accomplished primarily through the Company's simple, fair and inexpensive service offerings that charge customers based on time of day, not distance. The Company offers residential customers simplified rates, direct dialing for nationwide and international calls, 24-hour customer service, combined billing from the local exchange carrier, six-second incremental billing and optional special features such as World Card Plus(R), a calling card option, and personal 800-numbers.

LOCAL SERVICES. The Company is involved in state regulatory proceedings in various states to secure approval to offer local service, which would enable the Company to provide combined local and long-distance services to existing and prospective customers. The Company has received approval to resell local service in 21 states (Alabama, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Maryland, Michigan, Minnesota, Mississippi, Nevada, New York, Pennsylvania, South Carolina, Tennessee, Texas, Washington and Wisconsin) and the District of Columbia, and has applications for local service authority pending in another seven states. As of January 1997, the Company was offering local telecommunications service in California, Illinois and New York. Additionally, as of March 1997, the Company had signed agreements with Bell South and Ameritech to provide local service in the respective nine-state region and five-state region serviced by each LEC.

The Company has extended its simple, fair and inexpensive marketing strategy to its local service offerings. Through the Company's Simply Direct(R) service offering, LCI's local service customers will receive simplified rates, direct dialing for local and long distance service, 24-hour customer service, combined billing for local and long distance service and six-second incremental billing.

FACILITIES EXPANSION

The Company's Network utilizes transmission equipment consisting of digital fiber optic transmission circuits to complete long-distance calls. Within the central Midwest region of the United States, the Company provides services primarily through the operation of its 1,400 route-mile network, which includes digital fiber-optic transmission facilities owned by the Company. Nationwide, the Company provides long-distance telecommunications services primarily through its entire Network, which includes both owned and leased digital fiber optic transmission facilities spanning the continental United States. In February 1997, the Company entered into an agreement to extend the Company's owned Network by over 3,100 route miles. Delivery and acceptance of these facilities is expected to occur in the second half of 1997. The Company expects that its cost for leased facilities will be reduced as a result of the Network expansion. These cost reductions will occur over several years as Network optimization is achieved. The Company will continue to evaluate the best options to expand its network capacity through leased or owned facilities.

The Company expanded operating offices to South Carolina, Michigan and Tennessee as well as sales offices in the mid-west and southern regions of the United States through recent acquisitions. During 1996, the Company opened a second national customer service center in Greenville, South Carolina and added several sales offices during the year.

ACQUISITIONS

In June 1996, the Company purchased the long-distance business of Pennsylvania Alternative Communications, Inc. (PACE). The results of operations for PACE were included in the Company's consolidated statement of operations from June 1, 1996. In January 1996, the Company purchased the long-distance businesses of Teledial America, Inc. (Teledial America), which did business as U.S. Signal Corporation, and an affiliated company, ATS Network Communications, Inc. (ATS). The results of operations for Teledial America and ATS were included in the Company's consolidated statement of operations from January 1, 1996. In September 1995, the Company acquired Corporate Telemanagement Corp. (CTG), a Greenville, South Carolina-based provider of long-distance services to commercial customers throughout the U.S. The Company's consolidated results of operations for 1995 included CTG from September 1, 1995.

LEGISLATION

Telecommunications Act of 1996. In February 1996, the Telecommunications Act of 1996 (the Act) was passed by the United States Congress and signed into law by President Clinton. This comprehensive telecommunications legislation was designed to increase competition in the long-distance and local telecommunications industries. The legislation will allow the RBOCs to provide long-distance service in exchange for opening their local networks to competition. Under the legislation, the RBOCs can immediately provide interLATA service outside of their local-service territories, while GTE and other independent LECs can immediately provide long-distance service inside their respective local-service territories. However, an RBOC must apply to the Federal Communications Commission (FCC) to provide long-distance services within any of the states in which the RBOC currently operates. The RBOCs must satisfy several pro-competitive criteria before the FCC will approve an RBOC's request to provide in-region interLATA long-distance services. During 1997, several RBOCs are expected to apply to the FCC for authority to provide in-region interLATA services. The Company is unable to determine how the FCC will rule on any such applications. The legislation provides a framework for the Company and other long-distance carriers to compete with incumbent LECs by reselling service of local telephone companies and interconnecting with LEC network facilities at various points in the network (i.e. unbundled network services), or building new local-service facilities. The Company has signed agreements with some LECs, and is currently in formal negotiations with other LECs to reach local-service agreements. LCI intends to vigorously compete in the local-service market. Initially, the Company will provide local service to customers on a resale basis. In the future, the Company may decide to buy and resell unbundled network services, which could also be used as a platform to provide total access services, or decide to build local-service facilities. The Company's decision on the method to provide local service is dependent on the economic viability of the options and favorable regulation, which will likely be different state-by-state.

REGULATORY MATTERS

LOCAL INTERCONNECTION AND RESALE. In August 1996, the FCC adopted a comprehensive regulatory framework to implement policies, rules, and procedures regarding local service competition as required under the Act (Interconnection Order). The Interconnection Order establishes a minimum national framework for interconnection, the purchase of unbundled local network elements, resale discounts, and procedures by which agreements for the provision of local service through LECs are to be arbitrated. Under the Interconnection Order, the states will have an important role implementing and applying local interconnection policies, rules and procedures.

Several states, companies, associations, and other entities appealed the Interconnection Order. In September, 1996, the United States Court of Appeals for the Eighth Circuit (the Eighth Circuit Court) issued a temporary stay of the Interconnection Order, preventing the order from taking effect on September 30, 1996 while it heard oral arguments. On October 15, 1996, the Eighth Circuit Court issued a stay on the implementation of various aspects of the Interconnection Order, including the proxy pricing provisions for unbundled network elements, resale discounts, and the "pick and choose" rule which allows carriers to choose the best rates and terms for components of a phone network from any previous agreements between the incumbent LEC and other carriers. The FCC and other parties petitioned the U.S. Supreme Court to reverse the Eighth Circuit Court's decision and implement the Interconnection Order. On October 31, 1996, U.S. Supreme Court denied the petitions to overturn the stay. Because of the uncertainty regarding whether the Eighth Circuit Court will overturn the Interconnection Order, the Company is unable to predict what impact the pending judicial proceedings will have on local service competition or on RBOC provision of in-region interLATA services.

Regulation of RBOC Out-of-Region Long Distance. The Act granted the RBOCs the authority to provide out-of-region long-distance services. In response, the FCC granted the ability for an RBOC that provides interstate interexchange services through an affiliate to obtain non-dominant (i.e., less burdensome) regulatory treatment on an interim basis, if the affiliate complies with certain safeguards. The safeguards require that the affiliate maintain separate accounting, not jointly own transmission or switching facilities with the RBOC, and obtain any tariffed services from the affiliated RBOC at tariffed rates and conditions. The Company is unable to predict what impact, if any, the implementation of these requirements will have on long-distance competition from RBOCs.

RBOC Mergers. In early 1996, RBOCs SBC Communications Inc. and Pacific Telesis Group announced plans to merge, as did RBOCs Bell Atlantic Corp. and NYNEX Corp. The mergers are subject to review and approval by various state and federal agencies. The Company is unable to predict what impact, if any, these potential mergers, if approved, might have on competition in the telecommunications industry or on the Company.

Universal Service and Access Charge Reform. In 1996, the FCC began two additional proceedings that will significantly impact the telecommunications industry: Universal Service and Access Charge Reform. The first proceeding will consider modifications to existing industry subsidies in order to ensure that telephone service remains affordable to all U.S. consumers and to meet the special telecommunications needs of educational and health care institutions. This proceeding could result in all telecommunications carriers being required to incur additional costs for universal service funding. In the Access Charge Reform proceeding, the FCC will consider changes to the access charges levied by LECs on long distance companies for connection to the local networks. These charges currently represent approximately one-third of the long distance industry revenues. The FCC has recognized that the current access charge arrangements are inefficient and inconsistent with competition, and has stated its intention to begin to move these charges toward actual economic costs. It is widely expected that material changes to current industry access charge cost structures could result from these proceedings. In light of the uncertainty regarding the FCC's ultimate actions in these proceedings, the Company is unable to predict what impact these proceedings will have on the company's cost structure, revenues or competitive position.

Detariffing. In October 1996, the FCC issued an order that non-dominant interexchange carriers will no longer be permitted to file tariffs for interstate domestic long-distance services. Detariffing will be mandatory after a nine-month transition period. Interexchange carriers will still be required to retain and make available information as to the rates and terms of the services they offer. These rules requiring mandatory detariffing were appealed by several parties and, in February 1997 the U.S. Court of Appeals for the District of Columbia Circuit, issued a stay preventing the rules from taking effect pending judicial review. The Company is currently unable to predict what impact the FCC's order will have on LCI or the telecommunications industry, if the mandatory detariffing rules take effect.

EMPLOYEES

At December 31, 1996, the Company had 2,348 full-time employees, none of whom were subject to any collective bargaining agreement. The Company believes it has good relations with its employees.

ITEM 2. PROPERTIES

The Company's corporate headquarters are located in McLean, Virginia, where it leases space for general and administrative functions as well as a sales office under a lease expiring in March 2004 at an annual base rent of approximately $1.6 million. In addition, the Company leases office space in Dublin, Ohio, a suburb of Columbus, for the principal executive, administrative and marketing offices of LCI Management Services. Office space is leased in two buildings: one under a capitalized lease expiring in 2005 for which annual lease payment, including interest, amounted to approximately $2.5 million in 1996; and an other lease, which expires in 2001, with an annual base rent of approximately $0.4 million. The Company leases approximately 80 properties for its offices, switching and other facilities. Properties leased by the Company for general office space are generally available at fair market rentals in all of the locations in which the Company operates. The Company's growth and ability to operate have not been constrained by a lack of suitable office space. During 1996, the Company entered into an operating lease

agreement for the rental of a new corporate headquarters being developed in suburban Virginia, and a capitalized lease for an additional headquarters facility for its operating subsidiaries, in Dublin, Ohio.

To construct and operate the Company-owned portion of the Network, the Company has obtained a variety of franchises, licenses, leases, easements and encroachment permits (collectively, "Rights of Way") from various public and quasi-public authorities and private parties. Aggregate annual payments for the Rights of Way amounted to approximately $2.0 million in 1996. Most Rights of Way are for 20 to 30 year time periods with renewal options.

The Company has entered into alternative compensation agreements with several providers of Rights of Way pursuant to which the Rights of Way have been obtained in exchange for reduced rents plus the provision of service on the Network. By using this compensation strategy, the Company believes that it is able to preserve cash and give providers of Rights of Way additional incentive to ensure the security of the fiber optic cable and other facilities maintained along their Rights of Way.

ITEM 3. LEGAL PROCEEDINGS

In 1991, Thomas J. Byrnes and Richard C. Otto v. LCI Communications Holdings Co. et al. was filed by two former members of the Company's management in Common Pleas Court, Franklin County, Ohio. The suit alleged age discrimination by the Company. In 1993, a jury returned a verdict in favor of the Plaintiffs and the Common Pleas Court awarded approximately $8.1 million in damages and attorney's fees.

Both the Plaintiffs and the Company appealed the matter to the Court of Appeals in Ohio, which, in a two-to-one decision, overruled each of the Company's assignments of error and two of the Plaintiffs' claims, and sustained the Plaintiffs' request for approximately $0.1 million in pre-judgment interest in addition to the previous award. The Company appealed the matter to the Supreme Court of Ohio (the Court). On December 11, 1996, the Court reversed the Court of Appeals, finding that, as a matter of law, there was insufficient evidence to sustain the verdict for Plaintiffs. In December 1996, the Plaintiffs filed with the Court a Motion for Reconsideration, which was denied by the Court in January 1997. The Company is unable to determine whether the Plaintiffs will file a petition asking the United States Supreme Court to consider the case.

The Company has been named as a defendant in various other litigation matters. Management intends to vigorously defend these outstanding claims. The Company believes it has adequate accrued loss contingencies and that current or threatened litigation matters will not have a material adverse impact on the Company's results of operations or financial condition.

Vanus James v. LCI International, Inc. et al. and American Communications Network, Inc. was commenced in late May 1995 in the Supreme Court, Kings County, New York. The plaintiff purports to bring a class action lawsuit against the Company, certain of its affiliates, and American Communications Network, Inc. (ACN), one of the Company's sales agents. The lawsuit alleges that, in an effort to induce prospective customers to sign up for the Company's long-distance services, the Company and ACN violated various laws by disseminating false and misleading statements concerning the Company's rates for calls to certain foreign countries. The lawsuit seeks, among other things, compensatory damages of $10 million dollars and punitive damages of $30 million dollars. Based upon its overall assessment of the matter, management is of the opinion that the final resolution of these proceedings will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth the executive officers of LCI as of March 1, 1997:

Name	Age	Position
H. Brian Thompson	58	Chairman of the Board of Directors and Chief Executive Officer
Thomas J. Wynne	57	President and Chief Operating Officer
Joseph A. Lawrence	47	Senior Vice President - Finance and Development and Chief Financial Officer
Marshall Hanno	51	Senior Vice President - Commerical Segment
Lawrence Bouman	50	Senior Vice President - Engineering, Operations and Technology
Roy N. Gamse	51	Senior Vice President - Business Marketing
Anne K. Bingaman	53	Senior Vice President - Local Telecommunications Division

Mr. Thompson has been Chairman of the Board of Directors and Chief Executive Officer of LCI and its subsidiaries since July 1991. Mr. Thompson previously served as Executive Vice President of MCI Communications Corporation and its affiliates (collectively referred to as "MCI") where he was responsible for all eight of MCI's operating divisions and various other senior management capacities from 1981 to 1991. Mr. Thompson is a director of Microdyne Corporation, Golden Books Family Entertainment, Inc. and Comcast UK Cable Partners Limited. Mr. Thompson also serves as Chairman of the Competitive Telecommunications Association and is a member of the Listed Company Advisory Committee to the NYSE Board of Directors.

Mr. Wynne has been President and Chief Operating Officer of the Company's subsidiaries since July 1991 and President and Chief Operating Officer of the Company since April 1993. From 1977 to 1991, Mr. Wynne held several executive positions with MCI, including President of the West Division, Vice President of Sales and Marketing for the Mid-Atlantic Division, and Vice President in the Midwest Division. Mr. Wynne has been a Director of the Company since December 1991.

Mr. Lawrence has been Senior Vice President - Finance and Development and Chief Financial Officer of LCI and its subsidiaries since October 1993. From January 1985 through October 1993, Mr. Lawrence held several executive positions at MCI, including Senior Vice President-Finance and Vice President Finance and Administration for the Consumer Division and Vice President Finance for the Mid-Atlantic Division.

Mr. Hanno was Senior Vice President - Sales of LCI since June 1993 and was Vice President of Sales of LCI Management Services since July 1991. In January 1997, after an internal reorganization, Mr Hanno was appointed Senior Vice President - Commercial Segment. From 1987 to July 1991, Mr. Hanno was Vice President of Sales of MCI and prior thereto was Vice President of Sales and Marketing with Allnet Communications.

Mr. Bouman has been Senior Vice President - Engineering, Operations and Technology of LCI and its subsidiaries since October 1993. From October 1990 through October 1995, Mr. Bowman held several executive positions at MCI, including Senior Vice President of Network Operations, Senior Vice President of Network Engineering and Senior Vice President of Planning and Program Management.

Mr. Gamse has been Senior Vice President - Business Marketing of LCI since March 1996. From 1982 to 1993, Mr. Gamse held several positions at MCI, including Senior Vice President of Marketing for Consumer Markets and Senior Vice President of Customer Service. In addition, Mr. Gamse was previously a policy advisor at the U.S. Environmental Protection Agency.

Ms. Bingaman was appointed Senior Vice President - Local Telecommunications Division in January 1997. From 1993 to 1996, Ms. Bingaman was assistant attorney general of the antitrust division at the U.S. Department of Justice.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED SHAREOWNER MATTERS

From the initial public offering of its Common Stock on May 12, 1993 to December 29, 1994, LCI's Common Stock had traded on the Nasdaq National Market under the symbol "LCII." On December 30, 1994, LCI's Common Stock began trading on the New York Stock Exchange under the symbol "LCI". The following table sets forth, on a per share basis, the range of the high and low closing sale price information of shares of the Common Stock as reported by the Nasdaq National Market and New York Stock Exchange.

	Market Price Per Share					
	1996			1995 *		
	High	Low	End of Period	High	Low	End of Period
First Quarter	$26 1/8	$21 1/8	$24 3/4	$13 1/4	$10 3/16	$12 7/16
Second Quarter	32 1/2	23	31 3/8	16 5/8	12 3/16	15 5/16
Third Quarter	36 3/4	27	31 3/4	20 11/16	15 7/16	19 5/8
Fourth Quarter	35 1/8	19 1/8	21 5/8	20 1/2	16 3/8	20 1/2

* Adjusted to reflect the 2-for-1 stock split effective in the form of a stock dividend in September 1995

At February 28, 1997, there were 77,617,276 shares of Common Stock outstanding held by 1,725 shareowners of record.

LCI has not declared or paid any cash dividends on its Common Stock since its inception and does not currently anticipate paying any cash dividends on its Common Stock in the foreseeable future. LCI is a holding company with no assets other than all of its operations through its subsidiaries. The Company is restricted from paying dividends under the terms of certain of its financing agreements.

ITEM 6. SELECTED FINANCIAL DATA

Incorporated by reference from the information under the caption "Selected Financial Data" in the Company's 1996 Annual Report to Shareowners.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Incorporated by reference from the information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 1996 Annual Report to Shareowners.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Incorporated by reference from the information under the captions "Consolidated Statements of Operations","Consolidated Balance Sheets", "Consolidated Statements of Shareowners' Equity", "Consolidated Statements of Cash Flows", "Notes to Consolidated Financial Statements" together with the report thereon of Arthur Andersen LLP dated February 6, 1997, under the caption "Report of Independent Public Accountants", all in the Company's 1996 Annual Report to Shareowners.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND OFFICERS OF THE COMPANY

Information with respect to executive officers of the Company is set forth in Part I of this Annual Report on Form 10-K.

Information with respect to directors of the Company is incorporated by reference from the information under the caption "Information As to Nominees For Election As Directors" and "Information As to Directors Continuing In Office" in LCI's Proxy Statement for its 1997 Annual Meeting of Shareowners (the "1997 Proxy Statement"). Information with respect to compliance with Section16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance in the 1996 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the captions "Board of Directors' Meetings Committees and Fees" and "Executive Compensation and Related Information" including "Summary Compensation Table," "Option Grants in 1996," "Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values," "Employment Contracts and Termination of Employment and Change-In-Control Arrangements," and "Compensation Committee Interlocks and Insider Participation" but not including "Compensation Committee Report on Executive Compensation" and "Performance Graph" in the 1997 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANGEMENT

Incorporated by reference from "Security Ownership of Management and Others" in the 1997 Proxy Statement

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from information under the caption "Certain Relationships and Related Transactions" in the 1997 Proxy Statement

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
2.1	- Agreement of purchase of sale of assets dated December 17, 1993 by and between LCI International Telecom Corp. and Teledial America, Inc. (d/b/a U.S. Signal Corporation) (16)
3(i)(a)	- Amended and Restated Certificate of Incorporation (19)
3(i)(b)	- Certificate of Designation of 5% Cumulative Convertible Exchangeable Preferred Stock (2)
3(ii)	- Amended and Restated By-laws
4(a)(i)	- Specimen Preferred Stock Certificate. (2)
4(a)(ii)	- Specimen Common Stock Certificate. (1)
4(b)	- Registration Rights Agreement, effective as of November 15, 1988, among LCI Communications Holdings Co., LCI Communications, Inc., Warburg, Pincus Capital Company, L.P., Primus Capital Fund and Primus Capital Fund II, L.P. (1)
4(c)	- Credit Agreement, dated as of December 30, 1993, by and among LCI International, Inc., First Union National Bank of North Carolina and Nationsbank of Texas, N.A.(5)
4(c)(i)	- First Amendment and Confirmation, dated as of March 3, 1994, by and among LCI International, Inc., LCI International Management Services, Inc., LCI International of New Hampshire, Inc., 1056974 Ontario Inc., First Union National Bank of North Carolina and Nationsbank of Texas, N.A. (5)
4(c)(ii)	- Unconditional Guaranty Agreement, dated as of January 19, 1994, by and between LCI International Management Services, Inc. and First Union National Bank of North Carolina (5)
4(c)(iii)	- Unconditional Guaranty Agreement, dated as of January 19, 1994, by and between LCI International of New Hampshire, Inc. and First Union National Bank of North Carolina (5)
4(c)(iv)	- Unconditional Guaranty Agreement, dated as of January 19, 1994, by and between 1056974 Ontario Inc. and First Union National Bank of North Carolina (5)
4(c)(v)	- Pledge Agreement, dated as of December 30, 1993, by and between LCI International, Inc. and First Union National Bank of North Carolina (5)
4(c)(vi)	- Pledge Agreement, dated as of January 19, 1994, by and between LCI International Management Services, Inc. and First Union National Bank of North Carolina (5)
4(c)(vii)	- Pledge Agreement, dated as of January 19, 1994, by and between LCI International, Inc. and First Union National Bank of North Carolina (5)
4(c)(viii)	- Second Amendment, dated April 7, 1994, to the Credit Agreement, dated December 30, 1993 by and among LCI International, Inc., First Union National Bank of North Carolina and Nationsbank of Texas, N.A (6)
4(c)(ix)	- Third Amendment, dated September 28, 1994, to the Credit Agreement, dated December 30, 1993 by and among LCI International, Inc., First Union Bank of North Carolina and Nationsbank of Texas, N.A (8)
4(c)(x)	- Unconditional Guaranty Agreement, dated as of September 1, 1994, by and between LCI Telecom South, Inc. and First Union National Bank of North Carolina (8)
4(c)(xi)	- Unconditional Guaranty Agreement, dated as of September 1, 1994, by and between LCI International Telecom Corp., and First Union National Bank of North Carolina (8)
4(c)(xii)	- Fourth Amendment, dated October 21, 1994, to the Credit Agreement, dated December 30, 1993 by and among LCI International, Inc., First Union Bank of North Carolina and Nationsbank of Texas, N.A (11)
4(c)(xiii)	- Amended and Restated Credit Agreement, dated as of June 6, 1995, by and among LCI International, Inc., First Union National Bank of North Carolina, and Nationsbank of Texas, N.A (13)

