

4804

133

ORIGINAL

FLEISCHMAN AND WALSH, L. I. P.

ATTORNEYS AT LAW
A PARTNERSHIP INCLUDING A PROFESSIONAL CORPORATION
1400 SIXTEENTH STREET, N. W.
WASHINGTON, D. C. 20036
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INTERNET fw@fw-law.com

AARON I. FLEISCHMAN
FLEISCHMAN AND WALSH, P. C.
CHARLES S. WALSH
ARTHUR H. HARDING
STUART F. FELDSTEIN
RICHARD RUBIN
JEFFRY L. HARDIN
STEPHEN A. BOUCHARD
R. BRUCE BECKER
HOWARD S. SHAPIRO
CHRISTOPHER G. WOOD
SETH A. DAVIDSON
MITCHELL F. BRECHER
JAMES F. MORIARTY
MATTHEW D. EMMER
HOWARD A. TOPEL

JILL KLEPPE McCLELLAND
REGINA FAMIGLIETTI PACE
TERRI B. NATOLI**
RHETT D. WORKMAN
CRAIG A. GILLEY
MARK F. VILARDO
PETER J. BARRETT
KIMBERLY A. KELLY
ROBERT E. STUP, JR.**
SCOTT H. KESSLER***
ANDREW M. FRIEDMAN
DEBRA A. McGUIRE
JOSHUA W. RESNIE****
STEPHEN E. HOLSTEN
CAROLYN R. KALBFUS****

* VA BAR ONLY
** PA BAR ONLY
*** NY AND NJ BARS ONLY
**** MD BAR ONLY

September 25, 1997

991253-TV

VIA OVERNIGHT MAIL

Florida Public Service Commission
Division of Communications
Division of Administration
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: *Application of Teligent, L.L.C. and Microwave Services, Inc. for Approval of Assignment of Existing Certificate to Provide Alternative Local Exchange Telecommunications Service Within the State of Florida*

Dear Chief Clerk:

Transmitted herewith for filing on behalf of Teligent, L.L.C. ("Teligent") and Microwave Services, Inc. ("MSI") is an original and six (6) copies of its Application and Exhibits for Approval of Assignment of an Existing Certificate held by MSI to Provide Alternative Local Exchange Telecommunications Service within the State of Florida. As Teligent is eager to commence providing service in Florida, it hereby requests expeditious processing of this Application.

A check in the amount of \$250.00 has been enclosed to cover the filing fee associated with this Application.

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

Initials of Document forwarded check: NUMBER-DATE

279 09896 SEP 26 97

FPSC-RECORDS/REPORTING

Florida Public Service Commission
September 25, 1997
Page 2

Please acknowledge receipt of this filing by date-stamping the enclosed copy of this letter and returning it to the undersigned in the self-addressed stamped envelope.

Please do not hesitate to contact the undersigned directly should you need any additional information.

Sincerely,



Robert E. Stup, Jr.
Carolyn K. Kalbfus
Counsel to Teligent, L.L.C.

Enclosures
57446

FLEISCHMAN AND WALSH, L. L. P.

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ANDREW M. FRIEDMAN
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JOSHUA W. RESNIK****
STEPHEN E. HOLSTEN
CAROLYN K. KALBFUS****

DEPOSIT DATE
D624 SEP 26 1997

* VA BAR ONLY
** PA BAR ONLY
*** NY AND NJ BARS ONLY
**** MD BAR ONLY

September 25, 1997

971253-

VIA OVERNIGHT MAIL

Florida Public Service Commission
Division of Communications
Division of Administration
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: *Application of Teligent, L.L.C. and Microwave Services, Inc. for
Approval of Assignment of Existing Certificate to Provide Alternative
Local Exchange Telecommunications Service Within the State of Florida*

Dear Chief Clerk:

97
SEP 26
11:33

FOR SECURITY PURPOSES, THE BORDER OF THIS DOCUMENT CONTAINS MICROPRINTING

FLEISCHMAN AND WALSH, L.L.P.
ATTORNEYS AT LAW
1400 SIXTEENTH STREET, N.W.
WASHINGTON, DC 20036

THE RIGGS NATIONAL BANK OF WASHINGTON
PRIVATE BANKING GROUP
WASHINGTON, DC 20074-6788

12507

NUMBER
12507

PAY: TWO HUNDRED FIFTY AND 00/100

DATE AMOUNT
08-27-97 250.00

TO THE FLORIDA PUBLIC SERVICE COMM.

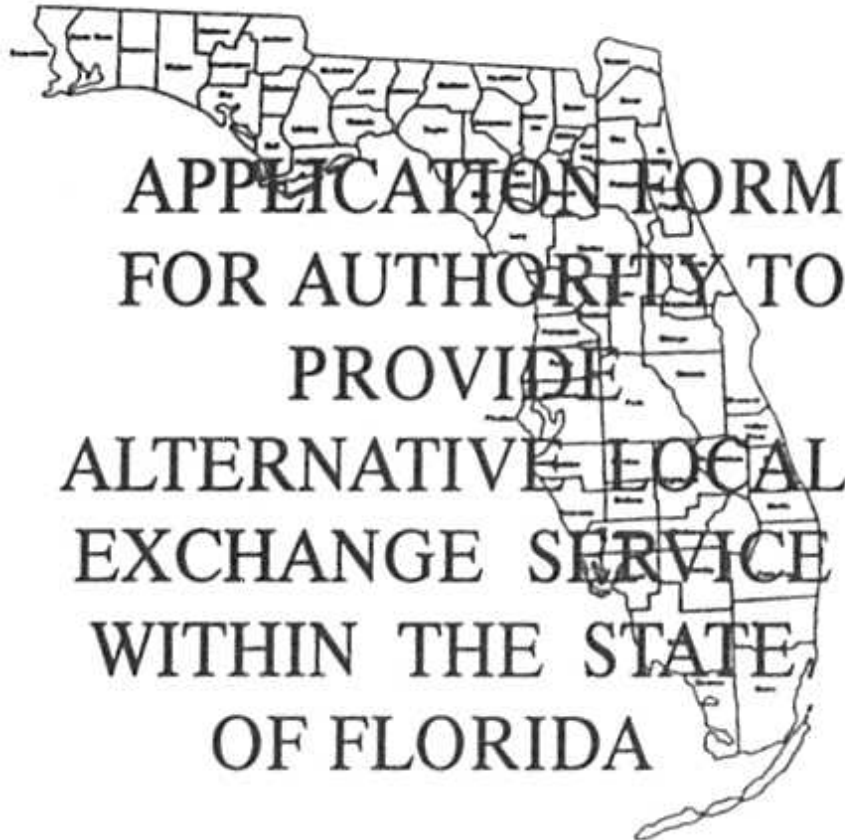
ORDER
OF



THE REVERSE SIDE OF THIS DOCUMENT INCLUDES AN ARTIFICIAL WATERMARK - HOLD AT AN ANGLE TO VIEW

ORIGINAL

971253



APPLICATION FORM
FOR AUTHORITY TO
PROVIDE
ALTERNATIVE LOCAL
EXCHANGE SERVICE
WITHIN THE STATE
OF FLORIDA

DOCUMENT NUMBER-DATE

00000 00000

FPSC-RECORDS/REPORTING

1. **This is an application for (check one):**

Original authority (new company)

Approval of transfer (to another certificated company)

Example, a certificated company purchases an existing company and desires to retain the original certificate authority.

Approval of assignment of existing certificate (to a noncertificated company)

Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate. **See Exhibit A.**

Approval for transfer of control (to another certificated company)

Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. **Name of applicant:** Teligent, L. L. C. (Assignee)
Microwave Services, Inc. (Assignor)
See Exhibit A

3. **A. National mailing address including street name, number, post office box, city, state, zip code, and phone number.**

11 Canal Center Plaza, Suite 300
Alexandria, VA 22314
(703) 299-4400

B. Florida mailing address including street name, number, post office box, city, state, zip code, and phone number.

N/A

C. Physical address of alternative local exchange service in Florida including street name, number, post office box, city, zip code and phone number.

Teligent is in the process of identifying the precise locations within the State that will serve as the site for its local exchange service offices. Teligent will promptly notify the Commission once these locations are determined.

4. **Structure of organization:**

- | | |
|--|--|
| <input type="checkbox"/> Individual | <input type="checkbox"/> Corporation |
| <input type="checkbox"/> Foreign Corporation | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership | <input type="checkbox"/> Limited Partnership |
| <input type="checkbox"/> Joint Venture | <input checked="" type="checkbox"/> Other, Please explain
Limited Liability Company
organized under the laws
of the State of Delaware |

5. **If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.**

Corporate charter number: N/A

6. **Name under which the applicant will do business (d/b/a):** Teligent, L. L. C.

7. **If applicable, please provide proof of fictitious name (d/b/a) registration.**

Fictitious name registration number: N/A

8. **If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.**

See Exhibit B.

9. **State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so please explain.**

None of Teligent's officers, directors, or ten largest stockholders has ever been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime

10. **Please provide the name, title, address, telephone number, Internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application.**

See Exhibit C.

11. **Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.**

See Exhibit D.

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

No.

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

No.

14. Please indicate how a customer can file a service complaint with your company.

See Exhibit E.

15. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

A. Financial capability. See Exhibit F.

Regarding the showing of financial capability, the following applies:

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

1. the balance sheet
2. income statement
3. Statement of retained earnings for the most recent 3 years.

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

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

B. Managerial capability.

See Exhibit G.

C. Technical capability.

See Exhibit H.

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083".

Official:

Richard D. Aldrete
Signature

9/24/97
Date

Title:

VICE PRESIDENT

610-660-4910
Telephone Number

Address:

3 BALA PLAZA EAST
SUITE 502
BALA CYNWYD, PA 19004

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

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Official:

David Kuretzky
Signature

Sept. 16, 1997
Date

Title:

Vice President for Law
& Regulatory Affairs

(703) 249-4400
Telephone Number

Address:

11 Canal Center Plaza
Suite 300
Alexandria, VA 22314

The Applicant is Teligent, L.L.C. ("Teligent" or "Assignee") Teligent seeks Commission approval of the assignment of Microwave Services, Inc.'s ("MSI" or "Assignor") Certificate to Provide Alternative Local Exchange Services in Florida ("Certificate"), granted to MSI pursuant to this Commission's Order No. PSC-97-0162-FOF-TX, issued on February 13, 1997 in Docket No. 961337-TX.¹ MSI is Teligent's majority owner.

Teligent (formerly Associated Communications, L.L.C.) is a limited liability company initially formed by MSI and another telecommunications provider, DSC to facilitate their entry into the competitive local services business through designing, constructing, managing, and marketing their nationwide local exchange networks pursuant to Digital Electronic Message System ("DEMS") licenses granted to each by the Federal Communications Commission ("FCC"). Indeed, MSI described this relationship to the Commission in its initial ALEC application. Through Teligent, MSI and DSC are able to combine strategic resources to more efficiently and effectively develop the sophisticated, technologically advanced, digital microwave networks that will provide consumers with state-of-the-art, high-bandwidth, low-cost local, long distance, and Internet services.²

Over the past several months, each company, through Teligent, has been identifying those sites within the State that will serve as the initial central nodal sites of their networks and has

¹MSI also holds Commission authority to provide Interexchange Telecommunication Service and Alternative Access Vendor Service.

²These networks required the design and development of sophisticated digital equipment not previously available on the market.

EXHIBIT A
(Continued)

been negotiating with BellSouth and GTE to obtain interconnection and resale arrangements that will optimize their ability to provide their services. Recently, in order to further increase the operating efficiencies inherent in having Teligent function as a single agent for both companies, and to eliminate redundant or duplicative functions to better serve the consumer, MSI and DSC (and their respective owners) have decided that Teligent can be most effective, not just as an agent, but by actually becoming the local and long distance services provider in lieu of MSI and DSC. To that end, MSI and DSC have submitted applications to the FCC to assign to Teligent the microwave licenses that will serve as the underlying facilities for the local service networks. In addition, the FCC recently granted several Teligent applications for microwave licenses in additional markets not previously authorized to DSC or MSI.

MSI and Teligent jointly seek Commission grant of the instant Application so that Teligent may provide facilities-based and resold local exchange telecommunications services within the State of Florida. Teligent is simultaneously filing applications to assign to Teligent MSI's Florida IXC and AAV certificates. Once the FCC approves the assignment to Teligent of the MSI and DSC licenses and the Commission has granted Teligent authority to become the local services provider in the State of Florida in lieu of MSI, DSC will cancel its Certificate.

Teligent submits that the instant Application is based upon nothing more than a business reorganization by Teligent's respective parent companies, in order to consolidate their planned and authorized local services businesses into a single affiliated entity and to enable them (and their respective owners) to indirectly, rather than directly, provide local and long distance service to the public.

Teligent is a joint venture formed by Microwave Services, Inc., which holds a majority 55% interest in Teligent, and Digital Services Corporation, which holds the remaining 45% interest.

MSI's principal address is:

Microwave Services, Inc.
3 Bala Plaza East
Suite 502
Bala Cynwyd, Pennsylvania 19004

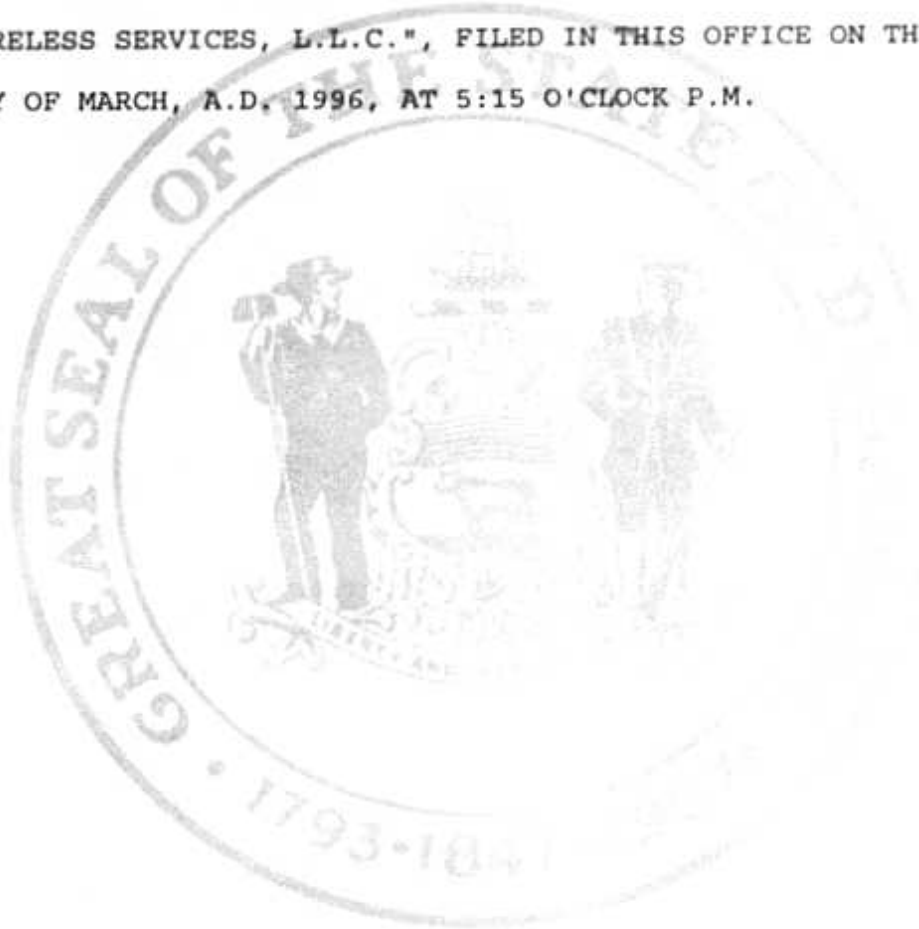
DSC's principal address is:

Digital Services Corporation
211 North Union Street
Suite 300
Alexandria, Virginia 22314

Attached hereto is a copy of Teligent's Certificate of Formation and evidence of its qualification to do business in the State of Florida as a limited liability company.

State of Delaware
Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF LIMITED LIABILITY COMPANY OF "DIGITAL WIRELESS SERVICES, L.L.C.", FILED IN THIS OFFICE ON THE FIFTH DAY OF MARCH, A.D. 1996, AT 5:15 O'CLOCK P.M.



Edward J. Freel

Edward J. Freel, Secretary of State

2599454 8100

971304427

AUTHENTICATION:

8647322

DATE:

09-12-97

CERTIFICATE OF FORMATION**OF****DIGITAL WIRELESS SERVICES, L.L.C.**

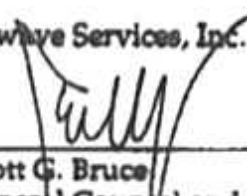
1. The name of the limited liability company is Digital Wireless Services, L.L.C.
2. The address of its registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

IN WITNESS WHEREOF, the undersigned have executed this Certificate of Formation of Digital Wireless Services, L.L.C. this 5th day of March, 1996.

DIGITAL WIRELESS SERVICES, L.L.C.

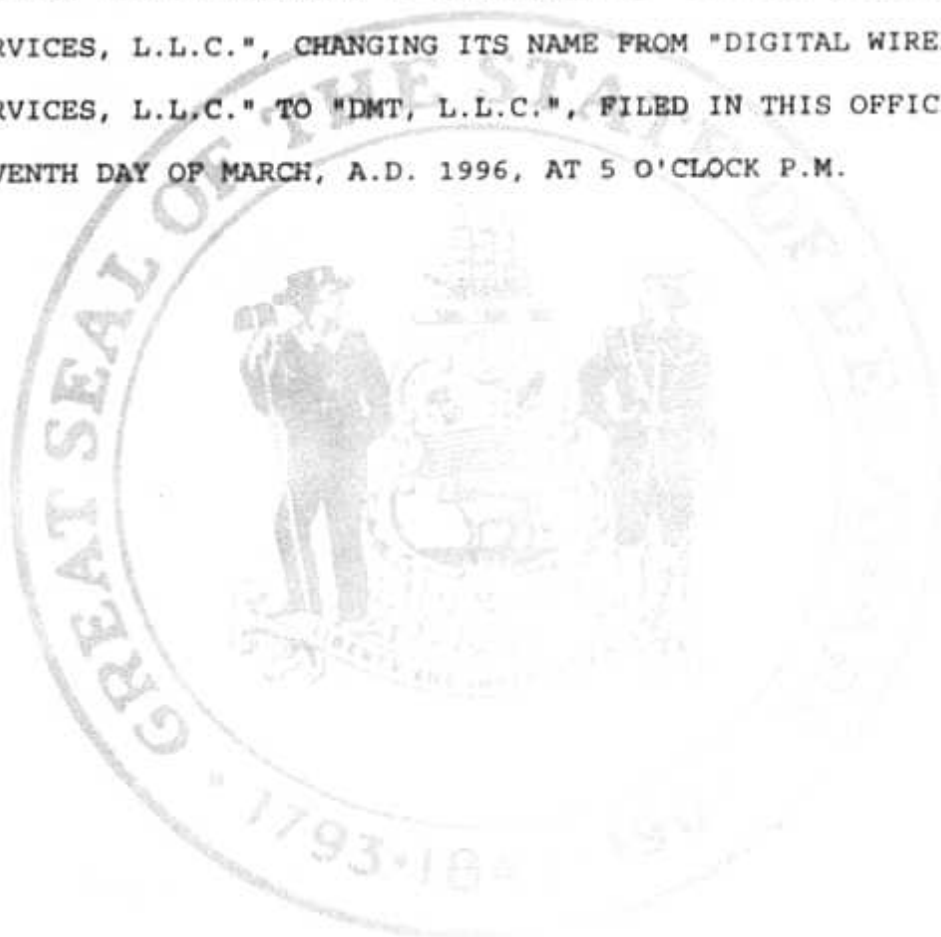
By: Microwave Services, Inc.