4(c)(xiv)	- Second Amended and Restated Credit Agreement, dated as of February 14, 1996, by and among LCI International, Inc., First Union National Bank of North Carolina, and Nationsbank of Texas, N.A. (18)
4(d)	- Registration Rights Agreement, dated as of November 15, 1988, by and among LCI Communications Holdings Co., Warburg, Pincus Capital Company, L.P., APT Holdings Corporation and Creditanstalt-Bankverein (1)
4(e)	- Registration Rights Agreement, dated as of December 30, 1988, by and among LCI Communications Holdings Co., Warburg, Pincus Capital Company, L.P., PNC Venture Corp. and PNC Venture Group I, L.P.(1)
4(f)	- Registration Rights Agreement, dated as of January 16, 1989, by and among LCI Communications Holdings Co., Warburg, Pincus Capital Company, L.P., and Trustees of General Electric Pension Trust (1)
4(g)	- $64,262,707 Subordinated Term Note, dated June 17, 1993, issued by LiTel Communications, Inc (2)
10(a)(i)	- License Agreement, dated November 19, 1984, between the Ohio Turnpike Commission and Litel Telecommunications Corporation (1)
10(a)(ii)	- Right-of-Way Agreement, dated October 31, 1984, among Grand Trunk Western Railroad Company and Litel Telecommunications Corporation (1)
10(a)(iii)	- Right-of-Way Agreement, dated May 14, 1985, between Indiana Department of Highways Toll Road Division and Litel Telecommunications Corporation (1)
10(b)	- Lease Agreement, dated September 27, 1984, by and between Terminal Management Inc. and LiTel, Inc (1)
10(c)	- Indenture of Lease and License Agreement, dated November 1985, by and between Drytraub of Illinois, Inc., Drytraub Office Management, Inc. and Litel Telecommunications Corporation, as amended (1)
10(d)	- Lease Agreement, dated March 3, 1989, by and between The Equitable Life Assurance Society (successor in interest to 180 East Broad Partnership) and Litel Telecommunications Corporation, as amended (1)
10(e)	- Lease Agreement, dated August 14, 1989, by and between Duke Associates No. 70 Limited Partnership and LCI Management Services, Inc., as amended (1)
10(f)	- Agreement Regarding Additional Space, dated August 14, 1989, among Duke Associates No. 70 Limited Partnership and LCI Management Services, Inc., as amended (1)
10(g)	- Lease Agreement, dated as of October 11, 1993, by and between Eighty-One Eighty Greensboro Associates Limited Partnership and LCI International, Inc (4)
10(g)(i)	- Lease, dated May 19, 1986, by and between 13th and L Associates and Long-Distance Services of Washington, Inc (2)
10(g)(ii)	- Amendment No. 1 to Lease, dated December 20, 1988, by and between 13th and L Associates and Long Distance Service of Washington, Inc (4)
10(g)(iii)	- Second Amendment to Retail Lease, dated June 6, 1991, by and between 13th and L Associates and Long Distance Service of Washington, Inc (4)
10(h)	- Master License and Services Agreement, dated as of March 1, 1993, among LiTel Communications, Inc. and the Subsidiaries named in Schedule I thereto (1)
10(h)(i)	- First Amendment to Master License and Services Agreement, dated as of April 29, 1993, among LiTel Communications, Inc., Litel Telecommunications Corporation, Afford-A-Call Corp. and LDS Telecommunications Corp. f/k/a New Cable Inc (1)
10(h)(ii)	- Management Services Agreement dated as of April 1, 1993, between LCI International, Inc. and LiTel Communications, Inc (1)
10(i)	- Agreement for Purchase of Assets between LiTel Communications, Inc. and Long Distance Service of Washington, Inc. and Richard J. Rice, dated February 1, 1993 (1)

10(j)(i) - Interim Loan Agreement, dated as of October 15, 1993, between LCI International, Inc. and STN Incorporated (3)

10(j)(ii) - Secured Demand Note, dated as of October 15, 1993, between LCI International, Inc. and STN Incorporated (3)

10(j)(iii) - Note Pledge Agreement, dated as of October 15, 1993, between LCI International, Inc. and STN Incorporated (3)

10(j)(iv) - Debenture Purchase Agreement, dated as of October 15, 1993, between LCI International, Inc. and STN Incorporated (3)

10(j)(viii) - TransPrairie Option Agreement, dated as of October 15, 1993, by and among LCI International, Inc., TransPrairie Energy Management Partnership and certain persons named on the signature pages thereof (3)

10(j)(ix) - Services Agreement and License, dated as of October 26, 1993, between LCI International Management Services, Inc. and STN Incorporated (3)

10(j)(x) - Traffic Exchange Agreement, dated as of October 26, 1993, between LCI International Telecom Corp. and STN Incorporated (3)

10(j)(xii) - Promissory note dated April 29, 1994 between LCI International Telecom Corp. and STN Incorporated (6)

10(j)(xiii)- Promissary Note dated May 12, 1994 between LCI International Telecom Corp. and STN Incorporated (6)

10(j)(xiv) - Debenture Purchase Agreement Amendment, dated as of June 1, 1994, between LCI International, Inc., and STN Incorporated (7)

10(j)(xv) - Loan Agreement, dated June 1, 1994, between STN Incorporated and LCI International, Inc (7)

10(j)(xix) - Form of Share Option Agreement, dated May 31, 1994, between LCI International, Inc. and Robey Company Limited, Vanier Company Limited and Yarker Company Limited (7)

10(j)(xx) - Debenture Purchase Agreement Second Amendment, dated July 7, 1994, between LCI International, Inc. and STN Incorporated (7)

10(j)(xxi) - Debenture Purchase Agreement Third Amendment, dated July 22, 1994, between LCI International, Inc. and STN Incorporated (7)

10(j)(xxii) - Loan Agreement Amendment, dated July 7, 1994, between LCI International, Inc. and STN Incorporated (7)

10(j)(xxiii)- Loan Agreement Second Amendment, dated July 22, 1994, between LCI International, Inc. and STN Incorporated (7)

10(j)(xxvi) - Promissory Note dated June 30, 1994 between LCI International, Inc. and STN Incorporated (7)

10(j)(xxvii)- Agreement of Purchase and Sale of Assets dated as of March 31, 1994 by and among LCI International Management Services, Inc., T.M. Sepulveda, Inc. and Gene Elmore (10)

10(j)(xxviii)-Agreement of Purchase and Sale of Assets dated as of March 31, 1994 by and among LCI International Management Services, Inc., Premium Access, Inc. and Gene Elmore (10)

10(j)(xxvix)- Amendment No. 1 dated July 11, 1994 to Agreement of Purchase and Sale of Assets of Glendale Gene, Inc. (formerly known as T.M. Sepulveda, Inc.) (10)

10(j)(xxx) - Amendment No. 1 dated July 11, 1994 to Agreement of Purchase and Sale of Assets of Glendale Access International Inc. (formerly known as Premium Access, Inc.) (10)

10(j)(xxxi) - Assignment of T.M. Sepulveda, Inc. Agreement of Purchase and Sale of Assets from LCI International Management Services, Inc. to LCI International Telecom Corp. dated April 4, 1994 (10)

10(j)(xxxii)- Assignment of Premium Access, Inc. Agreement of Purchase and Sale of Assets from LCI International Management Services, Inc. to LCI International Telecom Corp. dated April 4, 1994 (10)

10(j)(xxxiii)-Promissory Note of STN Incorporated, dated as of December 21, 1994, for Cnd. $6,951,500 (11)

10(j)(xxxiv)- General Security Agreement, dated as of December 21, 1994, between STN Incorporated and LCI International, Inc relating to the Promissory Note (11)

10(j)(xxxv) - Form of Acknowledgment and Promise to Pay, by STN Incorporated, to be dated as of December 21, 1994, evidencing amount owed to LCI International Management Services, Inc. for certain services rendered prior to October 1, 1994 (11)

10(j)(xxxvi)- Form of General Security Agreement, dated as of December 21, 1994, relating to Acknowledgment and Promise to Pay (11)

10(j)(xxxvii)-Indemnification Agreement, dated as of January 6, 1995, between STN Incorporated and LCI International, Inc (11)

10(j)(xxxviii)General Security Agreement, dated as of January 6, 1995 between STN Incorporated and LCI International, Inc , relating to the Indemnification Agreement.(11)

10(j)(xxxix)- Agreement and Plan Of Merger dated July 10, 1995 among LCI International Inc , LCI Telemanagement Corp , Corporate Telemanagement Group, Inc. and the Warrant Holders listed on the signature pages thereto (15)

10(k)(i) - Letter Agreement, dated February 9, 1993, between H. Brian Thompson and Warburg, Pincus Capital Company, L P (1)*

10(k)(ii) - Letter Agreement, dated February 9, 1993, between Thomas J. Wynne and Warburg, Pincus Capital Company, L P (1)*

10(k)(iii) - Letter Agreement, dated February 9, 1993, between Marshall W. Hanno and Warburg, Pincus Capital Company, L P (1)*

10(l)(v) - Employment Agreement, dated as of October 18, 1993, between LCI International Management Services, Inc and Joseph A. Lawrence (11)*

10(l)(vi) - Form of LCI International, Inc. 1994 Executive Perquisite Program (5) *

10(l)(vii) - LCI International, Inc. 1992 Stock Option Plan (1)*

10(l)(viii) - LiTel Communications, Inc. 1993 Stock Option Plan (1)*

10(l)(ix) - LCI International, Inc. 1994/1995 Stock Option Plan (5)*

10(l)(x) - LiTel Communications, Inc. Stock Purchase Plan (1)*

10(l)(xi) - LCI International, Inc and Subsidiaries Nonqualified Stock Option Plan for Directors (2)*

10(l)(xii) - LCI International, Inc 1995/1996 Stock Option (9)*

10(l)(xiii) - LCI International, Inc Amended and Restated Employee Stock Purchase Plan (9)*

10(l)(xiv) - Employment Agreement, dated as of March 20, 1994, between LCI International, Inc and H. Brian Thompson (11) *

10(l)(xv) - Employment Agreement, dated as of March 20, 1994, between LCI International, Inc and Thomas J. Wynne (11)*

10(l)(xvi) - Form of Employment Agreement, dated as of March 20, 1994, between LCI International, Inc and Marshall W. Hanno (11) *

10(l)(xvii) - LCI International Management Services, Inc. Supplemental Executive Retirement Plan (12)*

10(l)(xviii)- Employment Agreement, dated as of October 1, 1995 between LCI International Management Services, Inc , and Larry Bouman (18) *

10(l)(xix) - Employement Agreement, dated as of September 18, 1995 between LCI Telemanagement Corp and Charles S. Houser (18) *

10(l)(xx) - Employement Agreement, dated as of March 19, 1996 between LCI Management Services, Inc and Roy Gamse (19) *

10(l)(xxi) - 1997/1998 LCI International, Inc Stock Option Plan.

10(l)(xxii) - LCI International, Inc. and Subsidiaries Executive Incentive Compensation Plan

10(m) - Lease Agreement dated as of July 1, 1994 by and between LCI International Management Services, Inc and Bank Building Limited Partnership (6)

10(n) - Lease Agreement dated April 14, 1994 by and between LCI International Management Services, Inc and RFG Co , LTD (6)

10(o) - Forth Amendment to Lease and Consent to Assignment dated as of June 28, 1994 by and between LCI International Telecom Corp and One Wilshire Arcade Imperial, LTD (8)

10(p) - Network Services Agreement dated December 22, 1994 between MCI Telecommunications Corporation and LCI International Telecom Corp (11),(22)

10(q)(i) - Contractor Agreement dated January 18, 1993 by and between LCI International Telecom Corp and American Communications Network, Inc (14),(22)

10(q)(ii) - Addendum to Contractor Agreement by and between American Communications Network, Inc and LCI International Telecom Corp dated January 18, 1993 (14)

10(q)(iii) - Amendment No 1 to Contractor Agreement by and between LCI International Telecom Corp and American Communications Network, Inc dated _____, 1994 (14),(22)

10(q)(iiii) - Contractor Agreement dated May 1, 1996 between LCI International Telecom Corp and American Communications Network, Inc (21), (22)

10(r)(i) - Transfer and Administrative Agreement among Enterprise Funding Corporation, LCI SPC I, Inc , LCI International Telecom Corp , NationsBank, N.A and certain other parties thereto, dated August 29, 1996 (20)

10(r)(ii) - Receivables Purchase Agreement dated August 29, 1996, among LCI International Telecom Corp LCI SPC I, Inc (20)

10(r)(iii) - Subordinated Intercompany Revolving Note, date August 29, 1996, issued to LCI International Telecom Corp by LCI SPC I, Inc (20)

10(r)(iv) - Support Agreement, dated August 29, 1996, by LCI International, Inc in favor of LCI SPC I, Inc (28)

10(s)(i) - Participation Agreement dated as of November, 1996 among LCI International, Inc , as the Construction Agent and as the Lessee, First Security Bank, National Association, as the Owner Trustee under the Stuart Park Trust, the various banks and lending institutions which are parties thereto from time to time as the Holders, the various banks and lending institutions which are parties thereto from time to time, as the Lenders and NationsBank of Texas, N A , as the Agent for the Lenders

10(s)(ii) - Unconditional Guaranty Agreement dated as of November 15, 1996 made by LCI International, Inc , as Guarantor in favor of NationsBank of Texas, N.A , as Agent for the ratable benefit of the Tranche A Lenders

10(s)(iii) - Agency Agreement between LCI International, Inc , as the Construction Agent and First Security Bank, National Association, as the Owner Trustee under the Stuart Park Trust as the Lessor dated as of November 15, 1996

10(s)(iv) - Deed of lease Agreement dated as of November 15, 1996 between First National Bank, National Association as the Owner Trsutee under the Stuart Park Trust, as Lessor and LCI International, Inc as Lessee

11 - Statement re computation of per share earnings

13 - LCI International, Inc 1996 Annual Report to Shareowners

21 - Subsidiaries of LCI International, Inc

23 - Consent of Arthur Andersen LLP

27 - Financial Data Schedule

(1) Incorporated by reference to the Company's Registration Statement No. 33-60558

(2) Incorporated by reference to the Company's Registration Statement No. 33-67368

(3) Incorporated by reference to the Company's Form 8-K dated October 17, 1993

(4) Incorporated by reference to the Company's Registration Statement No. 33-71500

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1993

(6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994

(8) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994

(9) Incorporated by reference to the Company's Proxy Statement for the 1995 Annual Meeting of Shareowners. (10) Incorporated by reference to the Company's Form 8-K dated July 11, 1994. (11) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994. (12) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995. (13) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995. (14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995. (15) Incorporated by reference to the Company's Form 8-K dated July 10, 1995. (16) Incorporated by reference to the Company's Form 8-K dated December 17, 1995. (17) Incorporated by reference to the Company's Registration Statement No. 33-96186. (18) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995. (19) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996. (20) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996. (21) Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A for the quarter ended June 30, 1996. (22) Confidential treatment has been requested for portions of this exhibit.

• Indicates a management contract or compensatory plan or arrangement required to be filed pursuant to Item 14(c) of Form 10-K

SIGNATURES

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

LCI International, Inc.

By: /s/ H. BRIAN THOMPSON

H. Brian Thompson
Chairman of the Board and Chief Executive Officer
Date: March 17, 1997

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

Name	Title	
/s/ H. BRIAN THOMPSON H. BRIAN THOMPSON	Chairman of the Board, Chief Executive Officer and Director (principal executive officer)	March 17, 1997
/s/ JOSEPH A. LAWRENCE JOSEPH A. LAWRENCE	Senior Vice President - Finance and Development and Chief Financial Officer (principal financial and accounting officer)	March 17, 1997
/s/ WILLIAM F. CONNELL WILLIAM F. CONNELL	Director	March 17, 1997
/s/ JULIUS W. ERVING, II JULIUS W. ERVING, II	Director	March 17, 1997
/s/ DOUGLAS M. KARP DOUGLAS M. KARP	Director	March 17, 1997
/s/ GEORGE M. PERRIN GEORGE M. PERRIN	Director	March 17, 1997
JOHN L. VOGELSTEIN	Director	
/s/ THOMAS J. WYNNE THOMAS J. WYNNE	President, Chief Operating Officer and Director	March 17, 1997

Report of Independent Public Accountants

To the Board of Directors and Shareowners of LCI International, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in LCI International, Inc.'s annual report to shareowners incorporated by reference in this Form 10-K, and have issued our report thereon dated February 6, 1997. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the index is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Washington, D.C.
February 6, 1997

LCI INTERNATIONAL, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(dollars in thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts - Describe (a)(c)	Deductions - Describe (b)	Balance at End of Period
Reflected as reductions to the related assets					
Allowance for doubtful accounts (deductions from trade accounts receivable)					
Year ended December 31, 1994	6,020	5,791	9,610	(14,966)	6,455
Year ended December 31, 1995	6,455	8,173	37,233	(42,108)	9,755
Year ended December 31, 1996	9,755	15,760	67,380	(69,477)	23,418

(a) Represents reduction of revenue for accrued credits, recoveries of amounts previously written off and balances recorded from acquisitions. (b) Represents amounts written off as uncollectible, credits issued and collection fees.
(c) Consistent with industry practice, the Company reduced revenue for related costs.

EXHIBIT 13

Excerpt from 1996 Annual Report to Shareowners

LCI INTERNATIONAL, INC.

Selected Consolidated Financial Data

(In Millions, Except Revenue per MOU and Earnings per Common Share)

	1996	1995	1994(A)	1993(A)	1992(A)
STATEMENT OF OPERATIONS DATA					
Revenues	$1,103.0	$672.9	$464.0	$341.2	$260.5
Operating Expenses	959.5	590.3	413.1	320.0	267.0
Operating Income	143.5	82.6	50.9	21.2	(6.5)
Income (Loss) Before Extraordinary Items	74.8	50.8	6.8	(2.6)	(41.7)
Net Income (Loss)	74.8	50.8	6.8	(10.9)	(41.7)
Income (Loss) on Common Stock	$72.0	$45.1	$1.0	$(13.0)	$(46.9)
OPERATING DATA					
Minutes of Use (MOUs)	8,159.1	4,862.6	3,288.4	2,270.4	1,677.2
Revenue per MOU	$0.1245	$0.1236	$0.1226	$0.1273	$0.1263
EBITDA(B)	$207.0	$126.5	$87.0	$67.6	$50.3
BALANCE SHEET DATA					
Total Assets	$950.0	$773.4	$469.7	$359.8	$323.6
Long-term Debt and Capital Lease Obligations	235.9	274.9	144.8	84.3	255.9
Redeemable Preferred Stock	--	--	--	--	4.1
Shareowners' Equity (Deficit)	$430.7	$344.8	$201.7	$195.3	$(38.0)
EARNINGS PER COMMON SHARE(C)					
Income (Loss) per Share					
Before Extraordinary Items	$0.86	$0.62	$0.02	$(0.10)	$(1.33)
Extraordinary Loss per Share	--	--	--	(0.18)	--
Income (Loss) per Share	$0.86	$0.62	$0.02	$(0.28)	$(1.33)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES(C)	87.3	82.1	66.7	47.2	31.4
CASH DIVIDENDS PER SHARE	--	--	--	--	--

(A) Includes write-off of assets, loss contingency expenses and restructuring charges of $62.5 in 1994, $13.8 in 1993, and $24.4 in 1992. (B) Earnings before interest, income taxes, depreciation and amortization (EBITDA) excludes nonrecurring charges discussed in note (A) above. (C) Earnings per common share and weighted average number of common shares are presented on a fully diluted basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

LCI International, Inc., together with its subsidiaries (LCI or the Company), is a facilities-based, long-distance telecommunications carrier that provides a broad range of domestic and international telecommunications service offerings in all market segments: commercial, wholesale and residential/small business. The Company provides service to its customers through leased and owned digital fiber-optic facilities. Collectively, these facilities constitute the Company's network (the Network).

Historically, the Company has operated in the $80 billion long-distance telecommunications industry. The long-distance industry is highly competitive and is currently dominated by the three largest interexchange carriers: AT&T Corporation (AT&T), MCI Communications Corporation (MCI) and Sprint Corporation (Sprint). In 1996, fewer than ten other publicly traded interexchange carriers, including the Company, had annual revenues exceeding $1 billion. The balance of the long-distance industry comprises several hundred smaller interexchange carriers. Recent legislative and regulatory activity is designed to create one telecommunications industry to encompass both long-distance and local telecommunications services. The local telecommunications industry is approximately $95 billion and is dominated by the seven Regional Bell Operating Companies (RBOCs) and GTE Communi-cations Corporation (GTE). The RBOCs and GTE have been granted the authority to provide Local Access Transport Area (interLATA) long-distance service outside their respective regions. The nature of competition in this combined industry is expected to change significantly as legislative and regulatory activities progress. The Company intends to provide combined local and long-distance services to compete in what is expected to be a $150 billion combined market.

While the revenue of long-distance telecommunications industry providers has grown between 5% and 8% annually in recent years, the Company has experienced 64%, 45% and 36% growth in revenues in 1996, 1995 and 1994, respectively, as well as 68%, 48% and 45% growth in the volume of switched minutes of use (MOUs) during the same periods. This growth has been primarily generated by internal growth in all service areas of the Company's business. The Company's residential/small business revenues grew in excess of 125%, 170% and 120% in 1996, 1995 and 1994, respectively, while international service revenues from all segments grew in excess of 100% in each of the same periods. Revenues from the Company's business segment exhibited overall growth rates of 45%, 28% and 31% in 1996, 1995 and 1994, respectively. The Company intends to continue expanding sales, marketing and promotional efforts across all customer segments, to expand its service lines and to provide local service.

The Company's ability to compete and grow is subject to changing industry conditions. Recent legislation and the resulting judicial and regulatory action have had a significant impact on the current industry environment. These changes will alter the nature and degree of competition in both the local and long-distance segments of the industry.

INDUSTRY ENVIRONMENT

LEGISLATIVE MATTERS

Telecommunications Act of 1996. In February 1996, the Telecommunications Act of 1996 (the Act) was passed by the United States Congress and signed into law by President Clinton. This comprehensive telecommunications legislation was designed to increase competition in the long-distance and local telecommunications industries. The legislation will allow the RBOCs to provide long-distance service in exchange for opening their local networks to competition. Under the legislation, the RBOCs can immediately provide interLATA long-distance service outside of their local-service territories. However, an RBOC must apply to the Federal Communications Commission (FCC) to provide long-distance services within any of the states in which the RBOC currently operates. The

RBOCs must satisfy several pro-competitive criteria before the FCC will approve an RBOC's request to provide in-region interLATA long-distance services. The legislation provides a framework for the Company and other long-distance carriers to compete with incumbent local exchange carriers (LECs) by reselling service of local telephone companies, interconnecting with LEC network facilities or building new local-service facilities.

Under the Act, a telecommunications provider can request initiation of interconnection/resale negotiations with a LEC. The Company is currently in formal negotiations with various LECs to reach local-service agreements and LCI intends to vigorously compete in the local-service market. Initially, the Company will provide local service to customers on a bundled resale basis. The Company's decision to sell unbundled services or to build local-service facilities is dependent on eco-nomic viability and favorable regulation.

REGULATORY MATTERS

Interconnection Order. In order to implement the Act, the FCC is required to undertake a variety of regulatory actions which can impact competition in the telecommunications industry. These regulatory actions include the adoption of a comprehensive order to implement policies, rules and procedures regarding local-service competition as required under the Act (Interconnection Order). The Interconnection Order establishes a minimum national framework for interconnection with LECs, the purchase of unbundled local network elements from LECs, local-service resale discounts and procedures by which agreements for the provision of local service through LECs are to be arbitrated. Several LECs, state regulatory agencies and other parties have appealed the FCC's Interconnection Order. The United States Court of Appeals for the Eighth Circuit issued a stay of the Interconnection Order, pending the outcome of the appeals. Because the legal outcome of these appeals is uncertain, the Company is unable to predict what impact the pending judicial proceedings will have on local-service competition or on RBOC provision of in-region interLATA long-distance services.

Geographic Rate Averaging. The FCC also released an order regarding rate averaging. Under the FCC's rate averaging order, the rates charged by all providers of interexchange telecommunications services to customers in rural and high-cost areas cannot be higher than the rates charged by such providers to their customers in urban areas. The Company is unable to predict how this order will affect its results of operations or financial position.

Access Charge Reform. In December 1996, the FCC proposed changes to access charges levied by LECs on long-distance service providers. These charges currently represent approximately one-half of the long-distance industry revenues. The FCC's intention is to require the charges for access services to be consistent with actual economic cost. The FCC has proposed two approaches for access charge reform. The first proposed solution is a market-based approach that relies on competitive pressure, while the second is a prescriptive approach which would involve FCC intervention. It is widely expected that material changes to current industry cost structures could result from these proceedings. The Company intends to actively participate in these proceedings. In light of the uncertainty regarding the FCC's ultimate actions in these proceedings, the Company is unable to predict what impact the pending proceedings will have on the Company's cost structure.