By: _____


Scott G. Bruce
General Counsel and Secretary

State of Delaware
Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "DIGITAL WIRELESS SERVICES, L.L.C.", CHANGING ITS NAME FROM "DIGITAL WIRELESS SERVICES, L.L.C." TO "DMT, L.L.C.", FILED IN THIS OFFICE ON THE SEVENTH DAY OF MARCH, A.D. 1996, AT 5 O'CLOCK P.M.



Edward J. Freel

Edward J. Freel, Secretary of State

2599454 8100

971304427

AUTHENTICATION:

8647337

DATE:

09-12-97

CERTIFICATE OF AMENDMENT
OF
A LIMITED LIABILITY COMPANY

FIRST: The name of the limited liability company is:

Digital Wireless Services, L.L.C.

SECOND: The Certificate of Formation of the limited liability company is hereby amended as follows:

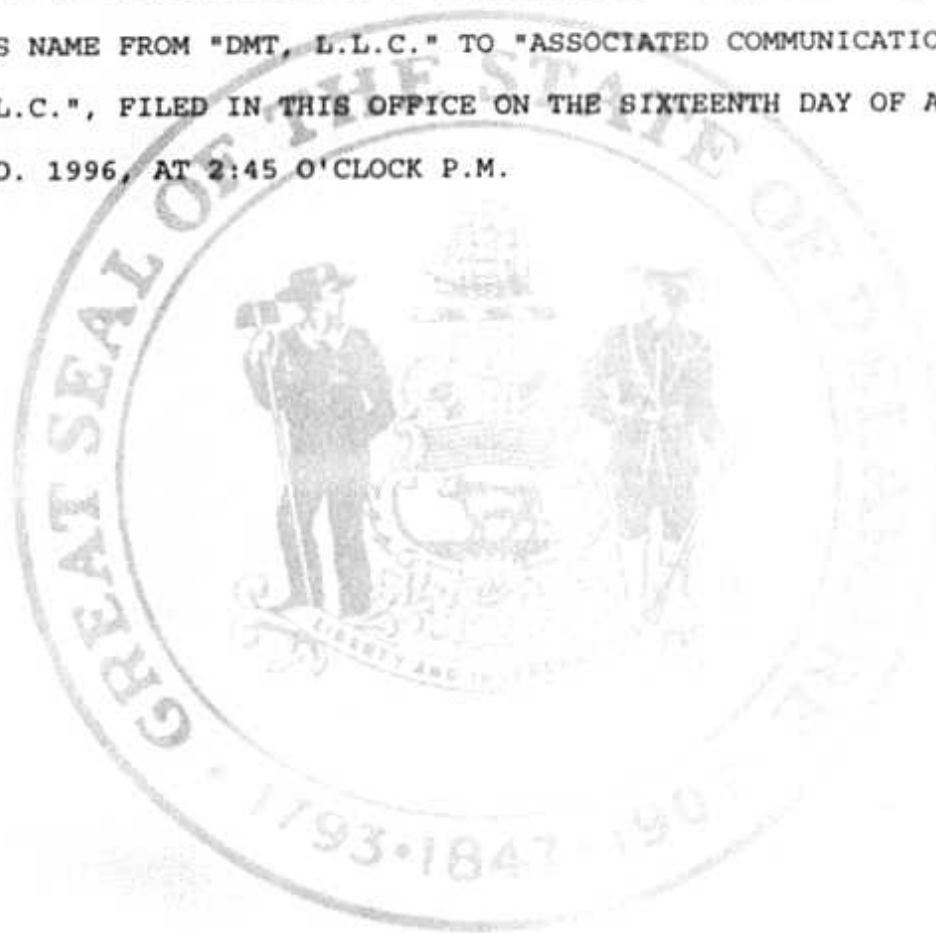
To change the name of the limited liability company to DMT, L.L.C.

IN WITNESS WHEREOF, the undersigned, has executed this Certificate of Amendment this 6th day of March, 1996.

/s/ Scott G. Bruce
Authorized Person

State of Delaware
Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "DMT, L.L.C.", CHANGING ITS NAME FROM "DMT, L.L.C." TO "ASSOCIATED COMMUNICATIONS, L.L.C.", FILED IN THIS OFFICE ON THE SIXTEENTH DAY OF AUGUST, A.D. 1996, AT 2:45 O'CLOCK P.M.



A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

2599454 8100

971304427

AUTHENTICATION:

8647352

DATE:

09-12-97

8-16-96

CERTIFICATE OF AMENDMENT
OF
A LIMITED LIABILITY COMPANY

FIRST: The name of the limited liability company is:

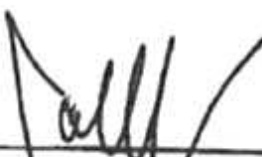
DMT, L.L.C.

SECOND: The Certificate of Formation of the limited liability company is hereby amended as follows:

To change the name of the limited liability company to Associated Communications, L.L.C.

IN WITNESS WHEREOF, the undersigned, has executed this Certificate of Amendment this 16th day of August, 1996

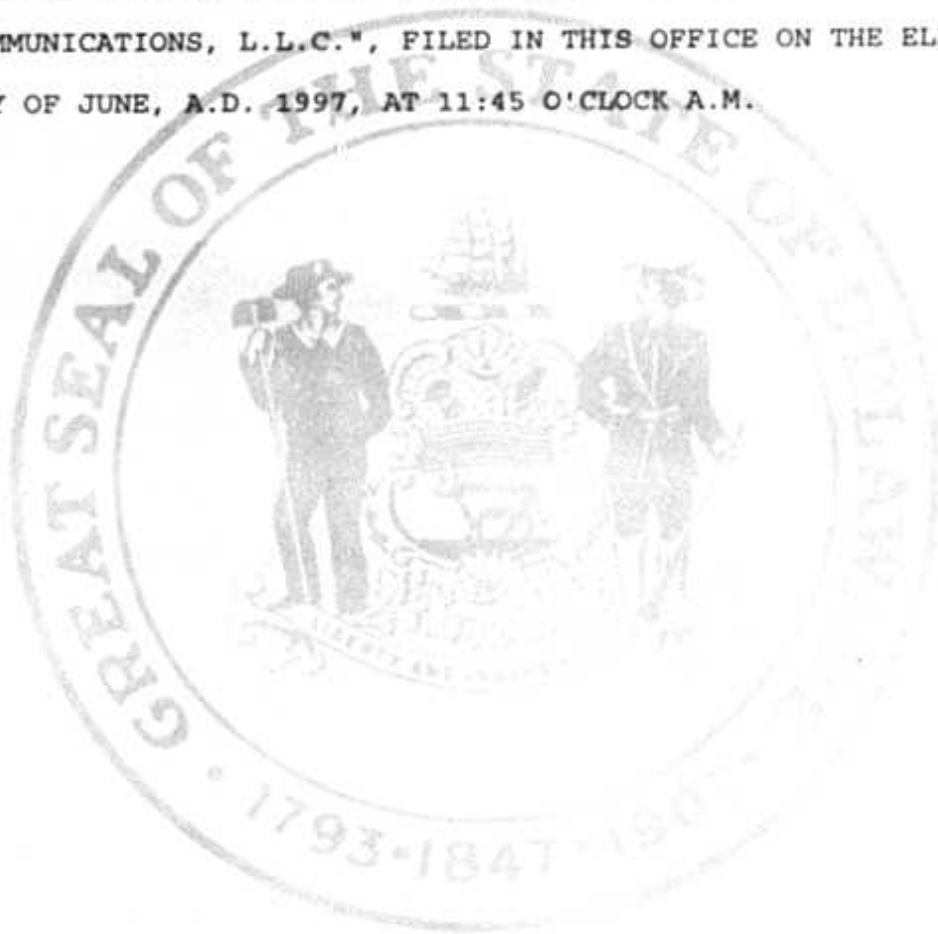
Name:
Title:


SCOTT S. BAUL
GENERAL COUNSEL & SECRETARY

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 02:45 PM 08/16/1996
960240359 - 2599454

State of Delaware
Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF RESTORATION OF "ASSOCIATED COMMUNICATIONS, L.L.C.", FILED IN THIS OFFICE ON THE ELEVENTH DAY OF JUNE, A.D. 1997, AT 11:45 O'CLOCK A.M.



Edward J. Freel, Secretary of State

2599454 8100

971304427

AUTHENTICATION:

8647382

DATE:

09-12-97

CERTIFICATE TO RESTORE TO GOOD STANDING
A DELAWARE LIMITED LIABILITY COMPANY
PURSUANT TO TITLE 6, SEC. 18-1107

1. The name of the limited liability company (the "Company") is Associated Communications, L.L.C.

2. The date of the original filing with the Delaware Secretary of State was March 5, 1996.

I, Scott G. Bruce, the authorized person of the Company do hereby certify that the Company is paying all annual taxes, penalties and interest due to the State of Delaware.

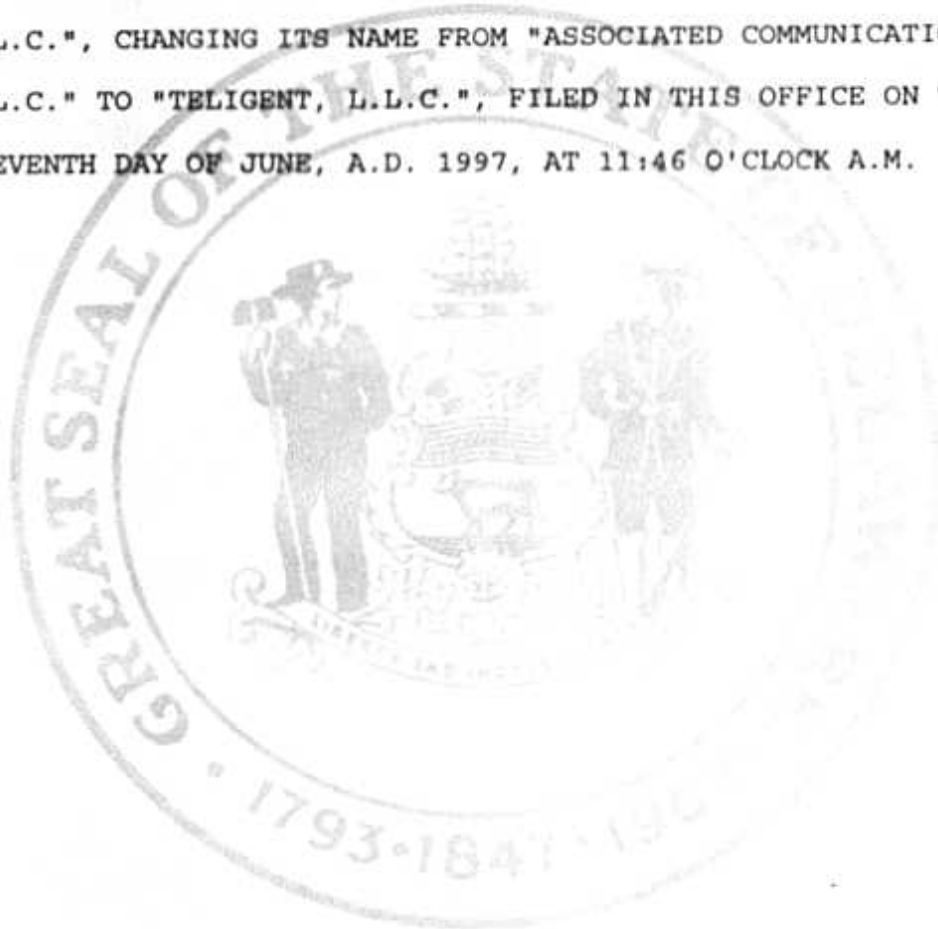
I do hereby request that Associated Communications, L.L.C. be restored to good standing.

By: Microwave Services,
Inc., a member

By /s/ Scott G. Bruce
Name: Scott G. Bruce
Title: Secretary

State of Delaware
Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "ASSOCIATED COMMUNICATIONS, L.L.C.", CHANGING ITS NAME FROM "ASSOCIATED COMMUNICATIONS, L.L.C." TO "TELIGENT, L.L.C.", FILED IN THIS OFFICE ON THE ELEVENTH DAY OF JUNE, A.D. 1997, AT 11:46 O'CLOCK A.M.



A handwritten signature in cursive script, reading "Edward J. Freel", is written over a horizontal line.

Edward J. Freel, Secretary of State

2599454 8100

971304427

AUTHENTICATION:

8647367

DATE:

09-12-97

AMENDED AND RESTATED
CERTIFICATE OF FORMATION

Pursuant to Section 18-208 of the
Limited Liability Company Act

1. The name of the limited liability company is Associated Communications, L.L.C. (the "Company") and the name under which the Company was originally formed with the Delaware Secretary of State is Digital Wireless Services, L.L.C. The date of its formation is March 5, 1996.


2. The Certificate of Formation is hereby amended and restated to read in its entirety as set forth below:

FIRST: The name of the limited liability company is: Teligent, L.L.C.

SECOND: The address of its registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

IN WITNESS WHEREOF, the undersigned authorized person has executed this Amended and Restated Certificate of Formation this 11th day of June, 1997

By: Microwave Services, Inc.,
a member

By: 
Scott G. White
Secretary

State of Florida



Department of State

I certify the attached is a true and correct copy of Certificate of Amendment, filed on June 24, 1997, to the Articles of Organization for ASSOCIATED COMMUNICATIONS, L.L.C. which changed its name to TELIGENT, L.L.C., a Florida limited liability company, as shown by the records of this office.

The document number of this limited liability company is M9600000231.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capitol, this the
Ninth day of July, 1997



CR2EO22 (2-95)



Sandra B. Northam
Secretary of State

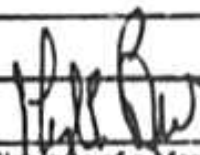
APPLICATION BY FOREIGN LIMITED LIABILITY COMPANY FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

IN COMPLIANCE WITH SECTION 608.503, FLORIDA STATUTES, THE FOLLOWING IS SUBMITTED TO REGISTER A FOREIGN LIMITED LIABILITY COMPANY TO TRANSACT BUSINESS IN THE STATE OF FLORIDA:

RECEIVED
STATE
OFFICE
JAN 27 1996
P.A. 356

1. DMT, L.L.C. doing business in Florida as DMT OF DELAWARE, L.L.C.
(Name of foreign limited liability company must end with the words "limited company" or their abbreviation "L.C." if not so contained in the name at present.)
2. Delaware
(Jurisdiction under the law of which foreign limited liability company is organized)
3. 51-0372726
(FEI number, if applicable)
4. 2/3/96
(Date of Organization)
5. Perpetual
(Duration: Year limited liability company will cease to exist or "perpetual")
6. Upon Qualification
(Date first transacted business in Florida.)
7. 200 Gateway Towers
Pittsburgh, PA 15222
(Street address of principal office)
8. C T CORPORATION SYSTEM
(Name of the registered agent of foreign limited liability company)
9. c/o C T CORPORATION SYSTEM, 1200 South Pine Island Road,
Plantation, Florida 33324
(Florida registered office address)
10. Name(s), title, and business address(es) of managing member(s) [MGRM] or manager(s) [MGR] who will manage the foreign limited liability company in Florida: (attach additional page if necessary)
See Attached Listing

5/21/96
(Date)


(Signature of a Member or Authorized Representative of a member)

FILED STATE
SECRETARY'S OFFICE
95 JUN 27 PM 3:56

REGISTERED AGENT ACCEPTANCE

Having been named as registered agent and to accept service of process for the above stated foreign limited liability company at the place designated in this certificate pursuant to the provisions of section 608.507, Florida Statutes, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relating to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.

C T Corporation System

By Bonnie A. Schuman
(Signature)

5-22-96
(Date)

Bonnie A. Schuman
(Type Name of Officer)

Assistant Secretary
(Title of Officer)

FMT, L.L.C.
MEMBERS AND DIRECTORS
MARCH 5, 1996

SECRET
SECURITY CLASSIFICATIONS
96 JUN 27 PM 3:56

MEMBERS

1) MICROWAVE SERVICES, INC. (MGR)
FIFTH AVENUE
NEW YORK, NY 10021
F460000231

2) DIGITAL SERVICES CORPORATION (MGR)
CLARENDON BLVD.
SUITE 800
ARLINGTON, VA 22201
F4600002045

DIRECTORS

MSI DIRECTORS (MGR)
DAVID J. BERKMAN (MGR)
WILLIAM H. BERKMAN

DSC DIRECTOR (MGR)
DR. RAJENDRA SINGH

AFFIDAVIT OF MEMBERSHIP AND CONTRIBUTIONS OF FOREIGN LIMITED LIABILITY COMPANY

The undersigned member or authorized representative of a member of DHT, L.L.C.
deposes and swears

SECRETARY OF STATE
MAY 21 1996 PM 3:56

- 1) the above named limited liability company has at least two members
- 2) the total amount of cash contributed by the member(s) is \$ 500,000
- 3) if any, the agreed value of property other than cash contributed by member(s) is \$ N/A. This cash total includes amounts from 2 and 3 above.
- 4) the total amount of cash or property anticipated to be contributed by member(s) is \$ 5,000,000. This total includes amounts from 2 and 3 above.

Signature of a member or authorized representative of a member.
In accordance with section 602.400(1), Florida Statute, the execution of this affidavit
constitutes an affirmation under the penalty of perjury that the facts stated herein are true.

RESOLUTION OF MEMBERS

I, the undersigned Member of DMT, L.L.C., do hereby certify that this Resolution of the Members of DMT, L.L.C., a limited liability company duly organized and existing under the laws of the State of Delaware, was duly adopted on May 15th, 1996.

Resolved, that DMT, L.L.C. organized and existing in the State of Delaware, hereby adopts the name DMT of Delaware, L.L.C. for use in Florida.

Dated: May 25, 1996


Member

Myles P. Berkman, President of
Microwave Services, Inc., Member

FILED STATE
SECRETARY OF CORPORATIONS
96 JUN 27 PM 3:56

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "DMT, L.L.C." IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWENTY-SECOND DAY OF MAY, A.D. 1996.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE NOT BEEN ASSESSED TO DATE.