Local Service. The Company is involved in state regulatory proceedings in various states to secure approval to resell local service, which would enable the Company to provide combined local and long-distance services to existing and prospective customers. The Company has received approval to resell local service in 21 states (Alabama, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Maryland, Michigan, Minnesota, Mississippi, Nevada, New York, Pennsylvania, South Carolina, Tennessee, Texas, Washington and Wisconsin) and the District of Columbia, and has applications for local-service authority pending in another seven states. The Company is currently reselling local telecommunications service in California, Illinois and New York.

INDUSTRY STRUCTURE

The current long-distance telecommunications market is highly competitive. Several of the Company's competitors are substantially larger and have substantially greater financial, technical and marketing resources. As the Company grows, it expects to face increased competition, particularly from AT&T, MCI and Sprint. The Company also competes with other interexchange carriers and resellers in various types of long-distance services.

The Company's growth is based on a marketing strategy that focuses on differentiating LCI through "Simple, Fair and Inexpensive" domestic and international telecommunications service offerings in all market segments. This strategic direction is supported by geographic expansion of sales presence and Network operating facilities, as well as expansion in sales channels, targeted service offerings to each market segment and selective acquisitions.

The principal competitive factors affecting the implementation of the Company's strategy are the industry environment as described above, pricing, efficient low-cost operations, customer service and diversity of services and features. The Company's pricing approach is to offer a simple, flat-rate pricing structure with rates generally below those of AT&T, MCI and Sprint. This pricing strategy is supported by a continuous focus on lowering the unit cost of the Company's cost of service, which enables the Company to competitively price its services. Recently, certain long-distance carriers have introduced flat-rate pricing programs whose impact on the Company has not yet been determined. The Company's ability to compete effectively will depend on maintaining high-quality, market-driven services at prices generally equal to or below those charged by its major competitors.

As a result of the passage of the Act and the effect of other regulatory matters discussed above, the structure of the industry is expected to change by facilitating the provision of local service by carriers other than LECs, while permitting RBOCs to provide interLATA long-distance service within their service territories. Consequently, the Company expects competition within the industry to increase in both the long-distance and local markets.

REVIEW OF OPERATIONS

The Company's revenues primarily consist of switched and private-line revenues. The Company's switched revenues are a function of switched MOUs and rate structure (rates charged per MOU), which in turn are based upon the Company's customer and service mix. Private-line revenues are a function of fixed rates that do not vary with usage. The Company's cost of services consists primarily of expenses incurred for origination, termination and transmission of calls through LECs and over the Company's Network, and the cost of transmission through other long-distance carriers. The Company's results of operations include the acquisition of Pennsylvania Alternative Communications, Inc. (PACE) from June 1, 1996, and the acquisitions of Teledial America, Inc. (Teledial America) and ATS Network Communications, Inc. (ATS) from January 1, 1996. For the comparative periods presented, the Company's results of operations include the acquisition of Corporate Telemanagement Group, Inc. (CTG) from September 1, 1995.

REVENUES

Total revenues increased 64% to $1.1 billion in 1996, from $672.9 million in 1995. Total revenues in 1995 increased 45% from $464.0 million in 1994. Revenues for all periods presented are reduced by estimated allowances for credits and uncollectible accounts (sales allowance).

Revenues from business customers increased approximately 45% during 1996 as compared to approximately 30% during both 1995 and 1994. Business revenues continue to represent more than half of the Company's total revenues. Residential/small business revenues increased in excess of 100% for all years presented. The residential/small business segment represented more than 30% of total revenues for 1996, as compared to approximately 20% for 1995 and 10% for 1994. Growth in international service revenues across all revenue service lines continued in excess of 100% for all years presented.

During the last half of 1996, several of the Company's competitors announced new flat-rate pricing plans or promotions for the residential market. LCI continues to believe that its Simple, Fair and Inexpensive marketing and service pricing approach is very competitive in retaining existing customers, as well as in obtaining new customers. As LCI's residential/small business base grows, however, the year-over-year growth rates are expected to decline from current reported growth rates.

The Company experienced a 1% increase year-over-year in revenue per MOU for both 1996 and 1995. Revenue per MOU is affected by several factors. Residential/small business and international revenues have a higher rate structure per MOU, and the Company's growth in these segments has favorably impacted revenue per MOU.

Factors placing downward pressure on revenue per MOU include competitive market conditions, a higher sales allowance for uncollectibles on the growing base of residential/small business revenues and a change in the mix of business volumes from switched services to dedicated access services. The Company's growth in various segments has changed its revenue mix and consequently impacts revenue per MOU. Changes in revenue per MOU are not necessarily indicative of the performance that can be expected in the Company's gross margin, both in total and as a percentage of revenue. The Company is committed to growing in all market segments, which have different rate structures and generate a variety of gross margins, but have similar operating margins.

The Company experienced an increase in its sales allowance in 1996 as a result of the growth in revenue and a shift in the customer mix toward the residential/small business service segment which, historically, has a higher uncollectible rate than the business revenue segment. This increase in sales allowance was also due to growth in specific geographic markets where the Company experienced a higher level of sales allowance than the Company's historical levels.

The Company uses a variety of channels to market its services. In addition to its internal sales force, the Company uses a combination of advertising, telemarketing and third-party sales agents. With respect to third-party sales agents, compensation for sales is paid to agents in the form of an ongoing commission based upon collected revenue attributable to customers identified by the agents. Service responsibilities, including billing and customer service functions for such customers, are performed by the Company. American Communications Network, Inc. (ACN), a nationwide network of third-party sales agents, continued to be the most successful of the Company's sales agents and accounted for a significant portion of the Company's residential/small business sales growth. In June 1996, the Company extended its contract with ACN through April 2011. In consideration for the contract extension, as well as exclusivity and non-compete provisions, the Company committed to make two payments on designated dates which will be amortized over the life of the contract. A portion of these payments is contingent on future performance by ACN. The agreement also contains a provision whereby ACN will receive a payment if there is a change in the control of the Company. In consideration for this change in control payment, the Company will receive a 31% reduction in the ongoing commission rates paid to ACN. The change in control payment is calculated based on a multiple of three times the average monthly collected revenue generated by customers identified by ACN. Average monthly collected revenue is calculated over a 24-month performance period subsequent to the change in control. The amount of this payment is therefore dependent upon ACN's level of performance during this period.

GROSS MARGIN

The Company's gross margin increased 67% to $460.7 million in 1996 from $276.7 million in 1995. Gross margin in 1995 increased 46% from $189.7 million in 1994. The following table provides information regarding gross margin:

(In Millions)	1996	1995	1994
Revenues	$1,103.0	$672.9	$464.0
Cost of Services	642.3	396.2	274.3
Gross Margin	$460.7	$276.7	$189.7
Gross Margin%	41.8%	41.1%	40.9%

During 1996, 1995 and 1994, the gross margin as a percentage of revenue increased to 41.8%, 41.1% and 40.9%, respectively. The increase in gross margin as a percentage of revenue resulted from the net impact of several items. The Company experienced the positive impact of growth in residential/small business and international traffic, which provide higher gross margins. The improvements in Network efficiencies and lower access costs due to LEC rate reductions provided cost savings that also favorably impacted gross margin. The Network efficiencies resulted from integration of traffic from acquired companies onto the Network and improved application of Network optimization techniques. The favorable impacts on gross margin were partially offset by competitive pressures for lower pricing across all service lines and in some international markets. The net impact

of all of these factors resulted in an overall improvement in the gross margin as a percentage of revenue

The Company continues to evaluate strategies to reduce its cost of services. These strategies include using its embedded fiber-optic capacity, expanding its owned fiber-optic capacity and gaining access to fiber- optic and broadband capacity through contract negotiations or other arrangements with carriers. In addition, the Company continues to identify variable-cost network traffic that can be cost-effectively routed onto the Company's fixed-cost Network. Through these strategies, LCI plans to improve the reliability and efficiency of the Network and to continue to pursue opportunities to reduce its cost of services per MOU.

OPERATING EXPENSES AND OPERATING INCOME

The following table provides information regarding operating expenses and operating income

(In Millions)	1996	1995	1994
Gross Margin	$460.7	$276.7	$189.7
Selling, General and Administrative Expenses	253.7	150.1	102.7
Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA)	207.0	126.6	87.0
Depreciation and Amortization	63.5	44.0	36.1
Operating Income	$143.5	$82.6	$50.9
As a Percent of Revenue			
Gross Margin	41.8%	41.1%	40.9%
Selling, General and Administrative Expenses	23.0%	22.3%	22.1%
EBITDA	18.8%	18.8%	18.8%
Depreciation and Amortization	5.8%	6.5%	7.8%
Operating Income	13.0%	12.3%	11.0%

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 69% to $253.7 million in 1996 and increased 46% to $150.1 million in 1995 from $102.7 million in 1994. As a percentage of revenues, selling, general and administrative expenses were 23.0%, 22.3% and 22.1% for 1996, 1995 and 1994, respectively. The Company's selling, general and administrative expenses are impacted primarily by three expenses: payroll, commissions and billing services. Payroll expenses increased $37.5 million, $17.4 million and $13.5 million year-over-year for 1996, 1995 and 1994, respectively, due to an increase in the number of employees that resulted from the Company's acquisitions and expansion of the sales and customer support infrastructure. This growth in the payroll expense year-over-year was less than the corresponding growth in revenues for the same periods.

The growth in residential/small business revenue to more than 30% of the Company's customer base in 1996 was responsible for a significant portion of the growth in selling, general and administrative expenses during the past three years. Although the residential/ small business service line resulted in increased costs, it also provided a higher gross margin, allowing the Company to manage EBITDA to a consistent percentage of revenue.

The increase in selling, general and administrative expenses reflects, in p. t, the $35.3 million, $15.7 million and $5.5 million increase in commission expenses for the years ended December 31, 1996, 1995 and 1994, respectively, over the comparable prior periods. The growth in residential/small business revenue sold by third-party sales agents with an ongoing commission was the primary cause of the increase in commission expense. The costs incurred for commissions primarily replace other variable marketing and selling expenses for this revenue segment. Billing services expenses increased $14.6 million, $6.5 million and $2.7 million year-over-year for 1996, 1995 and 1994, respectively, primarily for residential/small business billing service expenses, which are performed by LECs. LEC billing costs declined year-over-year on a per-bill basis, but the increase in

residential/small business customers and the related revenue caused an overall increase in this expense year-over-year. Both commission and billing services expenses grew at a faster rate than total revenues due to the shift in customer mix toward residential/small business services.

The Company anticipates an incremental increase in selling, general and administrative expenses with the continued expansion of its geographic sales presence and its entrance into the local-services market. The Company also expects continued increases in selling, general and administrative expenses as a result of the growth in the residential/small business segment, which incurs higher proportional costs but also provides a higher gross margin than other segments.

DEPRECIATION AND AMORTIZATION EXPENSE. Depreciation and amortization expense for 1996, 1995 and 1994 increased 44%, 22% and 10% year-over-year, respectively, due to the Company's increased capital expenditures to support its growth in revenues and volumes, as well as additional amortization expense from acquisitions. The growth in revenue has exceeded the growth in depreciation and amortization expense, which has caused depreciation and amortization expense as a percentage of revenues to decrease to 6% in 1996, from 7% in 1995 and 8% in 1994. The Company's revenue growth out-paced the growth in the cost of additional Network and other capital assets, due to LCI's ability to take advantage of improved technology with higher capacity at lower costs.

OPERATING INCOME. Operating income increased 74% to $143.5 million in 1996 and 62% to $82.6 million in 1995 from $50.9 million in 1994. As a percentage of revenues, operating income increased to 13%, 12% and 11% for the years ended December 31, 1996, 1995 and 1994, respectively, reflecting the management of the unit cost of services and selling, general and administrative expenses during a period of significant growth in revenues and MOUs.

OTHER (INCOME)EXPENSE, NET

Other income, net of other expenses, was $.3 million in 1996 compared to $.9 million in 1995. Other income, net for the year ended December 31, 1996, includes a gain on the sale of a wholly owned CTG subsidiary which provided service to non-strategic geographic locations. In 1995, other income included a gain related to the resolution of the STN Incorporated (STN) investment. In 1994, other expense, net, was $59.8 million, primarily a result of the nonrecurring charge of $62.5 million relating to the loss of the STN investments and accrued loss contingencies related to STN obligations.

INTEREST EXPENSE, NET

Interest expense, net of capitalized interest, increased to $28.8 million in 1996 from $16.3 million in 1995 and $8.8 million in 1994. Increased interest expense in 1996 was primarily the result of higher levels of outstanding debt and capital leases throughout 1996 as compared to 1995. The Company's acquisitions of Teledial America, ATS and PACE increased outstanding debt by $120 million in 1996. The proceeds from the sale of accounts receivable through the Accounts Receivable Securitization Program (Securitization Program), in the third and fourth quarters of 1996, were used to decrease the outstanding debt to $235.8 million at December 31, 1996. The Company's acquisitions and capital expenditures during 1995 increased outstanding debt and capital leases to $274.7 million at December 31, 1995, from $144.8 million at December 31, 1994. The effective weighted average interest rate on all indebtedness outstanding was 8.24% in 1996, as compared to 8.20% in 1995 and 7.35% in 1994. The Company expects lower interest rates due to the reduction of the outstanding balances under the Revolving Credit Facility (Credit Facility) for a full year in 1997.

INCOME TAXES

Income tax expense was $40.2 million and $16.4 million in 1996 and 1995, respectively, and a benefit of $24.5 million in 1994. Increased income tax expense resulted from an increase in the effective tax rate to 35% in 1996 from 24% in 1995 and the increase in income before income taxes for the year ended December 31, 1996 as

compared to the same period in 1995. The effective income tax rate was lower than the statutory rate in 1996 and 1995 and was a benefit in 1994, primarily due to the Company's expected utilization of available net operating losses (NOLs). Previously generated NOLs for financial reporting purposes have been fully realized as of December 31, 1996. (See Note 10 to the Consolidated Financial Statements.)

PREFERRED DIVIDENDS

Preferred dividends were $2.8 million, $5.7 million and $5.8 million for 1996, 1995 and 1994, respectively, as a result of the dividend requirements on the Company's previously outstanding 5% Cumulative Convertible Exchangeable Preferred Stock (Preferred Stock). During 1996, nearly all of the 4.6 million shares of Preferred Stock outstanding at December 31, 1995 were converted into shares of the Company's Common Stock, par value $.01 per share (Common Stock). On September 3, 1996, the remaining shares of Preferred Stock were redeemed by the Company. The conversion of Preferred Stock will result in an annual savings of $5.8 million, based upon the original 4.6 million shares issued in August 1993.

NET INCOME AND EARNINGS PER COMMON SHARE

Net income increased to $74.8 million for 1996, $50.8 million for 1995 and $6.8 million for 1994. Income on common stock was $72.0 million, $45.1 million and $1.0 million for 1996, 1995 and 1994, respectively.

For the years ended December 31, 1996 and 1995, the earnings per common share were calculated as net income before preferred dividends divided by the weighted average number of common shares. For the year ended December 31, 1994, the earnings per common share were calculated as the income on common stock divided by the weighted average number of common shares. For the years ended December 31, 1996 and 1995, the weighted average number of common shares included the assumed conversion of any Preferred Stock then outstanding during any point in the period, into 12.1 million shares of Common Stock. For the years ended December 31, 1994, the assumed conversion of the Preferred Stock into Common Stock was excluded from the weighted average number of common shares as such stock was anti-dilutive. For all years presented, Common Stock equivalents were reflected in the weighted average number of common shares using the treasury stock method. (See Note 2 to the Consolidated Financial Statements.)

LIQUIDITY AND CAPITAL RESOURCES

LCI International, Inc. is a holding company and conducts its operations through its direct and indirect wholly owned subsidiaries. LCI SPC I, Inc. (SPC) is a wholly owned subsidiary of LCI and facilitates the Securitization Program. Except in certain limited circumstances, SPC is subject to certain contractual prohibitions concerning the payment of dividends and the making of loans and advances to LCI. There are, however, no restrictions on the movement of cash within the remainder of the consolidated group, and the Company's discussion of its liquidity is based on the consolidated group. The Company measures its liquidity based on cash flow as reported in its consolidated statements of cash flow; however, the Company does use other operational measures, as outlined below, to manage its operations.

CASH FLOWS -- OPERATING ACTIVITIES

The Company provided $303.7 million of cash from operations, which includes the proceeds of $112.0 million from the Securitization Program for the year ended December 31, 1996. Cash provided from operations, excluding the proceeds from the Securitization Program, was $188.1 million, compared to $53.9 million and $38.1 million for 1995 and 1994, respectively. The increase in 1996, as well as in 1995 and 1994, is due to the significant growth in revenues and net income for the periods, as well as improved management of working capital and stronger cash collections during 1996 when compared to 1995 and 1994.

CASH FLOWS -- INVESTING ACTIVITIES

The Company has supported its growth strategy with both capital additions and acquisitions. In 1996, the Company spent $144.3 million in capital expenditures to acquire additional switching, transmission and distribution capacity, as well as to develop information systems support. Capital expenditures increased $47.0 million in 1996 when compared to 1995, and increased $31.3 million in 1995 when compared to 1994. The Company's acquisitions of Teledial America, ATS and PACE, as well as other intangible assets, resulted in the use of $124.6 million in cash for the year ended December 31, 1996. In 1995, the Company spent $66.4 million to acquire CTG and $97.3 million for capital additions. In 1994, the Company spent $7.9 million for acquisitions and $66.0 million for capital expenditures. The remaining investing activities in 1995 and 1994 reflect the payment for the investment in STN.

CASH FLOWS -- FINANCING ACTIVITIES

In 1996, financing activities used a net $34.8 million. During 1996, the Company experienced net borrowing of $70.7 million under its debt agreements, to fund its acquisitions and capital expenditures as discussed in investing activities, above. The net borrowings were offset by the $112.0 million in proceeds provided by the sale of accounts receivable pursuant to the Securitization Program, which were used to pay down outstanding balances under the Credit Facility. In 1995 and 1994, financing activities provided a net $121.8 million and $67.3 million, respectively, primarily from borrowings under the Credit Facility.

CAPITAL RESOURCES

In February 1996, the Company obtained a $700 million Credit Facility with a syndicate of banks, which allows the Company to borrow funds on a daily basis. As a result, the Company uses its available cash to reduce the balance of its Credit Facility and maintains no cash on hand. Under the Credit Facility, the Company had $215.0 million and $260.7 million outstanding and $10.0 million and $10.4 million reserved for letters of credit issued for various business matters, as of December 31, 1996 and 1995, respectively. As of December 31, 1996 and 1995, respectively, the Company had $475.0 million and $178.9 million available under the Credit Facility.

The amount that can be borrowed under the Credit Facility is subject to reduction based on the outstanding balance beginning June 30, 1998 until maturity on March 31, 2001. The interest rate on the debt outstanding is variable based on several indices. (See Note 5 to the Consolidated Financial Statements.) The weighted average interest rates on the debt outstanding under the Credit Facility were 6.09% and 6.88% on December 31, 1996 and 1995, respectively. The Credit Facility contains certain balance sheet, operating cash flow, capital expenditure and negative covenant requirements. As of December 31, 1996, the Company was in compliance with all covenants.

In September 1996, the Company entered into two separate discretionary line of credit agreements (Lines of Credit) with commercial banks for a total of $50 million. The Lines of Credit provide flexible short-term borrowing facilities at competitive rates. As of December 31, 1996, $8.0 million was outstanding on the Lines of Credit.

In August 1996, the Company entered into the Securitization Program to sell a percentage ownership interest in a defined pool of the Company's trade accounts receivable. The Company can sell an undivided interest in a designated pool of accounts receivable on an ongoing basis to maintain the participation interest up to the limit of $150 million. As of December 31, 1996, the pool of trade accounts receivable that was available for sale totaled approximately $120 million, and the amount of receivables sold totaled $112.0 million.

Although the Company believes it has sufficient operating cash flows and available borrowing capacity to fund its current operations and anticipated capital requirements, the Company continues to evaluate other sources of financing. The Company has filed a shelf registration statement with the Securities and Exchange Commission, which would allow the issuance of $300 million of debt and/or equity securities. The Company has not yet determined when or if any new capital financing will be completed.

CAPITAL REQUIREMENTS

During 1997, the Company expects that its non-binding commitment for capital expenditures (excluding acquisitions) will increase from the 1996 levels and are dependent on the Company's geographic and revenue growth. These capital requirements are primarily for switching and transmission facilities, technology platforms and information systems applications. In addition to its ongoing capital requirements, the Company entered into an agreement, in February 1997, to extend its Network. This commitment will extend the Company's fiber-optic network by over 3,100 route miles, and is expected to require capital expenditures of approximately $120 million, including equipment.

The Company has relied upon strategic acquisitions as one means of expanding its network, sales and service presence, and revenues across the country. The Company evaluates each potential acquisition to determine its strategic fit within the Company's growth, operating margin and income objectives. The Company expects to continue to actively explore potential acquisitions and may enter into discussions from time to time with potential acquisition candidates, but there can be no assurance that the Company will be able to enter into or complete acquisition agreements on acceptable terms.

In May 1996, the Company entered into two separate agreements with a third-party sales agent and an affiliated party to this agent. In consideration for the contract extensions, as well as exclusivity and non-compete provisions in the agreements, the Company has made and will make payments on various designated dates over several years in accordance with the two agreements. Certain of these payments are contingent upon achievement of defined performance measures. The Company believes that these payments, if required, can be funded by operations or borrowing capacity under the Credit Facility.

During 1996, the Company executed lease agreements for a new corporate headquarters and an additional facility for its operating subsidiaries. The agreement for the new corporate headquarters building is a three-year operating lease with a maximum residual guarantee payment at the end of the lease term. The agreement for the facility for the operating subsidiaries is a capital lease. Occupancy for the subsidiaries' facility will begin in mid-1997 and extend for a 15-year term. (See Note 6 to the Consolidated Financial Statements.)

COMMITMENTS AND CONTINGENCIES

The Company has agreements with certain interexchange carriers, LECs and third-party vendors to lease facilities for originating, terminating and transporting services. These agreements require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has met and expects to continue to meet such minimum usage requirements. The third-party carriers include WorldCom Network Services, Inc. d/b/a WilTel, Sprint and MCI. In addition, the Company uses services provided by each RBOC, GTE and other smaller LECs. The Company currently has one significant contract with a third-party carrier. Subject to the ability of that carrier to meet the Company's operational requirements, the Company is obligated to use this carrier for a significant percentage of services that the Company provides through its leased facilities. The amounts payable under that contract, however, represent less than 10% of the Company's revenue on an annual basis. (See Note 7 to the Consolidated Financial Statements.) The Company has engineered its Network to minimize the impact on its customers of a service failure by any third-party carrier and has established contingency plans to reroute traffic as quickly as possible if a service failure by a third-party carrier should occur. Although most service failures that the Company has experienced have been corrected in a relatively short time period, a catastrophic service failure could interrupt the provision of service by both the Company and its competitors for a lengthy time period. The restoration period for a catastrophic service failure cannot be reasonably determined; however, neither the Company nor the industry has experienced a catastrophic service failure in its history.

The Company has been named as a defendant in various litigation matters. Management intends to vigorously defend these outstanding claims. The Company believes that it has adequate accrued loss contingencies and that current pending or threatened litigation matters will not have a material adverse impact on the Company's results of operations or financial condition. (See Note 7 to the Consolidated Financial Statements.)