FILED STATE SECRETARY'S OFFICE
MAY 27 1996
PH 3 59



Edward J. Freel

Edward J. Freel, Secretary of State

AUTHENTICATION

DATE

7956678

05-22-96

2599454 8300

960149166

APPLICATION BY FOREIGN LIMITED LIABILITY COMPANY TO FILE AMENDMENT TO APPLICATION FOR AUTHORIZATION TO TRANACT BUSINESS IN FLORIDA

FILED
SECTION 19 FORM 02

SECTION I (1-3 must be completed)

1. Name of limited liability company as it appears on the records of the Department of State: DMT, L.L.C. doing business in Florida as DMT of Delaware, L.L.C.
2. Jurisdiction of its organization: Delaware
3. Date authorized to do business in Florida: 6-27-96

SECTION II (4-7 complete only the applicable changes)

4. If the amendment changes the name of the limited liability company, when was the change effected under the laws of its jurisdiction of organization? 8-16-96
5. New name of the limited liability company: Associated Communications, L.L.C.

(Please start and with the words "limited company" or the abbreviation "L.C." if not so contained in the name at present.)

6. If the amendment changes the period of duration, indicate new period of duration:
N/A
7. If the amendment changes the jurisdiction of organization indicate new jurisdiction:
N/A

9/16/96
Date


Signature of a member or the authorized representative of a member

David J. Berkman, Director
Typed or printed name

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THAT THE SAID "DHT, L.L.C.", FILED A CERTIFICATE OF AMENDMENT, CHANGING ITS NAME TO "ASSOCIATED COMMUNICATIONS, L.L.C.", THE SIXTEENTH DAY OF AUGUST, A.D. 1995, AT 2:45 O'CLOCK P.M.



Edward J. Freel

Edward J. Freel, Secretary of State

2599454 8320

960269686

AUTHENTICATION:

8108039

DATE:

09-18-95

APPLICATION BY FOREIGN LIMITED LIABILITY COMPANY TO FILE AMENDMENT TO APPLICATION FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

FILED
97 JUN 24 AM 10
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

SECTION I (1-3 must be completed)

- 1. Name of limited liability company as it appears on the records of the Department of State: Associated Communications, L.L.C.
- 2. Jurisdiction of its organization: Delaware
- 3. Date authorized to do business in Florida: 6/27/96

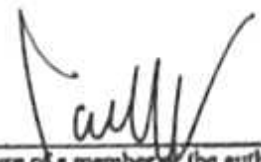
SECTION II (4-7 complete only the applicable changes)

- 4. If the amendment changes the name of the limited liability company, when was the change effected under the laws of its jurisdiction of organization? 6/11/97
- 5. New name of the limited liability company: Teligent, L.L.C.

(Name must end with the words "limited company" or the abbreviation "L.C." if not so contained in the name at present.)

- 6. If the amendment changes the period of duration, indicate new period of duration:
N/A
- 7. If the amendment changes the jurisdiction of organization indicate new jurisdiction:
N/A

June 19, 1997
Date

By: 
Signature of a member of the authorized representative of a member
Scott G. Bruce, Secretary of Microwave Services, Inc., a Member

Typed or printed name

State of Delaware
Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THAT THE SAID "ASSOCIATED COMMUNICATIONS, L.L.C.", FILED A RESTATED CERTIFICATE, CHANGING ITS NAME TO "TELIGENT, L.L.C.", THE ELEVENTH DAY OF JUNE, A.D. 1997, AT 11:46 O'CLOCK A.M.

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



Handwritten signature of Edward J. Freel in cursive script.

Edward J. Freel, Secretary of State

2599454 8320

971203024

AUTHENTICATION:

8520364

DATE:

06-19-97

The name, title, address, telephone number, and facsimile number for the person serving as ongoing liaison with the Commission and the person responsible for this application is as follows:

Application Liaison

Robert E. Stup, Jr., Esq.
Carolyn K. Kalbfus, Esq.
FLEISCHMAN and WALSH, L.L.P.
1400 Sixteenth Street, N.W.
Washington, D.C. 20036
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(202) 667-8543 (Fax)
RStup@fw-law.com
Counsel to Teligent, L.L.C.

Ongoing Liaison

Terri B. Natoli, Esq.
Senior Counsel
Teligent, L.L.C.
11 Canal Center Plaza
Suite 300
Alexandria, Virginia 22314
(703) 299-4400 (Voice)
(703) 299-4975 (Fax)

EXHIBIT D
Question 11

Teligent does not currently provide local or alternative local exchange service in any other state, however, it anticipates commencing market trials of its proposed services in Los Angeles in the near future, and in additional markets soon thereafter. Teligent has authority, has applied, or will soon apply for authority to provide such service in all jurisdictions where its owners, MSI and DSC are currently authorized to provide local service as well as those jurisdictions where Teligent recently received FCC authority to construct digital microwave facilities that will form the underlying basis for its competitive local networks. Due to the different state regulatory processes, some of Teligent's applications, such as the instant Application, are merely petitions to transfer to Teligent MSI's local service authority. Other jurisdictions require the filing of a new application followed by the subsequent cancellation of MSI's certificate. The attached list sets forth those states where Teligent will provide local service.

**JURISDICTIONS IN WHICH TELIGENT'S OWNERS, MSI OR DSC, ARE
CURRENTLY AUTHORIZED TO PROVIDE SERVICE AND
TELIGENT WILL OBTAIN AUTHORIZATION THROUGH
A TRANSFER OF SUCH AUTHORIZATION**

**Full Range of Service,
Interexchange and Local
Exchange Service**

California
District of Columbia
Florida
Georgia */
Illinois
Maryland */
Massachusetts
Missouri
New York
Pennsylvania
Texas
Commonwealth of Virginia

Private Line Service

Arizona
Minnesota
Ohio
Oregon
Pennsylvania
Washington State
Wisconsin

**ADDITIONAL JURISDICTIONS IN WHICH TELIGENT IS PREPARING TO FILE
OR HAS FILED INITIAL LOCAL EXCHANGE AND
INTEREXCHANGE APPLICATIONS**

Alabama
Arizona
Colorado
Connecticut
Delaware
Hawaii
Indiana
Kansas
Kentucky
Louisiana
Michigan
Minnesota
Nebraska
Nevada
New Jersey
New Mexico
North Carolina
Ohio

Oklahoma
Oregon
South Carolina
Tennessee
Utah
Washington State
Wisconsin

*/ These jurisdictions have already transferred or approved the authority in Teligent's name.

Customer Complaint Process

At the time Teligent initiates local service in Florida, it will have a customer service team in place and will have on file with the Florida Public Service Commission an effective price list which will set forth the method by which customers can file complaints with the company or otherwise inquire about their service. Moreover, at the time service is commenced for any subscriber, that subscriber will be provided with the company's toll-free, customer service telephone number, 1-800-689-9367, and a customer service point of contact for inquiries or complaints regarding any aspect of its service.

EXHIBIT F
Question 15(A)

Teligent will rely primarily on the financial qualifications of its two direct owners, MSI and DSC, and their respective owners, to provide its financial qualifications. These financial qualifications are a matter of record before the Commission in Docket Nos. 961337 (MSI) and 961377 (DSC) and will not be duplicated herein unless otherwise requested by the Commission. Teligent has attached hereto updated financials for its majority owner, MSI's parent company, The Associated Group, upon whom MSI relied for its financial qualifications. Because both MSI and DSC have been found to be financially qualified in the State of Florida, based on the substantial financial documentation provided earlier this year, Teligent believes that the processing of the instant Application should be possible on an expedited basis. Attached hereto is evidence of a \$50 million revolving line of credit which Teligent has secured from the Toronto-Dominion Bank for the express purpose of developing and providing its competitive telecommunications services.¹ Finally, upon request, Teligent will provide a Confidential and Proprietary 10-year forecast of operations for the State of Florida which will demonstrate that its working capital requirement for the State of Florida are met numerous times over by its revolving credit source alone. Accordingly, Teligent has the financial capability: 1) to provide the requested service in the geographic area proposed; 2) to maintain the requested service and, 3) to meet its lease or ownership obligations. Teligent submits that the Commission has sufficient information to find Teligent financially qualified to provide the services for which it seeks authority in Florida.

¹Note that the Revolving Credit Agreement references Associated Communications, L.L.C., which was Teligent, L.L.C.'s previous name. Teligent will provide complete copies of this agreement, should the Commission require it, subject to "Confidential and Proprietary" treatment.

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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
For the transition period from _____ to _____

Commission File Number 0-24924

THE ASSOCIATED GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State of Incorporation)

51-0260858

(I.R.S. Employer Identification No.)

200 Gateway Towers, Pittsburgh, Pennsylvania
(Address of principal executive offices)

15222
(Zip Code)

412-281-1907

(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
None.

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Title of each class

Common Stock, Class A, par value \$.10 per share
Common Stock, Class B, par value \$.10 per share
Preferred Stock Purchase Rights

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 No

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

As of March 25, 1997 the aggregate market value of the Registrant's Common Stock held by nonaffiliates of the Registrant was approximately \$485,436,000.

The number of shares of the Registrant's classes of Common Stock outstanding as of March 25, 1997:

Common Stock, Class A 9,382,962
Common Stock, Class B 9,398,410

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the 1997 annual meeting of stockholders, scheduled for June 5, 1997, are incorporated by reference into Part III as set forth herein.

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PART I

ITEM 1. BUSINESS

The Company

The Associated Group, Inc. (the "Company") is principally engaged in the ownership and operation of, and also owns interests in, a variety of wireless communications related businesses. In December 1994, the Company was spun-off (the "Spin-Off") from Associated Communications Corporation ("Associated"), which at the time was one of the largest independent cellular telephone system operators in the United States. The Company's businesses and other assets are described below.

Digital Termination Services

Microwave Services, Inc. ("MSI"), a wholly-owned subsidiary of the Company, was formed to pursue the provision of digital voice, high speed data and video services over a broadband wireless radio network. MSI applied for and received from the Federal Communications Commission ("FCC") licenses in top Statistical Metropolitan Service Areas ("SMSA") to provide Digital Termination Services utilizing channels in the 18 GHz frequency band (18.870 GHz to 19.260 GHz) allocated pursuant to the rules governing common carrier Digital Electronic Message Services ("DEMS") in the United States.

In March 1996, MSI and Digital Services Corporation ("DSC"), another licensee of DEMS channels, formed a joint venture limited liability company, DMT, L.L.C., now known as Associated Communications, L.L.C. ("ACOM"), in which MSI has a controlling 55% voting member equity interest, to provide administrative and management services to each of MSI and DSC. Pursuant to an Administration and Management Services Agreement (the "Management Agreements") entered into between ACOM and each of MSI and DSC, MSI and DSC each seek to achieve economies of scale for their licensed systems and their customers in an effort to make use of their licensed frequencies more efficiently and to provide a broader range and greater quality and quantity of services than either of the companies would be able to accomplish independently. ACOM's services to MSI and DSC include, among others, network design, purchase of equipment, deployment and maintenance of network infrastructure, securing of site leases, and marketing of services to potential customers. In addition, ACOM has the option to require the contribution of the DEMS licenses owned by each joint venture member to ACOM, subject to the approval of the FCC and other applicable governmental authorities. MSI and DSC hold DEMS licenses in 31 of the top SMSAs in the United States. In 1996, ACOM filed applications for additional DEMS licenses.

On August 30, 1996, the FCC issued an Order (the "Freeze Order") freezing the filing of applications for new licenses (including amendments and modifications to existing licenses) for DEMS in the 18 GHz band. The Freeze Order held in abeyance ACOM's and MSI's applications for additional DEMS licenses pending the outcome of an FCC review of the current licensing approach for DEMS.

On March 10, 1997, ACOM entered into a Stock Contribution Agreement (the "Stock Agreement") with another DEMS licensee and its sole shareholder (the "Sole Shareholder") for the contribution of all of the stock of the licensee to ACOM in exchange for an initial cash payment and additional cash payments and ownership interests in ACOM upon consummation of the transactions and ACOM's acquisition of the stock and the licenses contemplated by the Stock Agreement. Consummation of the transactions and transfer of these licenses is subject to certain closing conditions and the receipt of all necessary regulatory approvals, including approval by the FCC. The amount of the equity interest in ACOM to be issued to the Sole Shareholder is dependent upon certain conditions, but shall not exceed 5% determined as of the date of the Stock Agreement. Subsequent to a closing, the Sole Shareholder will have a full member interest in ACOM pursuant to the Limited Liability Company Agreement, to which MSI and DSC are parties.

On March 14, 1997, the FCC issued an Order (the "Relocation Order") providing for the relocation of DEMS from the

18 GHz to the 24 GHz band (24.25 GHz to 24.45 GHz and 25.05 GHz to 25.25 GHz). The Relocation Order addressed the government's concerns regarding potential interference with government satellite facilities at 18 GHz, as well as potential coordination issues with a proposed commercial satellite network. Pursuant to the Relocation Order, DEMS will be relocated from 100 MHz over 5 channels at 18 GHz to 400 MHz over 5 channels at 24 GHz, allowing DEMS systems to maintain equivalent information capacity to similarly engineered systems at 18 GHz. MSI and DSC will be relocated on a channel-by-channel basis to the new band. In the Relocation Order, the FCC also stated that it would grant licenses for pending applications that had passed the 60-day period for filing mutually exclusive applications prior to the Freeze Order. The Relocation Order is subject to administrative or judicial review.

The following table represents a summary (upon implementation of the Relocation Order) of (i) licenses held by MSI and DSC, which are subject to the Management Agreements; (ii) licenses granted to MSI pursuant to pending applications; and (iii) licenses to be acquired pursuant to the Stock Agreement, subject to necessary regulatory approvals, including the FCC.

<u>SMSA Rank</u>	<u>Market</u>	<u>Amount of Spectrum (MHz) Upon Relocation to 24 GHz</u>
1	New York, NY	400
2	Los Angeles, CA	400
3	Chicago, IL	400
4	Philadelphia, PA	320
5	Detroit, MI	400
6	Dallas, TX	400
7	Houston, TX	400
8	Washington, DC	400
9	San Francisco, CA	320
10	Boston, MA	400
12	Atlanta, GA	400
13	San Diego, CA	320
15	Minneapolis, MN	400
17	St. Louis, MO	400
18	Baltimore, MD	320
19	Phoenix, AZ	400
20	Seattle, WA	400
21	Pittsburgh, PA	400
22	Denver, CO	80
23	Miami, FL	400
24	Tampa, FL	400
26	Cleveland, OH	320
27	Portland, OR	320
28	San Jose, CA	240
29	Cincinnati, OH	240
30	Kansas City, MO	320
31	Sacramento, CA	320
32	Milwaukee, WI	320
33	San Antonio, TX	320
35	Indianapolis, IN	320
36	Columbus, OH	80

In addition, upon the grant of licenses by the FCC pursuant to pending applications which passed the 60-day period for filing mutually exclusive applications prior to the Freeze Order, ACOM will hold a DEMS license for 1 channel (80 MHz at 24 GHz) in each of the following markets:

Salt Lake City, UT	Birmingham, AL	Akron, OH
Orlando, FL	Austin, TX	Greenville, SC
Buffalo, NY	Honolulu, HI	El Paso, TX
New Orleans, LA	Dayton, OH	Omaha, NE
Hartford, CT	Albany, NY	Wilmington, DE
Nashville, TN	Charlotte, NC	Albuquerque, NM
Norfolk, VA	Richmond, VA	Springfield, MA
Rochester, NY	Tulsa, OK	Baton Rouge, LA
Memphis, TN	Columbus, OH	Charleston, SC
Jacksonville, FL	Raleigh, NC	New Haven, CT
Oklahoma City, OK	Fresno, CA	Stockton, CA
Greensboro, NC	Tucson, AZ	Newport News, VA
Louisville, KY	Allentown, PA	Santa Barbara, CA
West Palm Beach, FL	Ventura, CA	Trenton, NJ
Las Vegas, NV	Syracuse, NY	

DEMS licenses authorize the construction of transmission stations using the specified channels at sites generally within these SMSA regions for the purposes of providing DEMS, which may include both point-to-multipoint and point-to-point applications. Unlike certain other portions of the spectrum for fixed point-to-point services which are typically licensed on a per transmission path basis following frequency coordination, a DEMS licensee has exclusive use of the spectrum within its licensed SMSA.

ACOM continues to build its development team, including additional key management, marketing, sales and administrative personnel. On September 1, 1996, Alex J. Mandl, formerly President and Chief Operating Officer of AT&T, joined ACOM as its Chairman and Chief Executive Officer. ACOM has also appointed Kirby J. Pickle, Jr., formerly Executive Vice President of MFS Communications Corporation and President of one of its principal subsidiaries, UUNet Technologies, Inc., as President and Chief Operating Officer. In addition, Laurence E. Harris, formerly Senior Vice President and General Counsel of MCI Communications, Inc., has joined ACOM as Senior Vice President and General Counsel.

MSI, through ACOM, seeks to expand its current service offerings (consisting of internet access and microwave carrier services) to become a full service broadband telecommunications provider, and to market a variety of services, which include switch-based, fiber-quality digital services as a Competitive Local Exchange Carrier ("CLEC"). ACOM plans to offer services to its customers both on-net, through the broadband fixed wireless network, and off-net, by reselling particular network elements. Initial customers are anticipated to be small and medium sized businesses. Although there can be no assurance, the Company believes that its broadband wireless network will be highly flexible and modular, and will have significant advantages over wired alternatives with regard to cost, speed of deployment, ease of installation, comparable quality and reliability, and compatibility with existing telecommunications architectures.

The Company's telecommunications services are subject to varying degrees of federal, state and local regulation. Generally, the FCC exercises jurisdiction over all telecommunications service providers to the extent such services involve the provision of jurisdictionally interstate or international telecommunications, including the resale of long distance services, the provision of local access services necessary to connect callers to long distance carriers, and the use of electromagnetic spectrum (i.e., wireless services). With the passage of the Telecommunications Act of 1996 (the "Telecommunications Act"), the FCC's jurisdiction has been extended to include certain interconnection and related matters that traditionally have been considered subject primarily to state regulation. The state regulatory commissions retain nonexclusive jurisdiction over the provision of telecommunications services to the extent such services involve the provision of jurisdictionally intrastate telecommunications.

In order to provide local exchange services, MSI must obtain the approval of state regulatory authorities prior to offering such services in each state. MSI is currently authorized to operate as a CLEC in Florida, Illinois, Massachusetts, New York and the District of Columbia, and has applications pending in each of the other jurisdictions for which it holds an FCC license. There can be no assurance that MSI will obtain or retain such state authorizations. Further, as a CLEC, MSI will be subject to additional state regulatory and service requirements, including those relating to quality of service.

It is expected that MSI's service offerings will compete with those offered by the incumbent local exchange carriers ("LECs"), fiber-based telecommunications providers, as well as other wireless carriers, including 2 GHz, 28 GHz and 38 GHz wireless communications operators, point-to-point microwave operators and proposed global broadband satellite systems. Many of these potential competitors have substantially greater financial, technical, marketing, sales and other resources than MSI. In addition, the FCC has stated in the Relocation Order that it will conduct a rulemaking proceeding regarding the issuance of additional DEMS licenses in the 24 GHz band. The grant of additional authorizations, as well as the auction and grant of additional licenses in other frequency bands, could result in increased competition. The Company believes that MSI, through ACOM, will be able to compete effectively in the marketplace, although there can be no assurance in this regard.