FEDERAL INCOME TAXES

The Company generated significant NOLs in prior years that are available to reduce current cash requirements for income taxes. See Note 10 of the Consolidated Financial Statements for a discussion of the availability and utilization of the NOLs.

IMPACT OF INFLATION AND SEASONALITY

The Company does not believe that the relatively moderate levels of inflation that have been experienced in the United States in recent years have had a significant effect on its revenues or earnings.

The Company's long-distance revenue is subject to seasonal variations based on each segment. Use of long-distance services by commercial customers is typically lower on weekends throughout the year and in the fourth quarter, due to holidays. As residential revenues increase as a proportion of the Company's total revenues, the seasonal impact due to changes in commercial calling patterns will be reduced.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 -- SAFE HARBOR CAUTIONARY STATEMENT

This report contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 (the Reform Act). These forward-looking statements express the beliefs and expectations of management regarding LCI's future results and performance and include, without limitation, the following: statements concerning the Company's future outlook; the Company's plans to enter the local-service market; the effect of FCC and judicial rulings pertaining to the Telecommunications Act of 1996, local-service competition and RBOC entry into the long-distance market; the impact of marketplace competition on pricing strategies and rates; expected revenue growth; the cost reduction strategies and opportunities to expand the Network which may allow for increased gross margin; the expected future interest rates and interest savings from the Securitization Program; funding of capital expenditures and operations; the Company's beliefs regarding a catastrophic service failure; and other similar expressions concerning matters that are not historical facts.

Such statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results, performance and/or achievements of the Company to differ materially from any future results, performance or achievements, expressed or implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements and any such statement is qualified by reference to the following cautionary statements. In connection with the safe harbor provisions of the Reform Act, the Company's management is hereby identifying important factors that could cause actual results to differ materially from management's expectations including, without limitation, the following: increased levels of competition in the telecommunications industry, including RBOC entry into the interLATA long-distance industry and the impact on pricing; the ability of LCI's direct sales force and alternative channels of distribution to obtain new sales; the adoption and application of rules and regulations implementing the Act; the availability of leased capacity to support the Company's geographic expansion; the ability to negotiate appropriate local-service agreements with LECs; and other risks described from time to time in the Company's periodic filings with the Securities and Exchange Commission. The Company is not required to publicly release any changes to these forward-looking statements for events occurring after the date hereof or to reflect other unanticipated events.

OTHER MATTERS

ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

A new accounting pronouncement on accounting for transfers and servicing of financial assets was issued in 1996 and is effective for fiscal years beginning after December 15, 1996. As explained in Note 2 to the Consolidated Financial Statements, the Company does not expect any significant impact from the adoption of this pronouncement.

REPORT OF MANAGEMENT

The management of LCI International, Inc. is responsible for the preparation of all information, including the financial statements and related notes, included in this Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and include amounts based on the best judgment of management. Financial information included elsewhere in this Annual Report is consistent with these financial statements.

In recognition of its responsibility for the integrity and objectivity of data in the financial statements, management maintains a system of internal accounting controls. This system has been established to ensure, within reasonable limits, that assets are safeguarded, that transactions are properly recorded and executed in accordance with management's authorization and that accounting records provide a solid foundation from which to prepare the financial statements. The system is supported by an internal auditing function which assesses the effectiveness of internal controls and reports its findings to management throughout the year. It is recognized that no system of internal controls can detect and prevent all errors and irregularities. Management believes that the established system provides an acceptable balance between benefits to be gained and their related costs.

The Company's independent public accountants are engaged to express an opinion on the year-end financial statements. As part of their audit of the Company's 1996 financial statements, they considered the Company's system of internal controls to the extent they deemed necessary to determine the nature, timing and extent of their audit tests.

The Audit Committee of the Board of Directors meets regularly with the independent public accountants and management to review the work performed and to ensure that each is properly discharging its responsibilities. The independent public accountants have full and free access to the Audit Committee, without the presence of management, to discuss the results of their audits, internal accounting controls and financial reporting.

Joseph A. Lawrence
Senior Vice President -
Finance and Development
and Chief Financial Officer

Jeffrey H. VonDeylen
Corporate Controller

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREOWNERS OF LCI INTERNATIONAL, INC.:

We have audited the accompanying consolidated balance sheets of LCI International, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareowners equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Companys management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCI International, Inc. and subsidiaries, as of December 31, 1996 and 1995, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Arthur Andersen LLP
Washington, D.C.
February 6, 1997

LCI International, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions Except for Earnings per Common Share)

	For the Year Ended December 31,		
	1996	1995	1994
REVENUES	$1,103.0	$672.9	$464.0
Cost of Services	642.3	396.2	274.3
GROSS MARGIN	460.7	276.7	189.7
Selling, General and Administrative Expenses	253.7	150.1	102.7
Depreciation and Amortization	63.5	44.0	36.1
OPERATING INCOME	143.5	82.6	50.9
Other (Income) Expense, Net	(.3)	(.9)	59.8
Interest Expense, Net	28.8	16.3	8.8
INCOME (LOSS) BEFORE INCOME TAXES	115.0	67.2	(17.7)
Income Tax Expense (Benefit)	40.2	16.4	(24.5)
NET INCOME	74.8	50.8	6.8
Preferred Dividends	2.8	5.7	5.8
INCOME ON COMMON STOCK	$72.0	$45.1	$1.0
EARNINGS PER COMMON SHARE			
PRIMARY	$0.86	$0.63	$0.02
FULLY DILUTED	$0.86	$0.62	$0.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES			
Primary	87.3	81.0	65.5
Fully Diluted	87.3	82.1	66.7

The accompanying notes are an integral part of these statements.

LCI International, Inc.
CONSOLIDATED BALANCE SHEETS
(In Millions)

	December 31,	
	1996	1995
ASSETS		
CURRENT ASSETS		
Trade Accounts Receivable, Less Allowance for Doubtful Accounts of $23.4 and $9.8 for 1996 and 1995, Respectively	$85.2	$161.6
Current Deferred Tax Assets, Net	48.9	23.1
Prepaids and Other	16.4	19.6
Total Current Assets	150.5	204.3
PROPERTY, PLANT AND EQUIPMENT		
Fiber-Optic Network	392.5	357.3
Technology Platforms, Equipment and Building Lease	123.2	90.8
Less - Accumulated Depreciation and Amortization	(171.8)	(181.4)
	343.9	266.7
Plant Under Construction	58.9	35.3
Total Property, Plant and Equipment, Net	402.8	302.0
OTHER ASSETS		
Excess of Cost over Net Assets Acquired, Net of Accumulated Amortization of $25.8 and $16.8 for 1996 and 1995, Respectively	350.5	245.6
Other, Net	46.2	21.5
Total Other Assets	396.7	267.1
Total Assets	$950.0	$773.4

	December 31,	
	1996	1995
LIABILITIES AND SHAREOWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$37.1	$39.2
Facility Costs Accrued and Payable	123.0	66.7
Accrued Expenses and Other	53.3	22.0
Total Current Liabilities	213.4	127.9
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	235.8	274.7
OTHER LIABILITIES AND DEFERRED CREDITS	70.0	40.0
COMMITMENTS AND CONTINGENCIES		
SHAREOWNERS' EQUITY		
Preferred Stock - Authorized 15 Shares, Issued and Outstanding 4.6 Shares in 1995	--	114.5
Common Stock - Authorized 300 Shares, Issued and Outstanding 77.5 Shares in 1996 and Authorized 100 Shares, Issued and Outstanding 64.4 Shares in 1995	.8	.6
Paid-in Capital	427.2	298.9
Retained Earnings (Deficit)	2.8	(69.2)
Total Shareowners' Equity	430.8	344.8
Total Liabilities and Shareowners' Equity	$950.0	$771.4

The accompanying notes are an integral part of these statements.

LCI International, Inc.

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

(In Millions)

	Preferred Stock	Common Stock				
	$.01 Par Value	Issued and Outstanding	$.01 Par Value	Paid-in Capital	Retained Earnings (Deficit)	Total Shareowners' Equity
BALANCE AT DECEMBER 31, 1993	$115.0	58.5	$.6	$195.0	$(115.3)	$195.3
Employee Stock Purchases and Exercise of Options/Warrants, Including Related Tax Benefit	--	5	--	2.1	--	2.1
STN Incorporated Stock Exchange	--	3	--	3.0	--	3.0
Other	--	--	--	.4	--	.4
Net Income	--	--	--	--	6.8	6.8
Preferred Dividends	--	--	--	--	(5.8)	(5.8)
BALANCE AT DECEMBER 31, 1994	$115.0	59.3	$.6	$200.5	$(114.3)	$201.8
Acquisition of CTG, Inc	--	4.6	--	93.1	--	93.1
Employee Stock Purchases and Exercise of Options/Warrants, Including Related Tax Benefit	--	.4	--	4.8	--	4.8
Conversion/Redemption of Preferred Stock	(.5)	.1	--	.5	--	--
Net Income	--	--	--	--	50.8	50.8
Preferred Dividends	--	--	--	--	(5.7)	(5.7)
BALANCE AT DECEMBER 31, 1995	$114.5	64.4	$.6	$298.9	$(69.2)	$344.8
Employee Stock Purchases and Exercise of Options/Warrants, Including Related Tax Benefit	--	1.0	--	14.0	--	14.0
Conversion/Redemption of Preferred Stock	(114.5)	12.1	.2	114.3	--	--
Net Income	--	--	--	--	74.8	74.8
Preferred Dividends	--	--	--	--	(2.8)	(2.8)
BALANCE AT DECEMBER 31, 1996	$--	77.5	$.8	$427.2	$2.8	$430.8

The accompanying notes are an integral part of these statements.

LCI International, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

	For the Year Ended December 31,		
	1996	1995	1994
OPERATING ACTIVITIES			
Net Income	$74.8	$10.8	$6.8
Adjustments to Net Income:			
Depreciation and Amortization	63.5	44.0	36.1
Provision for Bad Debt	15.8	8.2	5.8
Change in Deferred Taxes	36.4	(1.2)	(30.7)
Loss Contingencies and Other Charges	--	--	62.5
Change in Assets/Liabilities:			
Trade Accounts Receivable	(59.0)	(71.3)	(35.6)
Net Securitization Activity	112.0	--	--
Accounts Payable and Facility Costs Accrued and Payable	49.0	20.9	1.4
Other Assets/Liabilities	7.6	2.5	(8.2)
Net Cash Provided by Operating Activities	300.1	53.9	38.1
INVESTING ACTIVITIES			
Capital Expenditures - Property, Plant and Equipment	(144.3)	(97.3)	(66.0)
Payment for Acquisitions and Other	(121.0)	(66.4)	(7.9)
Payments for STN Incorporated	--	(12.0)	(31.5)
Net Cash Used in Investing Activities	(265.3)	(175.7)	(105.4)
FINANCING ACTIVITIES			
Net Debt (Payments) Borrowings	(31.3)	122.8	70.9
Preferred Dividend Payments	(2.8)	(5.8)	(5.7)
Proceeds from Employee Stock Plans and Warrants	9.3	4.8	2.1
Net Cash (Used in) Provided by Financing Activities	(34.8)	121.8	67.3
Change in Cash and Cash Equivalents	--	--	--
Cash and Cash Equivalents at the Beginning of the Year	--	--	--
Cash and Cash Equivalents at the End of the Year	$--	$--	$--
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Paid for Interest	$26.1	$15.1	$8.8
Cash Paid for Income Taxes	$1.3	$2.9	$1.1

NON-CASH ACTIVITY:

During 1996, shareowners converted 4.6 million shares of Preferred Stock into 12.1 million shares of Common Stock. In September 1995, the Company issued 4.6 million shares of its Common Stock as partial consideration to purchase CTG, with a market value of approximately $93.2 million. The reconciliation of net income to net cash provided by operating activities is net of assets purchased and liabilities assumed through the acquisition.

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS ORGANIZATION AND PURPOSE

The financial statements presented herein include the consolidated balance sheets of LCI International, Inc., a Delaware corporation, and its wholly owned subsidiaries (LCI or the Company) as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareowners' equity and cash flows for the three years ended December 31, 1996.

LCI is a facilities-based telecommunications carrier that provides a broad range of domestic and international voice and data services offerings to the commercial, wholesale and residential/small business market segments. The Company serves its customers primarily through leased and owned digital fiber-optic facilities.

2. ACCOUNTING POLICIES

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company uses its available cash to reduce the balance of its Revolving Credit Facility (Credit Facility) and generally maintains no cash on hand.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable represent amounts due from customers for telecommunications services. Switched revenues include amounts recognized for services provided, but not yet billed. A portion of the residential accounts receivable balance is billed through local exchange carriers (LECs) who are responsible for the collection of these accounts. The Company receives information from the LECs about uncollectible accounts three to thirteen months after the account is billed. The Company's reserve includes an estimate for these future uncollectible accounts.

ACCOUNTS RECEIVABLE SECURITIZATION PROGRAM

In accordance with Statement of Financial Accounting Standards (SFAS) No. 77, "Reporting by Transferors for Transfers of Receivables with Recourse," the transfers of receivable balances meet the criteria to be classified as a sale for accounting purposes. As such, amounts sold under the Accounts Receivable Securitization Program (Securitization Program) are not included in the accompanying consolidated financial statements. The costs of the Securitization Program are included in other (income) expense, net in the accompanying consolidated statements of operations. The cash proceeds are included in operating activities, while the use of the proceeds are included in financing activities in the accompanying consolidated statements of cash flows.

PREPAIDS AND OTHER

Prepaids and other assets include deferred customer promotion costs that are amortized over the life of the related contracts, and various other accounts and notes receivable expected to be received within the next year.

PROPERTY, PLANT AND EQUIPMENT

These assets are stated at cost or at fair market value if obtained as part of an acquisition. Construction costs include material, labor, interest and overhead for certain general and payroll related costs. Property, plant and equipment as of December 31, 1996 and 1995, includes the net book value of $9.3 million and $10.2 million for a capitalized building lease for the Company's operating subsidiaries' headquarters. Routine repairs and maintenance of property and replacements of minor items are charged to expense as incurred. Depreciation of buildings and equipment is provided using the composite method over the estimated useful lives of these assets. The cost of equipment retired in the ordinary course of business, less proceeds, is charged to accumulated depreciation. The capitalized building lease is amortized on a straight-line basis over the term of the lease.

The estimated depreciation and amortization periods by asset type are as follows:

Asset Category	Years
Fiber Optic Network:	
Outside Plant and Buildings	30
Transmission, Distribution and Switching	10
Installations	3
Technology Platforms	5
Information Systems - Hardware and Software	3 - 5
General Office Equipment	5 - 10
Capitalized Building Lease	15

EXCESS OF COST OVER NET ASSETS ACQUIRED

Excess of cost over net assets acquired (goodwill) consists of the excess of the cost to acquire an entity over the estimated fair market value of the net assets acquired. Goodwill is amortized on a straight-line basis over 40 years. The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of goodwill may warrant revision or that the remaining balance of goodwill may not be recoverable. In evaluating whether goodwill is recoverable, the Company estimates the sum of the expected future cash flows, undiscounted and without interest charges, derived from such goodwill over its remaining life. The Company believes that no such impairment existed at December 31, 1996. Amortization of goodwill was $9.2 million, $4.0 million and $2.8 million for the years ended December 31, 1996, 1995 and 1994, respectively.

OTHER ASSETS

Other assets consist of debt issuance costs, rights of way, customer lists, non-compete agreements and other deferred costs. Other assets as of December 31, 1995 included a net deferred tax asset of $8.8 million. Debt issuance costs are amortized over the life of the applicable debt agreements. Rights-of-way costs are amortized over the life of the respective agreements. Customer lists and non-compete agreements are amortized over the estimated life or contract term of the customer list or non-compete agreement.

OTHER LIABILITIES AND DEFERRED CREDITS

Other liabilities and deferred credits primarily include long-term deferred income taxes and other long-term liabilities. As of December 31, 1996, net long-term deferred tax liabilities of $53.4 million were included in other liabilities and deferred credits.

REVENUE RECOGNITION

Telecommunications revenues are recognized when services are provided and are net of estimated credits and uncollectible amounts.

ADVERTISING COST

Costs for advertising are expensed as incurred within the fiscal year.

INCOME TAXES

The Company follows SFAS No. 109 "Accounting for Income Taxes." (See Note 10.)

WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EARNINGS PER COMMON SHARE

The weighted average number of common shares used to calculate earnings per common share included the Company's Common Stock, par value $.01 per share (Common Stock) and Common Stock equivalents. Common Stock equivalents include Common Stock issuable pursuant to stock options and Common Stock warrants. During 1996, substantially all of the previously outstanding 5% Cumulative Convertible Exchangeable Preferred Stock, par value $.01 per share (Preferred Stock), was converted into Common Stock. For 1996 and 1995, the weighted average number of common shares included the assumed conversion of any Preferred Stock then outstanding during any point in the period. In 1994, the assumed conversion of the Preferred Stock into Common Stock was excluded from the weighted average number of common shares as such stock was anti-dilutive. For all years presented, outstanding stock options and Common Stock warrants were reflected in the weighted average number of common shares using the treasury stock method. The primary weighted average number of common shares was calculated using the average daily closing price of the Common Stock for the period. The fully diluted weighted average number of common shares was calculated using the higher of the end of the period closing price of the Common Stock or the average daily closing price of the Common Stock.

For 1996 and 1995, earnings per common share are calculated as net income before preferred dividends divided by the weighted average number of common shares, as defined above. For 1994, earnings per common share are calculated as the income on common stock divided by the respective weighted average number of common shares, as defined above.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of current assets and liabilities approximate their fair market value because of the short- term maturity of these financial instruments. The fair market value of long-term debt is discussed further in Note 5.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable. The risk is limited due to the number of market segments, the large number of entities comprising the Company's customer base and the dispersion of those entities across many different industries and geographic regions. As of December 31, 1996, the Company had no significant concentrations of credit risk.

RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements for 1995 and 1994 to conform with the 1996 presentation.

ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

In June 1996, the Financial Accounting Standards Board issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 125 is required for financial statements for fiscal years beginning after December 15, 1996, earlier adoption is not permitted. The Securiti-zation Program was structured to comply with the provisions of SFAS 125, which the Company will adopt in 1997, and accordingly, the Company does not expect any significant impact to its results of operations or financial condition from adoption of this statement.

3. ACQUISITIONS

The Company has supplemented growth from its base business with several strategic acquisitions. Each acquisition over the last three years was accounted for as a purchase.

In June 1996, the Company purchased the long-distance business assets of Pennsylvania Alternative Communications, Inc. (PACE). The results of operations for PACE were included in the Company's consolidated

statement of operations from June 1, 1996 and the acquisition was not considered significant for financial reporting purposes.

In January 1996, the Company purchased the long-distance business assets of Teledial America, Inc. (Teledial America), which did business as U.S. Signal Corporation, and an affiliated company, ATS Network Communications, Inc. (ATS). The Company acquired both companies for approximately $99 million in cash, with an additional maximum payment of $24 million contingent on achieving certain revenue performance and customer retention milestones over an 18-month period commencing at the closing date. The amount of goodwill recorded in the purchase transactions was $98.8 million. The results of operations for Teledial America and ATS were included in the consolidated statement of operations from January 1, 1996. The purchase of ATS was not considered significant for financial reporting purposes.

In September 1995, the Company acquired Corporate Telemanagement Group, Inc. (CTG), a Greenville, South Carolina-based provider of long-distance services to commercial customers throughout the United States. Under the terms of the agreement, the Company acquired all of the outstanding shares of CTG and shares underlying certain outstanding warrants in exchange for $44.5 million in cash and 4.6 million shares of the Company's Common Stock valued at $20.25 per share, the market price on the date of the acquisition. In conjunction with the transaction, the Company assumed approximately $24 million in debt, of which $21.9 million was refinanced. The amount of goodwill recorded in the purchase transaction was $156.6 million. The consolidated statements of operations include the results of CTG from September 1, 1995.

The following unaudited pro forma summary presents the revenues, net income and earnings per common share from the combination of the operations of the Company and its significant acquisitions during the periods -- CTG and Teledial America. The pro forma information is provided as if each acquisition had occurred at the beginning of both the fiscal year of the purchase and the immediately preceding fiscal year. Pro forma information is not provided for 1996, as both acquisitions were included in the consolidated results of operations from January 1, 1996. The pro forma information is provided for informational purposes only. It is based on historical information and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of operations of the combined enterprise.

(In Millions Except Earnings per Common Share Amounts)	Unaudited Pro Forma Information for the Years Ended December 31,	
	1995	1994
Net Revenues	$814.7	$520.0
Net Income	$4.0	0.5
Earnings per Common Share	$0.63	$0.01

During the fourth quarter of 1994, the Company recognized a loss of $62.5 million on its investment in STN Incorporated (STN). This loss, recorded in other (income) expense, net in the accompanying consolidated statement of operations, included $47.6 million for the full impairment of the STN investments and $14.9 million for accrued loss contingencies related to future STN obligations.

4. ACCOUNTS RECEIVABLE SECURITIZATION

In August 1996, the Company entered into an agreement to sell a percentage ownership interest in a defined pool of its trade accounts receivable (Securitization Program). LCI SPC I, Inc. (SPC), a wholly owned, bankruptcy-remote subsidiary of the Company, was formed to execute the sale of receivables. Under this Securitization Program, the Company can transfer an undivided interest in a designated pool of its accounts receivable on an ongoing basis to maintain the participation interest up to a maximum of $150 million. At December 31, 1996, the pool of trade accounts receivable that were available for sale totaled approximately $120 million. The amount of receivables sold, but not yet collected at December 31, 1996, totaled $112 million and the proceeds were used to reduce the outstanding balance of the Company's long-term debt. Total proceeds from the sale of accounts receivable during the year was $535 million. The accounts receivable balances sold are not included in the

accompanying consolidated balance sheet at December 31, 1996. The cost of the Securitization Program is based on a discount rate equal to the short-term commercial paper rate plus certain fees and expenses. The Company retains substantially all the same risk of credit loss as if the receivables had not been sold, and has established reserves for such estimated credit losses.

Under the Securitization Program agreement, the Company acts as agent for the purchaser of the receivables by performing recordkeeping and collection functions on the participation interest sold. The agreement contains certain covenants regarding the quality of the accounts receivable portfolio, as well as financial covenants which are substantially identical to those contained in the Company's Credit Facility. (See Note 5.) Except in certain limited circumstances, SPC is subject to certain contractual prohibitions concerning the payment of dividends and the making of loans and advances to LCI.

5. DEBT

CREDIT FACILITY

The Company can borrow up to $700 million from a syndicate of banks under the Credit Facility. The amount that can be borrowed under the Credit Facility is subject to reduction based on the outstanding balance, beginning on June 30, 1998, until maturity on March 31, 2001. This Credit Facility bears interest at a rate consisting of two components: The base rate component is dependent upon a market indicator, the second component varies from 0.625% to 1.5% based on the level of borrowings (leverage ratio). The weighted average interest rates on the outstanding borrowings under the Credit Facility as of December 31, 1996 and 1995 were 6.09% and 6.88%, respectively. The Credit Facility contains various financial covenants, the most restrictive being the leverage ratio requirement. As of December 31, 1996 and 1995, the Company was in compliance with all Credit Facility covenants and had $215.0 million and $260.7 million, respectively, outstanding under the Credit Facility. The carrying amount of the Credit Facility approximates its fair value as the underlying instruments are variable rate notes that reprice frequently.

The Company has an interest rate cap agreement with a syndicate of banks that limits the Company's base interest rate exposure to 7.5%. The agreement is for a two-year period ending February 1998 on a $130 million notional principal balance of the Credit Facility. In an event of non-performance by the commercial banks, the Company would have exposure to the extent of any increase in the base rate component above 7.5%. The Company believes the probability of such an event is remote.

In November 1996, the Company entered into an interest rate swap agreement for a one-year period. The agreement, with two commercial banks, is on a $100 million notional principal balance of the Credit Facility. Under the agreement, the Company makes a fixed-rate payment to the banks at an interest rate of 5.58% in exchange for the receipt of a payment from the banks based on a variable interest rate. As of December 31, 1996, the fair value of the agreement was not material. In an event of non-performance by a commercial bank, the Company would be required to make interest payments in accordance with the Credit Facility. The Company believes that the probability of such an event is remote.

LINES OF CREDIT

During 1996, the Company obtained two separate discretionary lines of credit (Lines of Credit) for a total of $50 million. The Lines of Credit bear interest at a rate dependent upon a market indicator. The interest rate as of December 31, 1996 on the $8.0 million outstanding balance under the Lines of Credit was 5.93%. The outstanding balance in the accompanying consolidated balance sheets is reflected in long-term debt, due to the availability under the Credit Facility.

6. LEASES

The Company's capital leases primarily include its operating subsidiaries' headquarters building lease, which expires in 2005. The noncurrent portion of capital lease obligations was $12.9 and $14.2 million as of December 31, 1996 and 1995, respectively. The Company has operating leases for office space and equipment with lease terms from three to ten years with options for renewals. The Company has entered into several rights-of-way (ROW) lease agreements that allowed for installation of its fiber-optic network facilities. The terms of these

agreements range from one to 30 years, and most contain renewal options. These agreements also provide for rental payments to be made for use of other land and buildings occupied in connection with the ROW agreements, maintenance and repairs.

During 1996, the Company entered into an operating lease agreement for the rental of a new corporate headquarters being developed in suburban Virginia. This agreement has a three-year base term with two options to renew for one year each. The agreement includes a maximum residual guarantee which is included in the minimum lease payments, below. The property will be owned by an unrelated entity that will lease the facility to the Company. Financing for the project will be provided by a syndicate of banks. Also during 1996, the Company executed a $19 million capital lease agreement for an additional headquarters facility for its operating subsidiaries. The lease term begins July 1997 and, therefore, is not included in the capital lease schedule.

Total expenses for operating leases for the years ended December 31, 1996, 1995 and 1994 were $10.0 million, $6.1 million and $4.2 million, respectively. The Company is required, at a minimum, to make the following payments on capital and operating leases:

(In Millions)	Capital	Operating
1997	$3.3	$12.9
1998	3.1	13.0
1999	2.6	65.5
2000	2.9	9.3
2001	2.9	7.4
Thereafter	11.3	34.3
Total Minimum Lease Payments	26.1	$142.4
Less - Amounts Representing Interest	12.0	
Capital Lease Obligations	14.1	
Less - Amounts Due Within One Year	1.2	
Noncurrent Portion of Capital Lease Obligations	$12.9	

7. COMMITMENTS AND CONTINGENCIES

CAPITAL EXPENDITURES

During 1997, the Company expects that its nonbinding commitment for capital expenditures (excluding acquisitions) will increase from the levels expended in 1996 and is dependent on the Company's geographic and revenue growth. The Company's capital requirements are primarily for switching and transmission facilities and technology platforms arising from the Company's strategic expansion plans. In addition to its ongoing capital requirements, the Company entered into an agreement, in February 1997, to extend its fiber-optic network. This commitment will extend the Company's fiber-optic network by over 3,100 route miles, and is expected to require capital expenditures of approximately $120 million, including equipment.

VENDOR AGREEMENTS

The Company has agreements with certain telecommunications interexchange carriers and third-party vendors that require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has a single five-year contract with a particular third-party carrier which began in August 1995. This contract has minimum annual usage requirements and an increasing cumulative minimum usage requirement, which if not met, subjects the Company to an underutilization charge. Through December 31, 1996, the Company had significantly exceeded both the first-year minimum annual usage requirement of $48 million and the cumulative minimum usage of $103 million established for the second year. The Company's minimum monthly billing commitments under all other vendor agreements are approximately $4 million through 1997. The Company has historically met all minimum billing requirements and believes that the minimum usage commitments will be met in the future.

EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution retirement plan for its employees. Under this plan, eligible employees may contribute a percentage of their base salary, subject to certain limitations. Beginning in 1994, the Company elected to match a portion of the employees' contributions. The expense of the Company's matching contribution was $.7 million in 1996, $.6 million in 1995 and $.3 million in 1994. Under this plan, employees may purchase shares of LCI's Common Stock at market prices. During 1996, 1995 and 1994, 63,200, 45,484 and 35,328 shares were issued under this plan at an average price of $27.76, $15.62 and $9.32, respectively.

9. INCENTIVE STOCK PLANS

STOCK OPTIONS

The Company has stock option plans under which options to purchase shares of Common Stock may be granted to directors and key employees. Under the plans, the Company may grant incentive stock options (ISOs) as defined by the Internal Revenue Code or non-qualified options (NQOs). Stock options generally have a five-year vesting period. Twenty percent of each option granted generally becomes exercisable on the first anniversary of the grant and 1.66% each month thereafter for 48 months. In the event of a change in control of the Company, all options outstanding would become 100% exercisable. Under the plans, options expire up to 10 years after the date of the grant. Except in the case of ISOs, the option price may be less than the fair market value of the Common Stock as of the date of grant. The option price under all plans is fixed at the discretion of an administrative committee of the Board of Directors at the time of grant. During 1996, 1995 and 1994, the option price for all options granted was the fair market value of the shares on the date of grant. The weighted average fair value of options granted during 1996 and 1995 for the stock option plans was $6.69 and $4.53, respectively, and for the ESPP was $9.48 and $7.17, respectively. Shares of Common Stock underlying surrendered options may be re-granted by the Board of Directors. As of December 31, 1996, there were 12,590,852 options authorized under the Company's stock option plans. Information regarding these stock option plans is as follows:

	Number of Shares	Exercisable Options	Weighted Average Exercise Price
Outstanding as of December 31, 1993	4,167,316	1,466,448	$3.76
Options Granted	1,813,600		9.07
Options Exercised	(152,520)		2.69
Options Surrendered	(456,520)		7.13
Outstanding as of December 31, 1994	5,371,876	2,003,154	5.29
Options Granted	2,799,798		12.91
Options Exercised	(218,366)		4.88
Options Surrendered	(340,522)		9.77
Outstanding as of December 31, 1995	7,612,786	3,047,337	7.89
Options Granted	2,352,000		23.14
Options Exercised	(555,033)		6.91
Options Surrendered	(431,810)		18.40
Outstanding as of December 31, 1996	8,977,943	4,184,670	$11.48
Options Available for Grant as of December 31, 1996	2,686,090		

The following table presents information for the 8,977,943 options outstanding as of December 31, 1996.

Range of Exercise Price	Options Outstanding: Number of Options	Options Outstanding: Weighted Average Exercise Price	Options Outstanding: Weighted Average Contractual Life (Years)	Options Exercisable: Number of Options	Options Exercisable: Weighted Average Exercise Price
$0.17 - $2.83	1,837,464	$1.56	6.00	1,818,476	$1.55
$4.56 - $9.75	2,417,114	$7.54	6.83	1,448,604	$7.47
$9.94 - $11.22	1,942,537	$11.15	7.98	713,500	$11.15
$11.25 - $20.03	561,498	$16.39	8.56	161,349	$15.77
$20.53 - $35.13	2,192,500	$23.19	9.13	44,500	$26.77

EMPLOYEE STOCK PURCHASE PLAN

The Company has an Employee Stock Purchase Plan (ESPP), which enables substantially all employees to purchase shares of Common Stock on monthly offering dates at a purchase price equal to the lesser of 85% of the fair market value of the Common Stock on the date of its purchase, or 85% of the fair market value of the Common Stock, as established at intervals from time to time. In 1995, the Company's shareowners approved an extension of the ESPP until no later than November 1997 or until shares authorized under the ESPP are exhausted. A maximum of 1,800,000 shares of Common Stock were authorized for purchase under the ESPP. During 1996, 1995 and 1994, 247,273, 192,396, and 218,638 shares were issued under the ESPP at an average price of $24.64, $11.59 and $5.88, respectively. As of December 31, 1996, the amount of Common Stock available for issuance was 965,595 shares.

STOCK-BASED COMPENSATION PLANS

The Company follows the requirements of APB Opinion No. 25 to account for its stock option plans and ESPP and, accordingly, no compensation cost is recognized in the consolidated statements of operations for these plans. The Company adopted SFAS No. 123 "Accounting for Stock-Based Compensation," which requires certain disclosures about stock-based employee compensation arrangements. SFAS 123 requires pro forma disclosure of the impact on net income and earnings per share if the fair value method defined in SFAS 123 had been used.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, with the following weighted average assumptions used for grants in 1996 and 1995, respectively: risk-free interest rates of 5.7% and 6.7% for the stock options plans and 5.5% and 5.6% for the ESPP; no expected dividend yields; expected lives of 3.9 years and 4.0 years for the stock options plans and 1.5 years and 2.2 years for the ESPP; expected volatility of 39.6% and 48.3% for the stock option plans and 45.3% and 47.5% for the ESPP. Pro forma net income, as if the fair value method had been applied, was $66.9 million and $47.5 million for the years ended December 31, 1996 and 1995, respectively. The pro forma earnings per share on a fully diluted basis for the same periods were $0.77 and $0.58.

In accordance with SFAS 123, the fair value method was not applied to options granted prior to January 1, 1995. The resulting pro forma impact may not be representative of results to be expected in future periods and is not reflective of actual stock performance.

10. INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 1996, 1995 and 1994, consisted of

(In Millions)	1996	1995	1994
Current Tax Expense:			
Federal	$2.0	$--	$0.6
State	1.2	0.5	0.4
Deferred Tax Expense (Benefit):			
Increase in Deferred Tax Liability	4.0	1.7	15.1
Decrease (Increase) in Deferred Tax Asset	38.8	25.9	(22.9)
Decrease in Valuation Allowance	(5.8)	(11.7)	(17.7)
Income Tax Expense (Benefit)	$40.2	$16.4	$(24.5)

The decrease in the valuation allowance in 1996, 1995 and 1994 resulted from the Company's realization of its net operating loss (NOLs) carryforwards based on the Company's growth in recurring operating income. The Company pays state income taxes on the greater of a net worth basis or an income basis in a majority of the states in which it operates. The Company records state deferred tax assets and liabilities at an average blended rate of 5%.

The significant items giving rise to the deferred tax (assets) and liabilities as of December 31, 1996 and 1995, were

(In Millions)	1996		1995		1994	
		%		%		%
Expected Tax Expense (Benefit) at Federal Statutory Income Tax Rate	$40.2	35.0	$23.5	35.0	$(6.2)	(35.0)
Effect of:						
State Income Tax Expense	5.0	4.4	2.0	2.9	0.5	2.5
Non-deductible Expenses	1.7	1.4	1.0	1.6	0.6	3.6
Change in Valuation Allowance	(5.8)	(5.0)	(11.7)	(17.4)	(17.7)	(99.9)
Other, Net	(0.9)	(0.8)	1.6	2.3	(1.7)	(9.6)
Income Tax Expense (Benefit)	$40.2	35.0	$16.4	24.4	$(24.5)	(138.4)

The Company's 1996 deferred income tax balances were included in current deferred tax assets, net $48.9 million, and in other non-current liabilities of $53.4 million. The 1995 deferred income tax balances were included in current deferred tax assets, net of $23.1 million and other assets of $8.8 million. The Company has generated significant NOLs that may be used to offset future taxable income. Each year's NOL has a maximum 15-year carryforward period. The Company's ability to fully use its NOL carryforwards is dependent on future taxable income. As of December 31, 1996, the Company has NOL carryforwards of $103 million for income tax return purposes subject to various expiration dates beginning in 1998 and ending in 2008. The future tax benefit of these NOL carryforwards of $41.3 million and $70.4 million using a 40% effective tax rate in 1996 and 1995, has been recorded as a deferred tax asset.

11. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company has filed a shelf registration statement with the Securities and Exchange Commission to register $300 million of debt and/or equity securities, for issuance on a delayed or continuous basis. Any debt securities issued may be guaranteed by certain of the Company's wholly owned subsidiaries (Guarantor Subsidiaries). Such guarantees will be full, unconditional and joint and several. Certain of the Company's subsidiaries would not provide any guarantees (Non-Guarantor Subsidiaries) primarily as a result of contractual prohibitions. The primary Non-Guarantor Subsidiary is SPC, discussed in Note 4. Separate financial statements of the Guarantor Subsidiaries have not been presented because the Company's management has determined that they would not be material. The following supplemental financial information sets forth, on an unconsolidated basis, statement of

10. INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 1996, 1995 and 1994, consisted of

(In Millions)	19[illegible]	1995	1994
Current Tax Expense:			
Federal	$2.0	$--	$0.6
State	1.2	0.5	0.4
Deferred Tax Expense (Benefit):			
Increase in Deferred Tax Liability	4.0	1.7	15.1
Decrease (Increase) in Deferred Tax Asset	38.8	25.9	(22.9)
Decrease in Valuation Allowance	(5.8)	(11.7)	(17.7)
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The decrease in the valuation allowance in 1996, 1995 and 1994 resulted from the Company's realization of its net operating loss (NOLs) carryforwards based on the Company's growth in recurring operating income. The Company pays state income taxes on the greater of a net worth basis or an income basis in a majority of the states in which it operates. The Company records state deferred tax assets and liabilities at an average blended rate of 5%.

The significant items giving rise to the deferred tax (assets) and liabilities as of December 31, 1996 and 1995, were:

(In Millions)	1996		1995		1994	
		[illegible]%		[illegible]%		[illegible]%
Expected Tax Expense (Benefit) at Federal Statutory Income Tax Rate	$40.2	35.0	$23.5	35.0	$(6.2)	(35.0)
Effect of						
State Income Tax Expense	5.0	4.4	2.0	2.9	0.5	2.5
Non-deductible Expenses	1.7	1.4	1.0	1.6	0.6	3.6
Change in Valuation Allowance	(5.8)	(5.0)	(11.7)	(17.4)	(17.7)	(99.9)
Other, Net	(0.9)	(0.8)	1.6	2.3	(1.7)	(9.6)
Income Tax Expense (Benefit)	$40.2	35.0	$16.4	24.4	$(24.5)	(138.4)

The Company's 1996 deferred income tax balances were included in current deferred tax assets, net $48.9 million, and in other non-current liabilities of $53.4 million. The 1995 deferred income tax balances were included in current deferred tax assets, net of $23.1 million and other assets of $8.8 million. The Company has generated significant NOLs that may be used to offset future taxable income. Each year's NOL has a maximum 15-year carryforward period. The Company's ability to fully use its NOL carryforwards is dependent on future taxable income. As of December 31, 1996, the Company has NOL carryforwards of $103 million for income tax return purposes subject to various expiration dates beginning in 1998 and ending in 2008. The future tax benefit of these NOL carryforwards of $41.3 million and $70.4 million using a 40% effective tax rate in 1996 and 1995, has been recorded as a deferred tax asset.

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operations, balance sheet and statement of cash flow information for the parent company only (Parent Company), for the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. The comparative statements for 1995 and 1994 have not been presented as the Non-Guarantor information is not material to the consolidated financial statements for that period. The supplemental financial information reflects the Company's investments in subsidiaries using the equity method of accounting. Certain immaterial reclassifications have been made to provide for uniform disclosure for the period presented.

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1996
(In Millions)

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$--	$1,103.0	$--	$--	$1,103.0
Cost of Services	--	642.3	--	--	642.3
Gross Margin	--	460.7	--	--	460.7
Selling, General and Administrative Expenses	0.1	253.6	--	--	253.7
Depreciation and Amortization	--	63.5	--	--	63.5
Operating (Loss) Income	(0.1)	143.6	--	--	143.5
Interest and Other (Income) Expense, Net	23.7	9.5	(4.7)	--	28.5
Intercompany (Income) Expense	(28.6)	28.6	--	--	--
Equity in Earnings of Subsidiaries	(71.6)	--	--	71.6	--
Income Before Income Taxes	76.4	105.5	4.7	(71.6)	115.0
Income Tax Expense	1.6	36.9	1.7	--	40.2
Net Income	74.8	68.6	3.0	(71.6)	74.8
Preferred Dividends	2.8	--	--	--	2.8
Income on Common Stock	$72.0	$68.6	$3.0	$(71.6)	$72.0

(Continued on next page.)

11. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

SUPPLEMENTAL CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1996
(In Millions)

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Trade Accounts Receivable, Net	$--	$148	$70 4	$--	$85 2
Current Deferred Tax Assets, Net	19 7	29 2	--	--	48 9
Prepaids and Other	4 5	11 9	--	--	16 4
Intercompany Receivable	370 4	--	--	(370 4)	--
Total Current Assets	394 6	55 9	70 4	(370 4)	150 5
Property, Plant and Equipment, Net	--	402 8	--	--	402 8
Excess of Cost over Net Assets Acquired, Net	--	350 5	--	--	350 5
Investment in Affiliates	250 4	--	--	(250 4)	--
Other, Net	16 3	29 5	0 4	--	46 2
Total Assets	$661 3	$838 7	$70 8	$(620 8)	$950 0
LIABILITIES AND SHAREOWNERS' EQUITY					
CURRENT LIABILITIES					
Accounts Payable	$--	$37 1	$--	$--	$37 1
Facility Costs Accrued and Payable	--	123 0	--	--	123 0
Intercompany Payable	--	363 2	7 3	(370 5)	--
Accrued Expenses and Other	3 4	49 9	--	--	53 3
Total Current Liabilities	3 4	573 2	7 3	(370 5)	213 4
Long-term Debt and Capital Lease Obligations	223 0	12 8	--	--	235 8
Other Liabilities and Deferred Credits	4 1	65 9	--	--	70 0
SHAREOWNERS' EQUITY					
Preferred Stock	--	66 4	--	(66 4)	--
Common Stock	0 8	--	12 0	(12 0)	0 8
Paid-in Capital	427 2	43 2	60 5	(103 7)	427 2
Retained (Deficit) Earnings	2 8	77 2	(9 0)	(68 2)	2 8
Total Shareowners' Equity	430 8	186 8	63 5	(250 3)	430 8
Total Liabilities and Shareowners' Equity	$661 3	$838 7	$70 8	$(620 8)	$950 0

(Continued on next page.)

12. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31

(In Millions, Except Earnings per Common Share)	1996			
	FIRST	SECOND	THIRD	FOURTH
Revenues	$250.6	$269.4	$289.2	$293.8
Cost of Services	148.6	157.6	166.6	169.5
Gross Margin	102.0	111.8	122.6	124.3
Selling, General and Administrative Expenses	56.7	61.5	67.7	67.8
Depreciation and Amortization	14.1	15.6	16.3	17.5
Operating Income	31.2	34.7	38.6	39.0
Interest and Other Expense, Net	7.7	7.5	7.7	5.6
Income Before Income Taxes	23.5	27.2	30.9	33.4
Income Tax Expense	8.2	9.5	10.8	11.7
Net Income	15.3	17.7	20.1	21.7
Income on Common Stock	$13.9	$16.8	$19.6	$21.7
Earnings per Common Share(A)	$0.18	$0.20	$0.23	$0.25
Income per Share	86.3	87.2	87.7	87.8
Primary Weighted Average Shares(B)	86.6	87.6	87.7	87.8
Fully Diluted Weighted Average Shares(B)				

(In Millions, Except Earnings per Common Share)	1995			
	First	Second	Third	Fourth
Revenues	$144.2	$152.0	$173.0	$203.7
Cost of Services	85.8	89.8	101.2	119.4
Gross Margin	58.4	62.2	71.8	84.3
Selling, General and Administrative Expenses	31.5	33.7	38.9	46.0
Depreciation and Amortization	9.7	10.2	11.2	12.9
Operating Income	17.2	18.3	21.7	25.4
Interest and Other Expense, Net	3.4	3.7	4.5	3.8
Income Before Income Taxes	13.8	14.6	17.2	21.6
Income Tax Expense	3.3	3.5	4.1	5.5
Net Income	10.5	11.1	13.1	16.1
Income on Common Stock	$9.0	$9.7	$11.6	$14.8
Earnings per Common Share(A)	$0.13	$0.14	$0.16	$0.19
Income per Share	78.4	79.3	82.1	85.2
Primary Weighted Average Shares(B)	78.8	79.9	82.4	85.6
Fully Diluted Weighted Average Shares(B)				

(A) The quarterly per share amounts represent both primary and fully diluted as both calculations yield the same result

(B) The weighted average shares include the assumed conversion of preferred stock. Income per share is calculated as net income divided by weighted average shares outstanding.

ATTACHMENT D

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

FORM 10-Q

(Mark One)

[x] **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 1997

or

[ ] **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ____ to ____

Commission file number 0-21602

LCI INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3498232
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8180 Greensboro Drive, Suite 800

McLean, Virginia	22102
(Address of principal executive offices)	(Zip Code)

(703) 442-0220

(Registrant's telephone number, including area code)

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

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

As of July 31, 1997, there were 78,432,516 shares of LCI International, Inc. Common Stock (par value $.01 per share) outstanding.

LCI INTERNATIONAL, INC.

INDEX

ITEM 1. FINANCIAL STATEMENTS

LCI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in millions, except for earnings per common share)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1997	1996	1997	1996
REVENUES	$338.4	$269.4	$653.0	$520.0
Cost of services	199.5	157.6	383.0	306.3
GROSS MARGIN	138.9	111.8	270.0	213.7
Selling, general and administrative expenses	76.3	61.5	147.8	118.2
Depreciation and amortization	20.0	15.6	38.7	29.7
OPERATING INCOME	42.6	34.7	83.5	65.8
Interest and other expense, net	7.0	7.5	13.7	15.1
INCOME BEFORE INCOME TAXES	35.6	27.2	69.8	50.7
Income tax expense	14.2	9.5	27.9	17.7
NET INCOME	21.4	17.7	41.9	33.0
Preferred dividends	--	.9	--	2.3
INCOME ON COMMON STOCK	$21.4	$16.8	$41.9	$30.7
PER SHARE DATA				
Earnings Per Common Share	$0.25	$0.20	$0.49	$0.38
Weighted Average Number of Common Shares	85.8	87.6	85.6	87.5

The accompanying notes are an integral part of these statements.

LCI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)

ASSETS	June 30, 1997	December 31, 1996
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$30.2	$--
Trade accounts receivable, net	142.8	85.2
Current deferred tax assets, net	37.2	48.9
Prepaids and other	20.3	16.4
Total current assets	230.5	150.5
PROPERTY AND EQUIPMENT:		
Fiber optic network	408.9	392.5
Technology platforms, equipment and building leases	185.5	123.2
Less - Accumulated depreciation and amortization	(172.7)	(171.8)
	421.7	343.9
Property and equipment under construction	83.3	58.9
Total property and equipment, net	505.0	402.8
OTHER ASSETS:		
Excess of cost over net assets acquired, net	346.6	350.5
Other, net	52.4	46.2
Total other assets	399.0	396.7
Total Assets	$1,134.5	$950.0

(Continued on next page)

LCI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 1997
(Unaudited)
(in millions)

	Common Stock				
	Issued and Outstanding	$.01 Par Value	Paid In Capital	Retained Earnings	Total
BALANCE AT DECEMBER 31, 1996	77.5	$0.8	$427.2	$2.8	$430.8
Employee stock purchases and exercise of options/warrants, including related tax benefits	0.9	--	10.5	--	10.5
Net Income	--	--	--	41.9	41.9
BALANCE AT JUNE 30, 1997	78.4	$0.8	$437.7	$44.7	$483.2

The accompanying notes are an integral part of this statement.