As required by the Telecommunications Act, in August 1996 the FCC adopted new rules implementing the Telecommunications Act (the "Interconnection Order"). These rules constitute a pro-competitive, deregulatory national policy framework designed to remove or minimize the regulatory, economic and operational impediments to full competition for local services, including switched local exchange service. Among other things, the Interconnection Order established rules requiring LECs to interconnect with new entrants such as MSI pursuant to certain enumerated procedures. In order to establish interconnection arrangements with the LECs, MSI has initiated, pursuant to the Interconnection Order, negotiations with several LECs. No assurance can be given that MSI will be able to enter into interconnection arrangements that are optimal to MSI's particular economic and technological requirements.

The Company does not anticipate that the Relocation Order will have an adverse impact on the prospects of MSI or ACOM's success in the marketplace. However, no assurance can be given in this regard. In particular, the Company is unable to predict the availability, pricing and technical sufficiency of equipment required to utilize the 24 GHz frequency, or the extent to which implementation of the Relocation Order will affect MSI's service offerings in the licensed markets.

TruePosition™ Wireless Location System

Through its wholly-owned subsidiary, Associated RT, Inc. ("ART"), the Company is developing and seeking to commercialize systems and related services for locating cellular telephones and other wireless transmitters, through its TruePosition Wireless Location System ("TruePosition"). TruePosition is an overlay system designed to enable mobile wireless service providers to determine the location of any cellular or Personal Communication Services ("PCS") telephone. TruePosition uses patented advanced time difference of arrival ("TDOA") technology to calculate the latitude and longitude of any designated wireless telephone or transmitter and forwards this information in real time to any desired application software. The system's design is intended to support many cellular and end-user applications, including enhanced 911 services ("E911"), cellular fraud detection and prosecution, location sensitive billing, fleet management systems, cellular system optimization, as well as various vehicle, object and personal location applications. The system has initially been developed to support analog cellular telephony, including the existing United States base of an estimated 46 million wireless telephones, without alteration to the telephone handsets. ART is in the process of developing support for digital formats of cellular and PCS telephony.

There are three basic components of the TruePosition system. The Signal Collection System ("SCS") consists of a wideband digital radio which is generally located at certain of the existing cell sites of a wireless carrier. The SCS collects signals transmitted by each mobile telephone on the wireless system's reverse control channel. These signals are generated periodically (or at the instruction of the carrier) while the mobile telephone is turned on or otherwise in use. Therefore, it is not necessary for the mobile telephone user to be on a telephone call to be located by TruePosition, nor does TruePosition require the mobile telephone user to make any adjustments or additions to the mobile telephone handset. The collected signals are transferred to a TDOA Location Processor, which performs digital signal processing and algorithmic functions to determine the latitude and longitude of the signal's origination. The latitude and longitude, along with other information, such as the mobile telephone's Mobile Identification Number, the dialed digits, speed of travel, direction of travel and the mobile telephone's Electronic Serial Number, is then transmitted to an Applications Processor, consisting of a variety of

software packages that utilize the location data for specific applications. To date, ART has developed three software packages to be used with the system. The first is an interface between TruePosition and E911 systems that forwards location information in real time to an emergency operator when a mobile telephone user dials "911." ART has also developed a stand-alone billing system for a wireless carrier that can be used for location sensitive billing. The third application is a limited vehicle management application that is intended to demonstrate a variety of functionality to potential end-users, although it is expected that an actual end-user would require additional customized development. ART is also creating a general purpose application programming interface, so that third party developers can also build software packages that work with TruePosition.

According to estimates of the Cellular Telephone Industry Association ("CTIA"), 18 million emergency calls are made each year from wireless telephones. CTIA also estimates that nearly two-thirds of existing wireless telephone subscribers purchased their wireless telephones for personal safety reasons. In 1994, the FCC initiated a rulemaking procedure for the availability of basic 911 services and the implementation of E911 for wireless services.

On June 12, 1996, the FCC issued a Report and Order (the "Order") which requires Commercial Mobile Radio Service providers of real time voice services to offer E911 access and services to mobile radio callers. The Order followed discussions between the FCC and representatives of the wireless industry, principally CTIA, and public safety organizations, principally the National Emergency Number Association, the Association of Public Safety Communications Officials and the National Association of State Nine One One Administrators, regarding wireless compatibility issues and related matters. The Order mandates a two phase implementation of location capability and also provides that the processing and transmission of E911 and location information may not be subject to any user validation or similar procedure. In Phase I, which must be implemented by March 1998, wireless providers must provide cell site and call-back information for wireless 911 callers to the Public Safety Answering Point, where emergency service personnel handle 911 calls. Phase II, which must be implemented by October 2001, requires wireless providers to report the location of wireless 911 callers with an accuracy of 125 meters (410 feet) for 67% of all such calls. Both phases require 911 organizations to make a formal request to the carrier for such services, and require a mechanism to fund the technology upgrades. TruePosition has been designed to provide wireless carriers with the ability to meet these requirements, although there can be no assurance in this regard.

There are currently approximately 60 individuals working on TruePosition, including consultants engaged by ART to assist in development efforts. In addition, ART continues to build its team, which will include additional development, marketing, sales and administrative personnel. In March 1997, Kent R. Sander joined ART as President and Chief Operating Officer, and the Company as a Vice President. Mr. Sander spent fourteen years at Ericsson Radio Systems, Inc., the principal U.S. subsidiary of the Swedish telecommunication firm, LM Ericsson, most recently as Vice President, Business Operations, East Region, in which he managed all of Ericsson's activities in the East Region, including sales, operations and engineering.

ART continues to advance the commercialization process for TruePosition. In December 1996, ART, in cooperation with the Greater Harris County 911 Emergency Network and Houston Cellular, a partnership of BellSouth and AT&T Wireless, successfully demonstrated the first installed TruePosition system in an eight cell-site platform in Houston, Texas. In January 1997, in conjunction with Comcast Cellular Communications, Inc. ("Comcast"), the State of New Jersey, Bell Atlantic Corporation and other E911 participants, ART launched a trial demonstration of TruePosition in New Jersey. The New Jersey Wireless Enhanced 911 System covers the southernmost fifty miles of the I-295/New Jersey Turnpike corridor, and provides real time location information for wireless E911 calls originating from Comcast subscribers within the trial area. The trial is currently scheduled to run approximately through the end of April 1997. ART continues to conduct discussions with Comcast and several other wireless carriers regarding the potential commercial implementation of TruePosition systems, although there can be no assurance that any commercial agreements will be reached or that ART will be successful in commercializing its TruePosition technology.

There exist several alternative location technologies, including global positioning systems, angle of arrival, measurement of signal attenuation, as well as other forms of time difference of arrival technology. ART believes that the TruePosition technological approach has significant advantages over such competing technologies. However, there can be no assurance as to the ultimate success of TruePosition technology versus competing technologies. In addition, potential competitors which are developing these alternative location technologies include major domestic and international

companies, many of which have substantially greater financial, technical, marketing, sales and other resources than the Company.

In addition to TruePosition, ART currently owns a 12.7% equity interest in Teletrac, Inc. ("Teletrac"), consisting of a combination of common and preferred stock, for which ART paid in the aggregate \$6 million. Teletrac is in the business of providing location and, potentially, messaging services primarily for vehicle and fleet management. Its technology differs from that of TruePosition in that it requires the installation of dedicated equipment in the vehicle to be located, and operates in a band which requires Teletrac to have a specific license for location services from the FCC. TruePosition, in contrast, is designed to operate on mobile telephone systems already licensed by the FCC.

Mexican Cellular Telephone System

As of December 31, 1996, the Company, through a wholly-owned subsidiary, Associated Communications of Mexico, Inc. ("ACM"), owned 30.2% of the capital stock of Grupo Portatel, S.A. de C.V. ("Grupo"), a Mexican corporation of which Portatel del Sureste, S.A. de C.V. ("Portatel") is a wholly-owned subsidiary. Portatel is licensed to provide cellular telephone services in Region 8, covering southeastern Mexico and the Yucatan Peninsula. ACM and another shareholder of Grupo (the "Grupo Shareholder") have granted voting rights with respect to, and have agreed to contribute, their interests in Grupo to a joint venture limited liability company, known as Grupo Holdings, L.L.C. ("Grupo Holdings"). ACM and the Grupo Shareholder are the only members of Grupo Holdings, in which ACM has a 61.6% controlling equity interest.

During 1995 and January 1996, Portatel failed to make certain debt payments under various credit facilities, which are guaranteed by a vendor of Portatel (the "Guarantor"). Accordingly, payments were made by the Guarantor to Portatel's lenders on Portatel's behalf. As a result of Portatel's failure to make such payments, the Guarantor had the right to require Grupo to transfer to the Guarantor 40% of the stock of Portatel held in trust as collateral for such guarantee, but did not exercise its right to acquire such shares. Grupo, Portatel, and certain shareholders of Grupo (including ACM), have entered into a Contribution Agreement dated as of January 31, 1996 with the Guarantor for the purpose of converting approximately \$14.7 million of Portatel's debt, which was paid by the Guarantor, into an approximate 21.7% equity interest in Grupo. The Guarantor will continue to guarantee the remaining debt of Portatel of approximately \$10.4 million, secured by an approximate 30.7% equity interest in Portatel. The transactions contemplated by the Contribution Agreement were subject to certain Mexican regulatory consents and approvals, the last of which was received in the first quarter of 1997. After the closing under the Contribution Agreement, excluding the effect of the agreements mentioned below, Grupo Holdings will have a 38.4% voting equity interest in Grupo. Accordingly, through control of Grupo Holdings and certain agreements among ACM, the Grupo Shareholder and another shareholder of Grupo, ACM has sufficient control over the assets of Grupo such that the Company consolidated the financial statements of Grupo effective January 1, 1996 (see Note 3 to the Company's financial statements included in Item 14 of this Annual Report on Form 10-K).