LCI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	For the Six Months Ended June 30,	
	1997	1996
OPERATING ACTIVITIES		
Net cash provided by operating activities	$35.9	$68.0
INVESTING ACTIVITIES		
Capital expenditures	(116.4)	(64.0)
Payments for acquisitions and other	(7.8)	(118.1)
Net cash used in investing activities	(124.2)	(182.1)
FINANCING ACTIVITIES		
Net debt (payments) borrowings	(234.0)	115.1
Senior Notes issuance proceeds	350.0	--
Financing fee payments	(8.0)	(2.5)
Preferred dividend payments	--	(2.3)
Proceeds from employee stock plans and warrants	10.5	3.8
Net cash provided by financing activities	118.5	114.1
Net increase in cash and cash equivalents	30.2	--
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$30.2	$--

The accompanying notes are an integral part of these statements.

LCI INTERNATIONAL, INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997
(Unaudited)

(1) GENERAL

The results of operations for the interim periods shown are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make a fair statement of the results for the three and six months ended June 30, 1997 and 1996. All such adjustments are of a normal recurring nature.

(2) BUSINESS ORGANIZATION AND PURPOSE

The financial statements presented herein are for LCI International, Inc., a Delaware corporation, and its subsidiaries (collectively LCI or the Company). Included are the condensed consolidated statements of operations for the three and six months ended June 30, 1997 and 1996, the condensed consolidated balance sheets as of June 30, 1997 and December 31, 1996, the condensed consolidated statement of shareowners' equity for the six months ended June 30, 1997, and the condensed consolidated statements of cash flows for the six months ended June 30, 1997 and 1996.

LCI is a facilities-based telecommunications company that provides voice and data transmission services to residential and business customers, as well as other telecommunications carriers, throughout the United States and international locations. The Company serves its customers through owned and leased digital fiber-optic facilities (the Network).

(3) ACCOUNTING POLICIES

Note 2 of the Notes to Consolidated Financial Statements in LCI's 1996 Annual Report to Shareowners summarize the Company's significant accounting policies.

PRINCIPLES OF CONSOLIDATION. The accompanying Condensed Consolidated Financial Statements (Unaudited) include the accounts of LCI and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated.

WEIGHTED AVERAGE NUMBER OF COMMON SHARES. For all periods presented, the weighted average number of common shares includes the Company's Common Stock, par value $.01 per share (Common Stock), and the impact of Common Stock equivalents using the treasury stock method. For 1996, the weighted average number of common shares includes the actual common shares issued for the conversion of previously outstanding 5% Cumulative Convertible Exchangeable Preferred Stock, par value $.01 per share (Preferred Stock) and the assumed conversion of any remaining Preferred Stock outstanding during the period.

EARNINGS PER COMMON SHARE. For the three and six months ended June 30, 1997 and 1996, earnings per common share is calculated as net income before preferred dividends divided by the weighted average number of common shares, as defined above. Primary earnings per common share were not materially different from fully diluted earnings per share, for the three and six months ended June 30, 1997 and 1996.

(4) ACCOUNTS RECEIVABLE SECURITIZATION

Under the Company's agreement to sell trade accounts receivable (Securitization Program), LCI SPC I, Inc. (SPC), a bankruptcy-remote subsidiary of the Company, sells accounts receivable. Receivables sold are not included in the accompanying condensed consolidated balance sheets as of June 30, 1997 and December 31, 1996. SPC had approximately $122.0 million of accounts receivable available for sale and had sold, but not yet collected, a total of $73.1 million as of June 30, 1997. The Company retains substantially the same risk of credit loss as if the receivables had not been sold, and has established reserves for such estimated credit losses.

Under the Securitization Program, the Company acts as agent for the purchaser of the receivables by performing recordkeeping and collection functions on the participation interest sold. The agreement also contains certain covenants regarding the quality of the accounts receivable portfolio, as well as financial covenants which are substantially identical to those contained in the Company's Revolving Credit Facility (See Note 5). Except in certain limited circumstances, SPC is subject to certain contractual prohibitions concerning the payment of dividends and the making of loans and advances to LCI.

(5) LONG-TERM DEBT

On June 23, 1997, the Company issued $350 million of 7.25% Senior Notes (Notes), which mature on June 15, 2007. The net proceeds from the issuance of the Notes were used to repay outstanding indebtedness and for working capital and general corporate purposes.

The Company also has a $700 million Revolving Credit Facility (Credit Facility) from a syndicate of banks. The amount that can be borrowed under the Credit Facility is subject to reduction based on the outstanding balance beginning on June 30, 1998 until maturity on June 30, 2001. This Credit Facility bears interest at a rate consisting of two components: The base rate component is dependent upon a market indicator; the second component varies from 0.625% to 1.5% based on the relationship of the level of borrowings to operating cash flow (leverage ratio). As of June 30, 1997, the Company had no outstanding balance under the Credit Facility. The Credit Facility contains various financial covenants, the most restrictive being the leverage ratio requirement. As of June 30, 1997, the Company was in compliance with all Credit Facility covenants.

The Company has an interest rate cap agreement to manage interest rate risk on the Credit Facility. The agreement limits the base interest rate exposure to 7.5% on $130 million notional principal balance of the Credit Facility. In the event of non-performance by the syndicate banks, the Company would be obligated to make the contractual payments under the Credit Facility, and would have exposure to the extent of any increase in the base rate component above 7.5%. The Company believes the probability of such an event is remote.

(6) COMMITMENTS AND CONTINGENCIES

VENDOR AGREEMENTS. The Company has agreements with certain telecommunications interexchange carriers and third party vendors that require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has a five-year contract with a particular third party carrier that began in August 1995. This contract has minimum annual usage requirements and an increasing cumulative minimum usage requirement, which if not met, subject the Company to an underutilization charge. Through June 30, 1997, the Company has exceeded the cumulative minimum annual usage of $103 million established for the second year. The Company's minimum monthly billing commitments under all other vendor and carrier agreements are approximately $5 million through the end of 1997. The Company has historically met all minimum billing requirements and believes the minimum usage commitments will continue to be met.

CAPITAL REQUIREMENTS. During 1997, the Company expects its nonbinding commitment for capital expenditures, which is dependent on the Company's geographic and revenue growth, to increase from the level expended in 1996. The Company's capital requirements are primarily for switching and transmission facilities and technology platforms arising from the Company's strategic expansion plans.

In addition to its ongoing capital requirements, the Company has entered into agreements to extend its fiber-optic network. These commitments will extend the Network throughout the United States, and are expected to require incremental capital expenditures of approximately $155 million. The timing of payments will depend on the delivery and acceptance of the facilities, which is expected to occur in the second half of 1997 and the first half of 1998.

LEGAL MATTERS. Thomas J. Byrnes and Richard C. Otto v. LCI Communications Holdings Co. et al. was filed by two former members of the Company's management on June 28, 1991 in Common Pleas Court, Franklin County, Ohio. During 1993, a jury returned a verdict in favor of the Plaintiffs. The Company ultimately appealed the matter to the Supreme Court of Ohio, which found that, as a matter of law, there was insufficient evidence to sustain the verdict for the Plaintiffs. On June 23, 1997, the United States Supreme Court (the Court) denied the Plaintiffs' Petition for Writ of Certiorari asking the Court to review the case. The matter has been dismissed with no further impact on the Company's results of operations or financial condition.

The Company also has been named as a defendant in various other litigation matters. Management intends to vigorously defend these outstanding claims. The Company believes it has adequate accrued loss contingencies and, that although the ultimate outcome of these claims cannot be ascertained at this time, current pending or threatened litigation matters will not have a material adverse impact on the Company's results of operations or financial position.

(7) SHAREOWNERS' EQUITY

RIGHTS AGREEMENT AND PREFERRED STOCK. In January 1997, the Company adopted a rights agreement (Rights Agreement), designed to ensure that its shareowners receive fair and equal treatment in the event of any proposed takeover of the Company. One preferred share purchase right (Right) has been attached to each share of the Company's Common Stock, and until distributed, may be transferred only with the Common Stock. The Rights will be distributed and become exercisable only in the event that any person or entity, together with its affiliates or associates, acquires more than a certain percentage of Common Stock of the Company. As of June 30, 1997, no such preferred stock was issued or outstanding.

COMMON STOCK. The Company has stock option plans under which options to purchase shares of Common Stock may be granted to directors and key employees. During the six months ended June 30, 1997, the Company granted options to purchase 2.2 million shares of Common Stock. The option price for all options granted was the fair market value of the shares on the date of grant. The Company issued 0.7 million shares of Common Stock during the six months ended June 30, 1997 pursuant to options exercised under all stock option plans.

The Company also has an Employee Stock Purchase Plan and a defined contribution plan for its employees, which allow participants to invest in Common Stock of the Company. The Company issued a total of 0.2 million shares of Common Stock under these plans for the six months ended June 30, 1997.

(8) INCOME TAXES

The provision for income taxes for the three and six months ended June 30, 1997 and 1996, consists of:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	1997	1996	1997	1996
Current tax expense:				
Federal	$0.3	$0.5	$1.0	$0.9
State	0.1	0.2	0.4	0.4
Total current tax expense	0.4	0.7	1.4	1.3
Deferred tax expense:				
Increase in deferred tax liabilities	14.5	1.2	15.7	1.4
(Increase) decrease in deferred tax assets	(0.7)	9.0	10.8	17.6
Decrease in valuation allowance, net	--	(1.4)	--	(2.6)
Total deferred tax expense	13.8	8.8	26.5	16.4
Total income tax expense	$14.2	$9.5	$27.9	$17.7

The effective income tax rate reconciliation for the three and six months ended June 30, 1997 and 1996, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
Expected tax at Federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
Effect of:				
State income tax expense	4.0	5.0	4.0	5.0
Non-deductible expenses	1.2	1.5	1.3	1.5
Decrease in valuation allowance, net	--	(5.0)	--	(5.1)
Other, net	(0.2)	(1.5)	(0.3)	(1.4)
Effective income tax rate	40.0%	35.0%	40.0%	35.0%

The effective tax rate of 40% and 35% for the six months ended June 30, 1997 and 1996, respectively, represents the Company's estimated effective tax rate for the period. This effective tax rate is evaluated quarterly based on the Company's estimate of future taxable income.

The Company has generated net operating losses (NOLs) that may be used to offset future taxable income. Each NOL has a 15-year carryforward period. The Company's ability to fully use its NOL carryforwards is dependent upon future taxable income. As of June 30, 1997, the Company had NOL carryforwards for income tax purposes of $66.7 million, subject to various expiration dates from 2000 to 2010. The Company believes the utilization of its NOLs is likely.

The Company's deferred income tax balances include $37.2 million in current deferred tax assets, net and $64.4 million in other noncurrent liabilities as of June 30, 1997. As of December 31, 1996, deferred income tax balances included $48.9 million in current deferred tax assets, net and $53.4 million in other noncurrent liabilities.

(9) EARNINGS PER SHARE

In February 1997, Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings per Share" was issued, which changes the method used to calculate earnings per share. Implementation of SFAS 128 is required for financial statements issued for periods ending after December 15, 1997, including interim periods; earlier adoption is not permitted. Pro forma information in accordance with SFAS 128 is:

	FOR THE THREE MONTHS ENDED JUNE 30, 1997		
(in millions, except per share amounts)	Income	Shares	Per Share Amount
Net income	$21.4		
Less: preferred stock dividends	--		
Basic Earnings per Share:			
Income available to common shareowners	21.4	78.2	$0.27
Effect of Dilutive Securities:			
Stock options	--	2.8	
Warrants	--	4.4	
Diluted Earnings per Share:			
Income available to common shareowners plus assumed conversions	$21.4	85.4	$0.25

	FOR THE SIX MONTHS ENDED JUNE 30, 1997		
	Income	Shares	Per Share Amount
Net income	$41.9		
Less: preferred stock dividends	--		
Basic Earnings per Share:			
Income available to common shareowners	41.9	77.9	$0.54
Effect of Dilutive Securities:			
Stock options	--	2.9	
Warrants	--	4.4	
Diluted Earnings per Share:			
Income available to common shareowners plus assumed conversions	$41.9	85.2	$0.49

Options to purchase 2.2 million and 2.3 million shares of Common Stock were outstanding but were not included in the computation of diluted earnings per share during the three months or the six months ended June 30, 1997, respectively. The options were excluded because the exercise price of such options was greater than the average market price of the Common Stock for the period.

(9) EARNINGS PER SHARE (CONTINUED)

(in millions, except per share amounts)	Income	Shares	Per Share Amount
FOR THE THREE MONTHS ENDED JUNE 30, 1996			
Net income	$17.7		
Less: preferred stock dividends	(0.9)		
Basic Earnings per Share:			
Income available to common shareowners	16.8	70.0	$0.24
Effect of Dilutive Securities:			
Stock options	--	5.7	
Warrants	--	4.7	
Convertible Preferred Stock	0.9	6.8	
Diluted Earnings per Share:			
Income available to common shareowners plus assumed conversions	$17.7	87.2	$0.20
FOR THE SIX MONTHS ENDED JUNE 30, 1996			
	Income	Shares	Per Share Amount
Net income	$33.0		
Less: preferred stock dividends	(2.3)		
Basic Earnings per Share:			
Income available to common shareowners	30.7	67.5	$0.45
Effect of Dilutive Securities:			
Stock options	--	5.3	
Warrants	--	4.7	
Convertible preferred stock	2.3	9.2	
Diluted Earnings per Share:			
Income available to common shareowners plus assumed conversions	$33.0	86.7	$0.38

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LCI International, Inc., together with its subsidiaries (LCI or the Company), is a facilities-based telecommunications carrier that provides a broad range of domestic and international telecommunications services, including long-distance, data and local services. The Company targets all markets - retail and wholesale business, residential and local - and sells through a variety of channels, including an internal sales force and external channels. The Company serves its customers primarily through owned and leased digital fiber-optic facilities, including switches strategically located throughout the United States. Collectively, these facilities constitute the Company's network (the Network).

INDUSTRY ENVIRONMENT

Historically, the Company has operated in the $80 billion long-distance telecommunications industry. Recent legislative and regulatory activity is designed to create one telecommunications industry to encompass both long-distance and local telecommunications services. The Company intends to provide combined local and long-distance services to compete in what is estimated to be a $150 billion combined market. The current industry environment subjects the Company to varying degrees of legislative and regulatory oversight on both the national and state levels. The following developments in the legislative and regulatory environment can impact the nature and degree of competition in the telecommunications industry.

LEGISLATIVE MATTERS

Telecommunications Act of 1996. In February 1996, the Telecommunications Act of 1996 (the Act) was enacted to increase competition in the long-distance and local telecommunications industries. The legislation opens competition in the local services market and, at the same time, contains provisions intended to protect consumers and business from unfair competition by incumbent local exchange carriers (LECs), including the regional Bell operating companies (RBOCs). The Act allows RBOCs to provide long-distance service outside of their local service territories but bars them from immediately offering in-region long-distance services between local access transport areas (interLATA) until certain conditions are met. An RBOC must apply to the Federal Communications Commission (FCC) to provide in-region interLATA long-distance services and must satisfy a set of pro-competitive criteria intended to ensure that RBOCs open their own local markets to competition before the FCC will approve such application. Further, while the FCC has final authority on whether an RBOC application is granted, the FCC must consult with the Department of Justice (DOJ) to determine if, among other things, the entry of the RBOC would be in the public interest, and with the relevant state to determine the pro-competitive criteria have been met.

On July 2, 1997, SBC Communications Inc. (SBC) and its local exchange carrier subsidiaries filed a lawsuit in the United States District Court for the Northern District of Texas challenging on constitutional grounds the restrictions contained in the Act applicable to RBOC's only. The plaintiffs in the case seek both a declaratory judgment and an injunction against the enforcement of the challenged provisions. If SBC's challenge were to succeed, it could result in all RBOCs entering the in-region interLATA long-distance market throughout the country.

The Act provides a framework for the Company and other long-distance carriers to compete with LECs by reselling local telephone service, interconnecting with LEC network facilities at various points in the network (i.e., unbundled network elements) or building new local-

service facilities. The Company has signed local-service agreements with Ameritech, Bell South, Pacific Telesis and NYNEX, in several states, and is currently in formal negotiations with several other LECs. LCI intends to vigorously compete in the local service market. Initially, the Company will provide local service to customers on a bundled resale basis. However, the Company is currently testing the provisioning of local service through the recombination of unbundled network elements with Ameritech and NYNEX. The Company could also decide in the future to build local service facilities or use a competitive access provider to provide local service. The Company's decision on the timing and method of providing local service is dependent on the economic viability of its options and the outcome of several regulatory proceedings, which may differ state-by-state.

REGULATORY MATTERS

In order to implement the Act, the FCC was required to undertake a variety of regulatory actions, which impact competition in the telecommunications industry. Certain of these regulatory actions are described below.

Interconnection Order. In August 1996, the FCC adopted the Interconnection Order (the Order) which established a minimum national framework relating to the manner in which new entrants seeking entry into local services markets would be able to interconnect with the LECs. The Order covered several important interconnection issues including, unbundled local network elements purchases, resale discounts and arbitration procedures between LECs and interexchange carriers. Under the Order, state regulatory commissions would have an important role implementing and applying local interconnection policies, rules and procedures.

Several states, companies, associations and other entities appealed the Order. On July 18, 1997, the United Stated Court of Appeals for the Eight Circuit (the Court) overturned many of the rules established in the FCC's Interconnection Order governing, among other things, the pricing of interconnection, resale, and unbundled network elements. In addition, the Court overturned the "pick and choose" rule, which would have allowed new entrants to receive the benefit of the most favorable provisions contained in a LEC's interconnection agreements with other carriers. The Court decision substantially limits the FCC's jurisdiction and expands the state regulators' jurisdiction to set and enforce rules governing the development of local competition. As a result, it is more likely that the rules governing local competition will vary substantially from state to state. If a patchwork of state regulations were to develop, it could make competitive entry in some markets more difficult and expensive than in others and could increase the costs of regulatory compliance associated with local entry.

The FCC has announced its intent to appeal the Court's ruling to the United States Supreme Court and other parties are also expected to appeal the Court's decision. Because of the uncertainty regarding the outcome of any forthcoming appeals and how various state commissions will seek to facilitate local competition, the Company is unable to predict what impact the Court's decision will have on LCI's ability to offer competitive local service.

Bell Operating Company (BOC) Applications to Provide In-Region interLATA Long-Distance. On January 2, 1997, Ameritech Michigan became the first BOC to apply for authority to provide in-region interLATA service. Ameritech Michigan withdrew its application on February 11, 1997, after the FCC struck from the record the interconnection agreement between Ameritech and AT&T which formed the basis for the application. On May 21, 1997, Ameritech Michigan refiled its application for in-region interLATA authority in Michigan. That application is currently pending.

On April 11, 1997, SBC applied to the FCC for authority to provide in-region interLATA service in Oklahoma. On June 26, 1997, the FCC released an order rejecting SBC's application on the grounds that SBC had not demonstrated either that SBC had entered into an approved interconnection agreement with a facilities-based competitive local exchange carrier (CLEC), nor had a CLEC requested interconnection as of the statutory deadline. On July 3, 1997, SBC filed an appeal of the June 26, 1997 order with United States Court of Appeals for the District of Columbia. That appeal is currently pending. The Company expects the other RBOCs to apply for in-region interLATA long distance authority.

Access Charge Reform. In December 1996, the FCC proposed changes to access charges levied by LECs on long-distance service carriers. Access charges currently represent approximately one-half of the revenues for the long-distance telecommunications industry. The FCC's intention is to require the charges for access services to be consistent with actual economic cost.

On May 16, 1997, the FCC released its Access Charge Reform Order, which revised rules governing interstate switched access charge rate structures. The new rules are intended to eliminate implicit subsidies and to establish rate structures that better reflect the manner in which costs are incurred. The new rules substantially increase the costs that price cap LECs recover through monthly, non-traffic sensitive access charges and substantially decrease the costs that price cap LECs recover through traffic sensitive access charges. The manner in which the FCC implements its approach to lowering access charge levels will have a material effect on the prices the Company pays for originating and terminating interstate traffic. Based on the Access Charge Reform Order, LCI currently expects that its monthly switched access costs will decrease during the remainder of 1997 and the first half of 1998. Beginning on July 1, 1998, however, LCI believes that the access charge structure recommended by the FCC will provide a less favorable cost structure for the Company than that of LCI's three largest long-distance competitors. Various parties have filed petitions for reconsideration with the FCC and some parties, including LCI, have appealed the FCC's order. In light of the uncertainty regarding the FCC's and any court's ultimate actions in these proceedings, the Company is unable to predict what impact the FCC's revised access charge scheme will have on the Company's access charge cost structure.

Universal Service. On May 8, 1997, the FCC released an order establishing a significantly expanded federal telecommunications subsidy regime. For example, the FCC established new subsidies for schools and libraries with an annual cap of $2.25 billion and for rural health care providers with an annual cap of $400 million. Providers of interstate telecommunications service, such as the Company, as well as certain other entities, must pay for the federal programs. The Company's share of the schools, libraries and rural health care funds will be based on its share of the total industry telecommunications service and certain defined telecommunications end user revenues. The Company's share of all other federal subsidy funds will be based on its share of the total interstate (including certain international) telecommunications service and certain defined telecommunications end user revenues. Several parties have appealed the May 8, 1997 order, and those appeals have been transferred and consolidated in the United States Court of Appeals for the Fifth Circuit.

Payphone Compensation. In September, 1996, the FCC adopted rules to implement the Act's requirement establishing "a per call compensation plan to ensure all payphone service providers are fairly compensated for each and every completed call using their payphone." This order included a specific fee to be paid to each payphone service provider by long-distance carriers and interLATA toll providers (including LECs) on all "dial around" calls, including debit card and calling card calls. Several parties, including LCI, appealed the FCC's rules. On July 1, 1997, the United States Court of Appeals for the D.C. Circuit overturned some of the FCC rules for the implementation plan.

In addition, the court found unlawful both the methodology used to determine the long-distance carriers' payment obligations and the absence of any compensation for some types of payphones and services. These issues have been remanded to the FCC. Although the Company expects to incur additional costs to carry "dial-around" calls that originate from payphones, the Company is unable to predict what impact the payphone rules will have on the Company's costs for such calls until the FCC adopts revised payphone compensation rates based on the Court's ruling.

RBOC Mergers. The proposed merger of Bell Atlantic and NYNEX announced on April 22, 1996 has been approved by various state commissions and the DOJ. The FCC, however, has not yet approved the proposed merger.

On July 19, 1997, Bell Atlantic and NYNEX proposed a set of commitments to the FCC that are designed to secure approval of the companies' merger. It has been reported that three of the four FCC commissioners have endorsed the merger as a result of the proposed commitments, but no formal FCC ruling has been issued. LCI believes the proposal is deficient in many regards. Specifically, LCI believes that Bell Atlantic and NYNEX must publicly disclose their current level of service they are providing for each measurement category. In addition, the measurement formulas and default performance intervals should be disclosed and Bell Atlantic and NYNEX should provide such level of service to all of their competitors. This information is necessary to ensure competitors are receiving local service at parity with what Bell Atlantic and NYNEX are currently providing their customers. At this time, LCI is unable to predict what impact, if any, the Bell Atlantic/NYNEX merger and accompanying proposal will have on local and long-distance competition.

Petition For Expedited Rulemaking. On May 30, 1997, LCI and the Competitive Telecommunications Association (CompTel) jointly filed a Petition For Expedited Rulemaking requesting the FCC to establish performance standards for LECs to meet the operations support systems (OSS) requirements of the Act and applicable FCC regulations. The OSS requirements are critical because they provide competitors with the necessary access to the LECs' internal systems to ensure competitors obtain local service at the same level of quality that LECs are currently providing to their customers. In its comments, LCI proposed that an industry group consisting of local and long-distance carriers, trade associations and regulators be given approximately six weeks to establish measurement categories, measurement formulas and default performance intervals for several OSS categories. On June 10, 1997, the FCC issued a public notice requesting comments on LCI's petition. Numerous parties, including the California Public Service Commission, Wisconsin Public Service Commission, and the National Association of Regulatory Utilities Commissioners, filed comments in support of LCI's petition.

Local Service. The Company is involved in state regulatory proceedings in various states to secure approval to resell local service, which would enable the Company to provide combined local and long-distance services to existing and prospective customers. As of June 30, 1997, the Company has received approval to resell local service in 26 states and the District of Columbia.

and has applications for local service authority pending in another 14 states. The Company is currently reselling local telecommunications service in 22 markets.

COMPETITION

The long-distance telecommunications market is highly competitive. The principal competitive factors affecting the Company's market share are pricing, regulatory developments (as described above), customer service, and diversity of services and features. The Act is expected to change the nature of the industry by allowing carriers other than incumbent LECs to provide local service while permitting RBOCs to provide long-distance services. As a result, the Company expects competition within the industry to increase in both the long-distance and local service markets.

Several of the Company's competitors are substantially larger and have substantially greater financial, technical and marketing resources. As the Company grows, it expects to face increased competition, particularly from AT&T, MCI and Sprint. The Company also competes with hundreds of other long-distance carriers, as well as LECs, in various types of telecommunications services. The Company's principal pricing strategy is to offer a simple, flat-rate pricing structure with rates generally below those of AT&T, MCI and Sprint. Although LCI is prepared to respond to competitive offerings from other carriers, the Company continues to believe that its "Simple, Fair and Inexpensive" marketing and service pricing approach is very competitive in retaining existing customers, as well as obtaining new customers. The Company's ability to compete effectively will depend on maintaining exceptional customer service and high quality, market-driven services at prices generally equal to or below those charged by its major competitors.

The Company experienced an increase in its sales allowance in 1997, reflected as a charge to gross revenue, as a result of the growth in revenue and a shift in the customer mix toward the residential/small business service segment. A significant portion of the residential/small business accounts receivable balance is billed and collected through LECs. The Company receives information from the LECs about uncollectible accounts three to thirteen months after the account is billed. Due to the delay in information from the LECs, the Company is continually updating its estimated liability for future uncollectible accounts and has increased sales allowance to include a higher estimate for these LEC billed receivables.

The Company uses a variety of channels to market its services. In addition to its internal sales force, the Company uses a combination of other channels, such as advertising and third party sales agents. For certain third party sales agents, compensation is paid to agents in the form of an ongoing commission based upon collected revenue attributable to customers signed up by the agents to use the Company's long-distance services. The Company retains responsibility for the customer relationship, including billing and customer service. American Communications Network, Inc., a nationwide network of third party sales agents, continued to be the largest and most successful of the Company's sales agents for residential/small business customers. The Company has, however, expanded its sales presence across the country using a variety of channels.

GROSS MARGIN. The Company's gross margin increased 24% to $138.9 million and 26% to $270.0 million for the three and six months ended June 30, 1997, respectively, as compared to the same periods in 1996. During the three and six months ended June 30, 1997, gross margin as a percentage of revenue decreased to 41.0% and increased to 41.3%, respectively, from 41.5% and 41.1% for the same periods in 1996, respectively. The quarter-over-quarter decrease as a percentage of revenue reflects a shift in revenue mix to high volume customers with slightly lower gross margins per MOU as well as continued competitive pricing pressures. The increase in the year-over-year gross margin as a percentage of revenue for the six months period in 1997 reflects Network efficiencies due to the routing of higher cost off network traffic on to the Company's fixed cost Network, as well as increased MOUs which have allowed for cost effective purchases of long-haul capacity generating economies of scale. The Company has controlled the cost per MOU during periods of high volumes of MOUs as a result of Network efficiencies and optimization techniques.

The Company's fiber expansion planned for the second half of 1997 and early 1998, will temporarily result in redundant facilities and increased costs during a period of transitioning traffic from current leased facilities to the new owned facilities. However, once this transition is completed, which is expected to be in early 1998, the Company will realize a lower cost of service. The Company continues to evaluate strategies to reduce its cost of services, improve the reliability and efficiency of the Network, and pursue opportunities to reduce its cost of service per MOU.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 24% to $76.3 million and 25% to $147.8 million for the three and six months ended June 30, 1997, respectively, as compared to the same periods in 1996. As a percentage of revenues, selling, general and administrative expenses were 22.5% and 22.6% for the three and six months ended June 30, 1997, respectively, as compared to 22.8% and 22.7% for the same periods in 1996, respectively. Annualized revenue per employee has remained at approximately $500,000 per employee through the first half of 1997.

The Company's selling, general and administrative expense increases year-over-year were substantially impacted by payroll and commissions. Payroll expenses increased $6.3 million and $12.1 million for the three and six months ended June 30, 1997, respectively, as compared to an increase of $9.4 million and $17.8 million for the same periods in 1996, respectively. The increase in payroll expenses resulted from increased headcount for sales and customer support activities to directly support revenue growth.

The increase in selling, general and administrative expenses includes a $4.5 million and $8.5 million increase in commission expense for the three and six months ended June 30, 1997, respectively, over the comparable prior periods. The growth in residential/small business revenue sold by third party sales agents with an ongoing commission impacted commission expense. The costs incurred for third party sales agents' commissions primarily replace other variable marketing and selling expenses for this revenue segment.

The Company anticipates an incremental increase in selling, general and administrative expenses due to the expansion of its geographic sales presence and its entrance into the local service market. The Company also expects continued increases in selling, general and administrative expenses as a result of the growth in the residential/small business segment, which incurs higher proportional costs but also provides a higher gross margin than other segments. During the six months ended June 30, 1997, the growth in selling, general, and administration expenses has been less than revenue growth, which reflects productivity and operating efficiencies.

DEPRECIATION AND AMORTIZATION EXPENSE. Depreciation and amortization expense for the three and six months ended June 30, 1997 was $20.0 million and $38.7 million, respectively. The increase reflects the investments made in infrastructure for sales, customer service and other service delivery systems in support of the Company's growth in revenues and MOUs. The Company anticipates that depreciation and amortization will continue to increase due to investments in new technology that have shorter depreciable lives than the Company's previous asset base. Depreciation and amortization expense as a percentage of revenues remained at 6% for both the three and six months ended June 30, 1997, as compared to 6% for the same periods in 1996.

OPERATING INCOME. Operating income increased 23% to $42.6 million and 27% to $83.5 million for the three and six months ended June 30, 1997, respectively, over the same periods in 1996. Operating income for the six months ended June 30, 1997 grew at a faster rate than the growth in revenues during this period, reflecting efficient management of Network and selling, general and administrative expenses during a period of significant growth in revenues and MOUs. As a percentage of revenues, operating income remained consistent at 13% for both the three and six months ended June 30, 1997.

INTEREST AND OTHER EXPENSE, NET. Interest and other expense, net of capitalized interest, decreased to $7.0 million and $13.7 million for the three and six months ended June 30, 1997, respectively, compared to $7.5 million and $15.1 million for the same periods in 1996, respectively. The Company was able to reduce the level of outstanding debt during the six months ended June 30, 1997 compared to the same period in 1996, as a result of strong operating cash flow and the Securitization Program established in August 1996 (See Note 4 to the Condensed Consolidated Financial Statements). Through the Securitization Program, the Company reduced its long-term debt and thereby reduced the Company's leverage ratio. The decrease in the leverage ratio resulted in a reduction in the interest rate paid on the Company's Revolving Credit Facility (Credit Facility) and accordingly decreased interest expense year-over-year. Interest expense for

the quarter included eight days of interest from the newly issued debt securities. Interest expense is expected to increase due to a higher rate of the interest associated with the debt securities compared to the short-term rates currently available under existing facilities, as well as higher average borrowings during the second half of 1997. As a result of issuing fixed-rate securities, however, the interest rate on the Company's debt is less sensitive to market rate fluctuations.

INCOME TAX EXPENSE. Income tax expense was $14.2 million and $27.9 million for the three and six months ended June 30, 1997, respectively, as compared to $9.5 million and $17.7 million for the same periods in 1996, respectively. The Company's net operating loss (NOL) carryforwards for financial statement purposes were fully utilized in 1996. As a result, the Company's estimated effective tax rate increased to 40% in 1997 from 35% in 1996. The increase in income tax expense was a result of an increase in the estimated effective tax rate and the growth in earnings before taxes. The Company analyzes its effective tax rate on a quarterly basis.

PREFERRED DIVIDENDS. The Company's previously outstanding shares of 5% Cumulative Convertible Exchangeable Preferred Stock (Preferred Stock) was redeemed on September 3, 1996, thereby eliminating the corresponding preferred dividend payments. The annual saving from the eliminated dividend payments is approximately $5.8 million, based upon the original 4.6 million shares issued in August 1993.

LIQUIDITY AND CAPITAL RESOURCES

LCI International, Inc. (LCI) is a holding company and conducts its operations through its direct and indirect wholly-owned subsidiaries. LCI SPC I, Inc. (SPC), a wholly-owned subsidiary of LCI, was formed to facilitate the Securitization Program. Except in certain limited circumstances, SPC is subject to contractual restrictions on the payment of cash dividends, or making loans and advances to LCI. There are however, no restrictions on the movement of cash among the Company and the other subsidiaries in the consolidated group. The Company's discussion of its liquidity is based on the consolidated group.

CASH FLOWS - OPERATING ACTIVITIES. The Company provided $35.9 million of cash from operations for the six months ended June 30, 1997, compared to $68.0 million for the same period in 1996. Excluding the net securitization activity, cash from operations was $74.8 million for the six month period ended June 30, 1997. The Company continues to show growth in revenues and net income as well as strong working capital results.

CASH FLOWS - INVESTING ACTIVITIES. The Company has supported its growth strategy with capital expenditures and acquisitions, resulting in $124.2 million in cash used for investing activities during six months ended June 30, 1997. The decrease of $57.9 million compared to the same period in the prior year, was due to $118.1 spent on acquisitions in the first half of 1996. During the six months ended June 30, 1997, the Company spent $116.4 million in capital expenditures to acquire additional switching, transmission and distribution capacity, as well as to develop and license information systems support, representing an increase of $52.4 million from the same period in 1996.

CASH FLOWS - FINANCING ACTIVITIES. Financing activities provided a net $118.5 million for the six months ended June 30, 1997, compared with $114.1 million during the same period in 1996. On June 23, 1997, the Company received proceeds of $350 million for the issuance of long-term debt (see Capital Resources below) and the proceeds were used, in part, to repay short-term

indebtedness. The first half of 1996 required higher borrowings for acquisitions. There were no comparable acquisitions in the six months ended June 30, 1997.

CAPITAL RESOURCES. On June 23, 1997, the Company issued $350 million of 7.25% Senior Notes (Notes), which mature on June 15, 2007. The net proceeds from the issuance of the Notes were used to repay outstanding indebtedness and for working capital and general corporate purposes.

As of June 30, 1997, the Company had $30.2 million in cash and cash equivalents from the remaining proceeds of the Note issuance. The cash balance resulted from the timing of receipt and use of the proceeds to repay indebtedness. The remaining Note proceeds were fully used in July 1997.

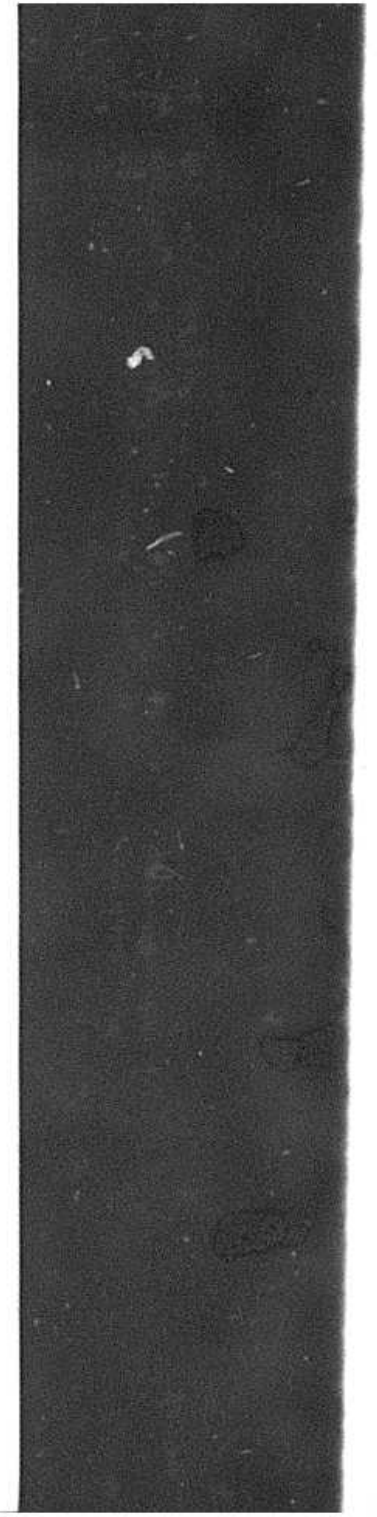
The Company has a $700 million Credit Facility with a syndicate of banks, which allows the Company to borrow funds on a daily basis. As a result, the Company uses its available cash to reduce the balance of its borrowings and usually maintains no cash on hand. As of June 30, 1997, there was no outstanding balance on the Credit Facility due to the application of Notes proceeds. The amount that can be borrowed under the Credit Facility is subject to reduction based on the outstanding balance beginning June 30, 1998 until maturity on June 30, 2001. The interest rate on the debt outstanding is variable based on several indices (See Note 5 to the Condensed Consolidated Financial Statements). The Credit Facility contains certain financial and negative covenant requirements. As of June 30, 1997, the Company was in compliance with all covenants.

The Company has two separate Discretionary Line of Credit Agreements (Lines of Credit) with commercial banks for a total of $50 million. The Lines of Credit provide flexible short-term borrowing facilities at competitive rates dependent upon a market indicator. Any outstanding balance is reflected in long-term debt in the accompanying consolidated balance sheets due to the availability under the Credit Facility to repay such balances. As of June 30, 1997, there was no outstanding balance on the Lines of Credit.

The Company maintains a Securitization Program to sell a percentage ownership interest in a defined pool of the Company's trade accounts receivable. The Company can transfer an undivided interest in a designated pool of accounts receivable on an ongoing basis to maintain the participation interest up to $150 million. At June 30, 1997, the pool of trade accounts receivable which was available for sale was approximately $122.0 million and the amount of receivables sold was $73.1 million.

CAPITAL REQUIREMENTS. During 1997, the Company expects that its non-binding commitment for capital expenditures, which is dependent on the Company's geographic and revenue growth, to increase from 1996 levels. These capital requirements are primarily for switching and transmission facilities, technology platforms and information systems applications.

In addition to its ongoing capital requirements, the Company has entered into agreements to extend its owned fiber-optic network across the United States. The Company will make payments of approximately $155 million for the fiber-optic network expansion. The timing of payments will depend on the delivery and acceptance of the facilities, which is expected to occur in the second half of 1997 and the first half of 1998. The Company believes it has adequate cash flow and borrowing capacity under its Credit Facility to fund planned capital expenditures.



IMPACT OF SEASONALITY. The Company's revenue is subject to seasonal variations based on each business segment. Use of long-distance services by commercial customers is typically lower on weekends throughout the year, and in the fourth quarter due to holidays. As residential/small business revenue increases as a proportion of the Company's total revenues, the seasonal impact due to changes in commercial calling patterns should be reduced. The Company is unable to predict the revenue impact of a shift to a larger residential customer base.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 - SAFE HARBOR CAUTIONARY STATEMENT. This report contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 (the Reform Act). These forward-looking statements express the beliefs and expectations of management regarding LCI's future results and performance and include, without limitation, the following statements concerning the Company's future outlook; the Company's plans to enter the local service market; the effect of FCC and judicial rulings pertaining to the Telecommunications Act of 1996, local service competition and RBOC entry into the long-distance market; the impact of marketplace competition on pricing strategies and rates; expected revenue growth; the cost reduction strategies and opportunities to expand the Network which may allow for increased gross margin; the expected future interest rates; cost savings from the Securitization Program; funding of capital expenditures and operations; the Company's beliefs regarding a catastrophic service failure; and other similar expressions concerning matters that are not historical facts.

Such statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results, performance and/or achievements of the Company to differ materially from any future results, performance or achievements, expressed or implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements and any such statement is qualified by reference to the following cautionary statements. In connection with the safe harbor provisions of the Reform Act, the Company's management is hereby identifying important factors that could cause actual results to differ materially from management's expectations including, without limitation, the following: increased levels of competition in the telecommunications industry (including the competitive factors described in the Industry Environment), including RBOC entry into the interLATA long-distance industry and the corresponding impact on pricing; the adoption and application of rules and regulations implementing the Act, including the decisions of Federal and state regulatory agencies and courts interpreting and applying the Act; the ability to negotiate appropriate local service agreements with LECs; the timely delivery of planned Network expansions and other risks described from time to time in the Company's periodic filings with the Securities and Exchange Commission. The Company is not required to publicly release any changes to these forward-looking statements for events occurring after the date hereof or to reflect other unanticipated events.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Thomas J. Byrnes and Richard C. Otto v. LCI Communications Holdings Co. et al. was filed by two former members of the Company's management on June 28, 1991 in Common Pleas Court, Franklin County, Ohio. The suit alleged age discrimination by the Company, among other things. During 1993, a jury returned a verdict in favor of the Plaintiffs.

The Company ultimately appealed the matter to the Supreme Court of Ohio (the Court). On December 11, 1996, the Court found that, as a matter of law, there was insufficient evidence to sustain the verdict for Plaintiffs. In December 1996, the Plaintiffs filed with the Court a Motion for Reconsideration, which was denied by the Court in January 1997. On April 15, 1997, the Plaintiffs filed a Petition for Writ of Certiorari (Petition) asking the United States Supreme Court to review the case. On June 23, 1997, the United States Supreme Court denied the Plaintiffs' Petition and, therefore, the matter has been dismissed with no further impact on the Company's results of operations or financial condition.

Vanus James v. LCI International, Inc. et al. and American Communications Network, Inc. was commenced in late May 1995 in the Supreme Court, Kings County, New York. The plaintiff purported to bring a class action lawsuit against the Company, certain of its affiliates, and American Communications Network, Inc., one of the Company's sales agents. In March 1997, the court approved a settlement of this class action suit which became effective as of April 25, 1997. The Company expects the final resolution of this matter during 1997 and that the settlement will not have a material adverse impact on the Company's results of operations or financial condition.

The Company has also been named as a defendant in various other litigation matters incident to the character of its business. The Company believes it has adequate accrued loss contingencies with respect to all litigation matters and, although the ultimate outcome of these claims cannot be ascertained at this time, that current pending or threatened litigation matters will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 6, 1997, the Company held its Annual Meeting of Stockholders. There were 77,920,698 shares of Common Stock of the Company which could be voted at the meeting and 86% or 66,997,276 shares of Common Stock were represented at such meeting, in person or by proxy, which constituted a quorum. The results were as follows:

1. Election of two directors to serve for three-year terms until the 2000 Annual Meeting of Stockholders

	FOR	WITHHELD
William F. Connell	59,940,224	7,057,052
Julius W. Erving, II	59,874,126	7,123,150

Douglas M. Karp, George M. Perrin, H. Brian Thompson, John L. Vogelstein and Thomas J. Wynne continue to serve as directors of the Company. Richard E. Cavanagh was appointed to the Company's Board of Directors, to fill a vacancy, on May 5, 1997.

2. Approval of the 1997/1998 LCI International, Inc. Stock Option Plan:

FOR	AGAINST	ABSTAIN
53,494,836	13,266,572	199,793

3. Approval of the Executive Incentive Compensation Plan:

FOR	AGAINST	ABSTAIN
65,283,203	2,045,508	228,723

4. Ratification of the selection by the Board of Directors of Arthur Andersen LLP as the independent public accountants to audit the Company's consolidated financial statements for 1997:

FOR	AGAINST	ABSTAIN
66,511,120	187,049	95,064

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: The exhibits filed as part of this report are set forth in the Index of Exhibits on page 27 of this report.

(b) Reports on Form 8-K:

On June 6, 1997, the Company filed a report on Form 8-K to file a Statement of Eligibility under the Trust Indenture Act of 1939 relating to the Trustee for the Notes.

On June 17, 1997, the Company filed a report on Form 8-K to file the legality opinion relating to the Notes.

On June 20, 1997, the Company filed a report on Form 8-K for the Underwriting Agreement relating to the Notes.

On June 26, 1997, the Company filed a report on Form 8-K to file the Indenture relating to the Notes.

SIGNATURE

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

LCI INTERNATIONAL, INC.

DATE: August 14, 1997

BY: /s/ Joseph A. Lawrence

Joseph A. Lawrence

Chief Financial Officer, Senior Vice President Finance and Corporate Development

(as duly authorized officer and principal financial officer)

EXHIBIT INDEX

The following Exhibits are included in this Quarterly Report on Form 10-Q:

Exhibit Number	Exhibit Description
3(i)(a)	Amended and Restated Certificate of Incorporation (1)
3(i)(c)	Certification of Designation, Preferences and Rights of Junior Participating Preferred Stock (2)
3(ii)	Amended and Restated By-laws (3)
4(c)	Indenture, dated as of June 23, 1997, between LCI International, Inc. and First Trust National Association, as Trustee, Providing for the Issuance of Senior Debt Securities including Resolutions of the Pricing Committee of the Board of Directors establishing the terms of the 7.25% Senior Notes due June 15, 2007 (4)
10(l)(xxiii)	Employment Agreement, dated January 3, 1997, between LCI Management Services, Inc. and Anne K. Bingaman.
11	Statement Regarding Computation of Per Share Earnings
27	Financial Data Schedule

1 Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996.

2 Incorporated by reference from the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 1997.

3 Incorporated by reference from the Company's Annual Report on Form 10-K for the period ended December 31, 1996.

4 Incorporated by reference from the Company's Current Report on Form 8-K dated June 23, 1997.

EXHIBIT 10(l)(xxiii)

EMPLOYMENT AGREEMENT

This Employment Agreement is entered into as of January 3, 1997, between LCI International Management Services, Inc., a Delaware corporation (the "Company"), and Anne K. Bingaman ("Executive").

WHEREAS, Executive and the Company desire to embody in this Agreement the terms and conditions under which Executive shall be employed by the Company.

NOW, THEREFORE, the parties hereby agree:

ARTICLE I: Employment, Duties and Responsibilities

1.01 Employment. The Company hereby employs Executive as Senior Vice President of the Company and President of Local Services Division, effective as of the date of this Agreement. Executive hereby accepts such employment commencing on January 3, 1997.

1.02 Duties and Responsibilities. Executive shall have such duties and responsibilities as are customarily associated with his position and shall report to the Chief Executive Officer of the Company.

1.03 Base of Operation. Executive's principal base of operation for the performance of her duties and responsibilities under this Agreement shall be the offices of the Company currently located in McLean, Virginia; provided, however, that Executive will perform such duties and responsibilities at such places as shall from time to time be reasonably necessary to fulfill her obligations hereunder.

ARTICLE II: Term

2.01 Term.

(a) The term of this Agreement (the "Term") shall commence effective as of the date of this Agreement, shall continue for an initial period of two years (the "Initial Term") and shall continue for an additional two-year period (the "Second Term") unless the Company provides written notice of termination to the Executive at least 6 months before the end of the Initial Term. This Agreement may also be terminated as provided in Article V.

(b) Executive represents and warrants to the Company that, to the best of her knowledge, neither the execution and delivery of this Agreement nor the performance of her duties hereunder violates or will violate the provisions of any other agreement or obligation to which she is a party or by which she is bound.

ARTICLE III: Compensation and Expenses

3.01 Salary, Bonuses and Benefits. As compensation and consideration for the performance by Executive of her obligations under this Agreement, Executive shall be entitled to the following (subject, in each case, to the provisions of Article V hereof):

(a) The Company shall pay Executive a base salary during the Term, payable in accordance with the normal payment procedures of the Company and subject to such withholdings and other normal employee deductions as may be required by law, at the rate of Two Hundred Fifteen Thousand Dollars ($215,000) per year. The Company agrees to review such compensation not less frequently than annually during the Term.

(b) Executive shall be eligible to participate during the Term in such life insurance, health, disability and medical insurance benefits, and in such other employee benefit plans and programs, other than severance, for the benefit of the employees of the Company, as may be maintained from time to time during the Term, in each case to the extent and in the manner available to other senior executives of the Company and subject to the terms and provisions of such plan or program.

(c) Executive shall be entitled to a four-week paid vacation period (but not necessarily consecutive vacation weeks) during each year of the Term.

(d) Executive shall participate during the Term in such stock option, bonus and other executive compensation plans of the Company as may be established from time to time for similarly situated executives.

(e) Executive will participate in an executive compensation plan (the "Plan") pursuant to which the Company will pay Executive a quarterly cash bonus in an amount approved by the Compensation Committee of the Company's Board of Directors and determined by the Company's Chief Executive Officer. Executive will have an individual minimum incentive target bonus under the Plan of sixty-five percent (65%) of Executive's base salary, subject to the terms and conditions of the Plan.

(f) The Company will issue Executive options to purchase One Hundred and Twenty-Five Thousand (125,000) shares of its Common Stock pursuant to its 1995/1996 Stock Option Plan (the "Initial Options"). The exercise price of these options shall be the average of the high and low trading price of the Company's common stock on January 2, 1997. These options are contingent upon the approval of the grant by the Company's Compensation Committee and are subject to the following vesting: (i) 20% will vest and become exercisable on the first anniversary of the date of grant of the options, and (ii) the balance will vest and become exercisable at the rate of 1.66% per month on the last day of each month thereafter. Notwithstanding the foregoing vesting schedule, all unvested Initial Options originally granted will vest

and become immediately exercisable upon the occurrence of a Change of Control (as hereinafter defined)

For the purpose of this Agreement, a "Change in Control" will be considered to have occurred on (i) the date of the acquisition by any person, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934), other than E.M. Warburg, Pincus & Co., Inc. (or any entity controlling, controlled by or under common control with, directly or indirectly, E.M. Warburg, Pincus & Co., Inc.) of more than 50% of the then outstanding voting securities of the Company entitled to vote generally in the election of directors or (ii) the date the shareholders of the Company approve a merger or sale of all or substantially all of the assets of the Company.

(g) Executive shall be entitled to an annual executive perquisite allowance equal to 5% of Executive's base salary during the Term.

(h) Executive shall be entitled to an automobile allowance equal to Three Hundred Thirty Dollars ($330) each bi-weekly pay period during the Term.

3.02 Expenses. The Company will reimburse Executive for reasonable business-related expenses incurred by her in connection with the performance of her duties hereunder during the Term, subject, however, to the Company's policies relating to business-related expenses as in effect from time to time during the Term.

ARTICLE IV: Exclusivity, Etc.

4.01 Exclusivity. Executive agrees to perform her duties, responsibilities and obligations hereunder efficiently and to the best of her ability. Executive agrees that she will devote her entire working time, care and attention and best efforts to such duties, responsibilities and obligations throughout the Term. Executive also agrees that she will not engage in any other business activities, pursued for gain, profit or other pecuniary advantage, that are competitive with the activities of the Company, except as provided in Section 4.02 hereof. Executive agrees that all of her activities as an employee of the Company shall be in conformity with all present and future policies, rules and regulations and directions of the Company not inconsistent with this Agreement.

4.02 Other Business Ventures. Executive agrees that, so long as she is employed by the Company, she will not own, directly or indirectly, any controlling or substantial stock or other beneficial interest in any business enterprise which is engaged in, or competitive with, any business engaged in by the Company. Notwithstanding the foregoing, Executive may own, directly or indirectly, up to 5% of the outstanding capital stock of any business having a class of capital stock which is traded on any national stock exchange or in the over-the-counter market.

4.03 Business Secrets; Confidentiality; Non-Interference

(a) All right, title and interest of every kind and nature whatsoever, in and to inventions, patents, trademarks, copyrights and properties furnished to the Company with which Executive is in any way connected in the performance of her duties and obligations hereunder, whether the same were invented, created, written, developed, furnished, produced or disclosed by Executive or by any other party during the Term, shall, as between the parties hereto, be, become and remain the sole exclusive property of the Company for any and all purposes and uses whatsoever, and Executive shall have no right, title or interest of any kind or nature therein.

(b) Executive agrees that she will not, at any time during or after the Term, make use of or divulge to any other person, firm or corporation any trade or business secret, process, method or means, or any other confidential information concerning the business or policies of the Company which she may have learned in connection with her employment hereunder. For purposes of this Agreement, a "trade or business secret, process, method or means, or any other confidential information" shall mean and include written information treated as confidential or as a trade secret by the Company. Executive's obligation under this Section 4.03(b) shall not apply to any information which (i) is known publicly; (ii) is in the public domain or hereafter enters the public domain without the fault of Executive; (iii) is known to Executive prior to her receipt of such information from the Company, as evidenced by written records of Executive; (iv) is hereafter disclosed to Executive by a third party not under an obligation of confidence to the Company; or (v) Executive is required to disclose upon legal compulsion. Executive agrees not to remove from the premises of the Company, except as an employee of the Company in pursuit of the business of the Company or except as specifically permitted in writing by the Company, any document or other object containing or reflecting any such confidential information. Executive recognizes that all such documents and objects, whether developed by her or by someone else, will be the sole exclusive property of the Company. Upon termination of her employment hereunder, Executive shall promptly deliver to the Company all such confidential information including, without limitation, all lists of customers, employees, and vendors, correspondence, accounts, records and any other documents or property made or held by her or under her control in relation to the business or affairs of the Company or its subsidiaries or affiliates, and no copy of any such confidential information shall be retained by her.

(c) Executive shall not, without prior written permission of the Company, for a period of one year after the termination of her employment hereunder, either alone or on behalf of any person or entity, (i) solicit or induce, or in any manner attempt to solicit or induce, any person employed by, or as agent of, the Company to terminate such person's employment or agency, as the case may be, with the Company or with any such subsidiary or (ii) divert, or attempt to divert, any person, concern, or entity from doing business with the Company, nor will she attempt to induce any

such person, concern or entity to cease or curtail being a customer or supplier of the Company.

(d) Executive agrees that, at any time and from time to time during and after the Term, she will execute any and all documents which the Company may deem reasonably necessary or appropriate to effectuate the provisions of this Section 4.03. It is also agreed that the provisions of this Section 4.03 shall survive the termination for any reasons of this Agreement or Executive's employment.

ARTICLE V: Termination

5.01 Termination by the Company. The Company shall have the right to terminate the Executive's employment at any time for "Cause". For purposes of this Agreement, "Cause" shall mean (i) substantial and continued failure by the Executive to perform her duties hereunder after being provided written notice and thirty (30) days to cure such failure; (ii) conduct grossly insubordinate or disloyal to the Company; or (iii) the conviction for the commission of a felony.

5.02 Death. In the event Executive dies during the Term, this Agreement shall automatically terminate, such termination to be effective on the date of Executive's death.

5.03 Disability. In the event that Executive shall suffer a disability which shall have prevented her from performing satisfactorily her obligations hereunder for a period of at least six consecutive months, or nine months in any 12-month period, the Company shall have the right to terminate this Agreement, such termination to be effective upon the giving of notice thereof to Executive in accordance with Section 6.03 hereof.

5.04 Effect of Termination.

(a) In the event of termination of this Agreement by either party for any reason, or by reason of the Executive's death or disability, the Company shall pay to Executive (or her beneficiary in the event of her death) any base salary or other compensation earned but not paid to Executive prior to the effective date of such termination.

(b) Subject to Section 5.04(c), in the event of termination of this Agreement by the Company during the Initial Term or Second Term other than for Cause or Executive's death or the Company's decision to terminate this Agreement at the end of the Initial Term by providing written notice in accordance with Section 2.01(a) above, the Company shall (i) pay Executive a severance payment in an amount equal to the annual base salary of Executive, payable within thirty (30) days after termination; (ii) continue to pay Executive her base salary for a period of twelve (12) months following such termination; and (iii) during such twelve (12) month period following termination, reimburse Executive for COBRA (Consolidated Omnibus Budget Reconciliation Act of 1985) payments actually made by Executive.

in order to sustain Executive's then existing scope of medical coverage in effect on the date of termination.

(c) In the event any payment or benefit received or to be received by Executive pursuant to this Agreement in connection with a Change in Control ("Change in Control Payments") would not be deductible in whole or in part for federal income tax purposes by reason of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), such Change in Control Payments shall be reduced by the minimum amount necessary to preserve deductibility of such Change in Control Payments. For purposes of this limitation, no portion of the Change in Control Payments shall be taken into account if: (i) in the opinion of tax counsel selected by the Company and reasonably acceptable to the Executive, the Change of Control payment does not constitute an excess parachute payment within the meaning of Section 280G(b)(2) of the Code; and (ii) the value of any non-cash benefit or any deferred payment or benefit included in the Change in Control Payments shall be determined by the Company's independent auditors in accordance with the principles of Section 280G(b)(3) and (4) of the Code and the regulations thereunder.

ARTICLE VI: Miscellaneous

6.01 Life Insurance. Executive agrees that the Company or any of its subsidiaries or affiliates may apply for and secure and own insurance on Executive's life (in amounts determined by the Company). Executive agrees to cooperate fully in the application for and securing of such insurance, including the submission by Executive to such physical and other examinations, and the answering of such questions and furnishing of such information by Executive, as may be required by the carrier(s) of such insurance. Notwithstanding anything to the contrary contained herein, neither the Company nor any of its subsidiaries or affiliates shall be required to obtain any insurance for or on behalf of Executive, except as provided in Section 3.01(b) hereof.

6.02 Benefit of Agreement; Assignment; Beneficiary.

(a) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns, including, without limitation, any corporation or person which may acquire all or substantially all of the Company's assets or business, or with or into which the Company may be consolidated or merged. This Agreement shall also inure to the benefit of, and be enforceable by, the Executive and her personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to the Executive hereunder if she had continued to live, all such amounts shall be paid in accordance with the terms of this Agreement to the Executive's beneficiary, devisee, legatee or other designee or, if there is no such designee, to the Executive's estate.

(b) The Company shall require any successor (whether direct or indirect, by operation of law, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

6.03 Notices. Any notice required or permitted hereunder shall be in writing and shall be sufficiently given if personally delivered or if sent by registered or certified mail, postage prepaid, with return receipt requested, or by overnight courier addressed: (a) in the case of the Company, to LCI International, Inc., 8180 Greensboro Drive, Suite 800, McLean, Virginia 22102, Attention: Chief Executive Officer, or to such other address and/or to the attention of such other person as the Company shall designate by written notice to Executive; and (b) in the case of Executive, to Anne K. Bingaman, 5028 Overlook Road, N.W., Washington, D.C. 20016 or such other address as Executive shall designate by written notice to the Company. Any notice given hereunder shall be deemed to have been given at the time of receipt thereof by the person to whom such notice is given.

6.04 Entire Agreement; Amendment. Subject to Section 6.10, this Agreement contains the entire agreement of the parties hereto with respect to the terms and conditions of Executive's employment during the Term and supersedes any and all prior agreements and understandings, whether written or verbal, between the parties hereto with respect to this matter. This Agreement may not be changed or modified except by an instrument in writing signed by both of the parties hereto. In the event of any inconsistency between this Agreement and any Offer Letter executed by Executive, the terms and conditions of this Agreement shall govern.

6.05 Waiver. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a continuing waiver or as a consent to or waiver of any subsequent breach hereof.

6.06 Headings. The Article and Section headings herein are for convenience of reference only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

6.07 Enforcement. If any action at law or in equity is brought by either party hereto to enforce or interpret any of the terms of this Agreement, the prevailing party shall be entitled to reimbursement by the other party of the reasonable costs and expenses incurred in connection with such action (including reasonable attorney's fees), in additional to any other relief 000to which such party may be entitled. Executive shall have no right to enforce any of her rights hereunder by seeking or obtaining injunctive or other equitable relief and acknowledges that damages are an adequate remedy for any breach by the Company of this Agreement.

EXHIBIT 11 PRIMARY

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1997	1996	1997	1996
INCOME ON COMMON STOCK				
NET INCOME	$21.4	$17.7	$41.9	$33.0
SHARES OUTSTANDING				
Weighted Average Number of Common Shares Outstanding	78.2	69.9	77.9	67.5
Common Shares Issuable Upon the Assumed Exercise of Stock Options and Stock Warrants	12.6	14.4	12.3	14.4
Common Shares Repurchased Through Treasury Stock Method Upon the Assumed Exercise of Stock Options and Stock Warrants	(5.4)	(3.9)	(5.0)	(4.3)
Assumed Conversion of Convertible Preferred Stock	:	6.8	:	9.1
Weighted Average Number of Common Shares Outstanding	85.4	87.2	85.2	86.7
EARNINGS PER SHARE				
NET INCOME PER COMMON SHARE	$0.25	$0.20	$0.49	$0.38

EXECUTIVE OFFICERS

H. Brian Thompson	Chairman of the Board of Directors and Chief Executive Officer
Thomas J. Wynne	President and Chief Operating Officer
Joseph A. Lawrence	Senior Vice President -- Finance and Development and Chief Financial Officer
Marshall Hanno	Senior Vice President -- Commercial Segment
Lawrence Bouman	Senior Vice President -- Engineering, Operations and Technology
Roy N. Gamse	Senior Vice President -- Business Marketing
Anne K. Bingaman	Senior Vice President -- Local Telecommunications Division

BIOGRAPHIES

Mr. Thompson has been Chairman of the Board of Directors and Chief Executive Officer of LCI and its subsidiaries since July 1991. Mr. Thompson previously served as Executive Vice President of MCI Communications Corporation and its affiliates ("MCI") where he was responsible for all eight of MCI's operating divisions and various other senior management capacities from 1981 to 1991. Mr. Thompson is a director of Microdyne Corporation, Golden Books Family Entertainment, Inc. and Comcast UK Cable Partners Limited. Mr. Thompson also serves as Chairman of the Competitive Telecommunications Association and is a member of the Listed Company Advisory Committee to the NYSE Board of Directors.

Mr. Wynne has been President and Chief Operating Officer of the Company's subsidiaries since July 1991 and President and Chief Operating Officer of LCI since April 1993. From 1977 to 1991, Mr. Wynne held several executive positions with MCI, including President of the West Division, Vice President of Sales and Marketing for the Mid-Atlantic Division and Vice President in the Midwest Division. Mr. Wynne has been a Director of the Company since December 1991.

Mr. Lawrence has been Senior Vice President -- Finance and Development and Chief Financial Officer of LCI and its subsidiaries since October 1993. From January 1985 through October 1993, Mr. Lawrence held several executive positions with MCI, including Senior Vice President -- Finance and Vice President Finance and Administration for the Consumer Division and Vice President Finance for the Mid-Atlantic Division.

Mr. Hanno was Senior Vice President -- Sales of LCI since June 1993 and was Vice President of Sales of LCI Management Services since July 1991. In January 1997, after an internal reorganization, Mr. Hanno was appointed Senior Vice President -- Commercial Segment. From 1987 to July 1991, Mr. Hanno was Vice President of Sales of MCI and prior thereto was Vice President of Sales and Marketing with Allnet Communications.

Mr. Bouman has been Senior Vice President -- Engineering, Operations and Technology of LCI and its subsidiaries since October 1995. From October 1990 through October 1995, Mr. Bouman held several executive positions at MCI, including Senior Vice President of Network Operations, Senior Vice President of Network Engineering and Senior Vice President of Planning and Program Management.

Mr. Gamse has been Senior Vice President -- Business Marketing of LCI since March 1996. From 1982 to 1993, Mr. Gamse held several positions at MCI, including Senior Vice President of Marketing for Consumer Markets and Senior Vice President of Customer Service. In addition, Mr. Gamse was previously a policy advisor at the U.S. Environmental Protection Agency.

Ms. Bingaman was appointed Senior Vice President -- Local Telecommunications Division in January 1997. From 1993 to 1996, Ms. Bingaman was assistant attorney general of the antitrust division at the U.S. Department of Justice.

ATTACHMENT F

LCI International®
Worldwide Telecommunications

Corporate Profile

LCI International, Inc. is a $1+ billion telecommunications company providing voice and data transmission services to residential and business customers and other telecommunications carriers throughout the United States and to more than 230 international locations. Founded in 1983, LCI is one of the nation's fastest-growing major long-distance telecommunications carriers and by mid-1997, was offering local telephone service on a resale basis in more than 25 key U.S. markets.

LCI International is headquartered in McLean, Virginia, with offices in more than 45 U.S. locations, including regional operations and national network control and customer service centers. With a commitment to providing services that are Simple, Fair and Inexpensive™, LCI has maintained solid growth across all segments of the market, a strong balance sheet and an advanced technology platform built around service leadership.

Executive Management

H. Brian Thompson
Chairman and Chief Executive Officer

Thomas J. Wynne
President and Chief Operating Officer

Joseph A. Lawrence
Executive Vice President and
Chief Financial Officer

Anne K. Bingaman
Senior Vice President and President,
Local Telecommunications Division

Lawrence J. Bouman
Senior Vice President, Engineering,
Operations and Technology

Roy N. Gamse
Senior Vice President, Business Marketing

Marshall W. Hanno
Senior Vice President, Commercial Segment

John G. Musci
Senior Vice President, Wholesale Segment

John C. Taylor
Senior Vice President, Consumer Segment

LCI's Network Facilities

LCI's network consists of more than 180 million circuit miles of digital fiber-optic capacity, all centrally monitored around-the-clock by the company's Network Control Center. LCI currently owns more than 100 million circuit miles of that capacity and in early 1997, signed an agreement to purchase an additional 100 million circuit miles between Los Angeles and Chicago, which is scheduled for completion by the end of the year. LCI also leases capacity from some of the world's leading carriers, operates switching centers throughout the country and maintains interconnections with international transmission facilities — including one of the world's largest global data networks.

Consumer Long-Distance Services

- Residential long-distance nationwide and to more than 230 countries
- Worldwide calling card and prepaid calling card
- Home 800
- Student and military long-distance services
- Operator services and directory assistance
- 24-hour customer service

Business Voice and Data Services

- Worldwide long-distance nationwide and to more than 230 countries
- Local phone service in select U.S. markets
- Worldwide calling card and prepaid calling card
- Domestic and international toll-free services (800 and 888)
- Integrated voice and fax services
- Broadcast fax
- Audio conferencing
- Voice and data private line, including DS-0, DS-1 and DS-3 capabilities
- Internet access
- Domestic and international frame relay and private line services
- Wholesale carrier and rebiller services
- CD-ROM and diskette billing options
- Operator services and directory assistance
- 24-hour network control and customer service

Corporate Offices

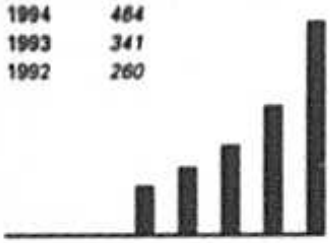
8180 Greensboro Drive, McLean, VA 22102
1-800-860 0088

LCI International
Worldwide Telecommunications

Performance

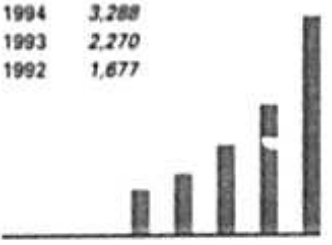
Revenue
(In Millions)

1996	$1,103
1995	673
1994	464
1993	341
1992	260



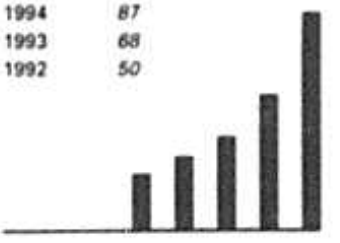
Minutes of Use
(In Millions)

1996	8,159
1995	4,863
1994	3,288
1993	2,270
1992	1,677



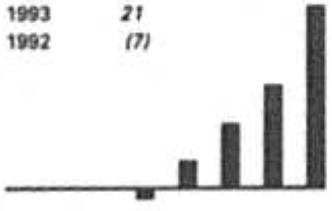
EBITDA[1]
(In Millions)

1996	$201
1995	127
1994	87
1993	68
1992	50



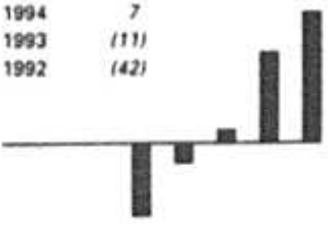
Operating Income
(In Millions)

1996	$144
1995	83
1994	51
1993	21
1992	(7)



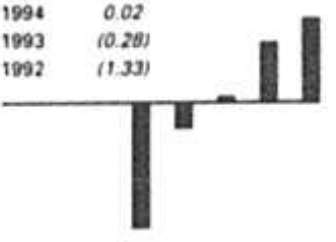
Net Income[2]
(In Millions)

1996	$75
1995	51
1994	7
1993	(11)
1992	(42)

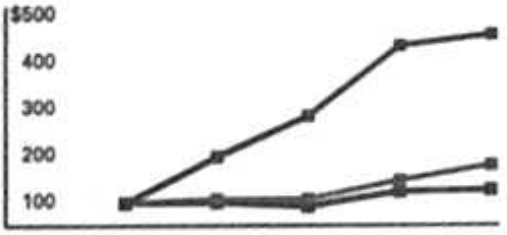


Earnings per Share[2]
(In Dollars)

1996	$0.86
1995	0.62
1994	0.02
1993	(0.28)
1992	(1.33)



Share Performance[3]



	May '93	Dec '93	Dec '94	Dec '95	Dec '96
LCI	$100	203	293	449	474
S&P 500	$100	107	108	149	183
S&P Telecom	$100	101	92	124	128

Debt and Equity
(In Millions)

	1991	1992	1993	1994	1995	1996
Debt	$245	256	84	145	275	236
Equity	$ (58)	(38)	196	202	345	431

(1) Earnings before interest, income taxes, depreciation and amortization (EBITDA) excludes nonrecurring charges discussed in Note 2, below.
(2) Includes restructuring charges, loss contingency expenses and write-off of assets in 1992 - 1994.
(3) Based on investment of $100 beginning May 12, 1993 and ending December 31, 1993 - 1996.

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