A subsidiary of Telefonos de Mexico, S.A. de C.V. ("RadioMovil") holds a license to provide nationwide cellular service in Mexico. The Company believes that Portatel competes effectively with RadioMovil, however, competition has been intense and there can be no assurance in this regard. The Mexican Ministry of Communications and Transportation ("SCT") regulates the tariffs of cellular service providers in Mexico and service rate increases may only be implemented with SCT approval.

Portatel has been significantly affected by the decline in the state of the Mexican economy, which began in late 1994 as a result of the devaluation of the Mexican new peso. Resulting high inflation rates have continued into 1996 and have impacted Portatel's revenues, financing and procurement. The Company's operating results with respect to its investment in Grupo will continue to be subject to fluctuations in the peso's exchange rate and inflation in the Mexican economy. One potential impact on the Company is the possibility of an increase in cash outlays to Grupo, the extent of which is not readily determinable.

Marketable Equity Securities

As of March 25, 1997, the Company's portfolio of marketable equity securities (the "Portfolio Securities"), with a market value of approximately \$420,665,000, includes 12,479,976 shares of Tele-Communications, Inc. ("TCI") Group Series A Common Stock, 7,071,852 shares of TCI Group Series B Common Stock, 5,463,970 shares of Liberty Media ("Liberty") Group Series A Common Stock, 1,757,963 shares of Liberty Media Group Series B Common Stock, 1,247,997

shares of TCI Satellite Entertainment, Inc. ("TCI Satellite") Class A Common Stock, 707,185 shares of TCI Satellite Class B Common Stock, and other securities.

Holdings in TCI and Liberty account for over 95% of the value of the Company's portfolio of marketable equity securities at March 25, 1997. TCI is principally engaged in the development and operation of cable television systems and is one of the nation's largest cable television companies in terms of subscribers. Liberty is the cable television programming "tracking" stock of TCI. Based on the number of outstanding TCI and Liberty shares as of January 31, 1997 reported in TCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, the Company's TCI and Liberty holdings represent approximately 5.6% of the outstanding aggregate voting power of TCI and Liberty.

In December 1996, TCI distributed the stock of its satellite business unit, TCI Satellite, to holders of TCI Group Series A and TCI Group Series B Common Stock. The Company received a distribution of one share of TCI Satellite Class A Common Stock and one share of TCI Satellite Class B Common Stock for every ten shares of TCI Group Series A Common Stock and TCI Group Series B Common Stock owned, respectively. Based on the number of outstanding shares of TCI Satellite as of December 31, 1996 reported in TCI Satellite's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, the Company's holdings represent approximately 5.8% of the outstanding voting power of TCI Satellite.

Other marketable equity securities owned by the Company have an aggregate market value of approximately \$4,392,000 as of March 25, 1997.

The Company utilizes the Portfolio Securities as a source of funds for operations and development of its various businesses. In this regard, in order to provide ART and MSI with an assured source of capital for their respective development programs, in 1996 the Company and its wholly-owned subsidiary which holds the Portfolio Securities ("Portfolio Sub") entered into an agreement with ART and MSI whereby the Company committed to contribute to them as capital during 1996 and 1997 specified minimum annual amounts. In turn, Portfolio Sub agreed to obtain through borrowings or other sources of funds and to distribute to the Company the cash amounts necessary for the Company to meet such capital contribution commitments to ART and MSI, as well as certain additional specified minimum quarterly cash amounts during 1996 and 1997 to fund the Company's operating cash requirements during those years. In addition, the Company has adopted a policy of disposing of a portion of the Portfolio Securities from time to time, to the extent net operating loss carryforwards are available to offset tax liabilities resulting from such dispositions and otherwise as deemed appropriate by the Company, to fund the development and commercialization of its wireless communications technologies and to make acquisitions of operating companies. Consistent with this policy, in 1996 the Company sold certain of its marketable securities for pretax proceeds of approximately \$3,414,000 at a gain of \$3,398,000, and in 1997, as of March 25, 1997, for pretax proceeds of approximately \$2,245,000 at a gain of \$2,223,000 (see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources").

Radio Broadcasting

The Company owns and operates WSTV-AM and WRKY-FM in Steubenville, Ohio and WOMP-AM/FM in Bellaire, Ohio, which serves Bellaire and the adjacent Wheeling, West Virginia markets. Since the Bellaire and Wheeling markets are adjacent to the Steubenville market, the radio operations share certain services. Additionally, the Company owns and operates WCEZ-FM in Delaware, Ohio, serving the Delaware/Columbus markets.

The following table sets forth certain information concerning the broadcasting stations:

<u>Market</u>	<u>Station</u>	<u>Format</u>	<u>Stations in Market (AM & FM Combined)</u>
Steubenville, OH and Weirton, WV	WSTV-AM WRKY-FM	News-Talk-Sports Hot Country	5
Wheeling, WV and Bellaire, OH	WOMP-AM WOMP-FM	News-Talk-Sports Bright Adult Contemporary	12
Delaware/ Columbus, OH	WCEZ-FM	Soft Adult Contemporary	29

The Company's radio broadcasting stations are subject to the regulations and licensing requirements of the FCC. The FCC is authorized to issue, revoke and modify broadcasting licenses, determine station frequencies, areas to be served and power to be used, and to impose penalties for noncompliance with its regulations. Pursuant to the Telecommunications Act, radio broadcast licenses may be granted by the FCC for a maximum period of eight years, and, upon application, may be renewed for successive eight year periods. Each of the radio broadcast licenses listed above has been renewed under the Telecommunications Act for such eight year periods, and the term of each license continues to October 1, 2004.

Personal Communications Services

The Company has a 75% interest in a general partnership which holds a 4.42% interest in Omnipoint Communications, Inc. ("OCI"), a subsidiary of Omnipoint Corporation ("Omnipoint Parent"). OCI was awarded one of three pioneer's preferences by the FCC to receive a license to construct and operate a broadband PCS system. The license received by OCI covers the New York Major Trading Area ("MTA"), a region with a population of approximately 27 million, including New York City. OCI is required to make a payment of approximately \$350 million for its license, payable over five years (interest only payments during the first two years). In January 1996, Omnipoint Parent successfully completed an initial public offering and is currently traded on the Nasdaq National Market under the symbol "OMPT."

Specialized Mobile Radio

The Company, through its wholly-owned subsidiary, Associated SMR, Inc. ("ASMR"), has an approximate 14% equity investment in Corporacion Mobilcom, S.A. de C.V. ("Mobilcom"), a Mexican corporation which owns and operates SMR systems. SMR, or "trunked mobile radio," is a wireless communication service which can transmit voice and data. Mobilcom holds licenses or equity interests in corporations licensed to provide trunked mobile radio service in the 800 MHz and 400 MHz bands in major metropolitan areas throughout Mexico, including Mexico City, Guadalajara and Monterrey, as well as the connecting highways.

On August 23, 1996, Mobilcom and its shareholders completed a transaction with Nextel Communications, Inc. ("Nextel"), an existing shareholder of Mobilcom, pursuant to which Nextel purchased an additional 19% equity interest in Mobilcom. In addition, ASMR and certain other shareholders of Mobilcom (collectively, the "Mobilcom Investors"), entered into a put-call agreement (the "Put-Call Agreement") with Nextel, pursuant to which, under certain circumstances, the Mobilcom Investors have the right to cause Nextel to purchase, and Nextel shall have the right to buy, the entire equity interest of the Mobilcom Investors. The Put-Call Agreement became effective on October 24, 1996 (the "Effective Date"). After the first anniversary of the Effective Date, and prior to the third anniversary of the Effective Date, the Mobilcom Investors collectively shall have the right to put their shares to Nextel upon the taking of certain actions by Mobilcom, if the Mobilcom Investors, or directors designated by them, have voted against such actions (a "Put Event"). On the third anniversary of the Effective Date, a Put Event is deemed to have occurred automatically, and if the Mobilcom Investors do not exercise their put rights, Nextel shall have the right to call such shares. A Put Event shall also be deemed to have occurred on January 22, 1998 if the Mobilcom Investors have not had the opportunity to vote for or against certain actions proposed by Mobilcom. The purchase price for the put-call shares is based upon a fair market value of Mobilcom, which fair market value shall in no event be deemed to be less than \$150 million. In the event that the fair market value of

Mobilcom exceeds \$250 million, for purposes of the Put-Call Agreement, the fair market value shall be deemed to be \$250 million plus 50% of the amount by which such valuation exceeds \$250 million.

Other Wireless Communications Businesses

The Company owns and operates a digital wireless communications network in the Los Angeles, California market. The microwave network operates as a Competitive Access Provider ("CAP") of local exchange service to interexchange carriers and private users, who transmit voice and data through the network. The CAP has initiated a program to expand its service offering in its licensed market in cooperation with MSI and ACOM. The CAP faces significant competition from other alternative access providers, particularly a LEC and companies using fiber optic technology.

Retail Art Gallery

Associated American Artists ("AAA") is an art gallery owned by the Company which sells original prints, drawings, oil paintings, sculptures and related works of art, located at Twenty West 57th Street in New York City. The gallery's inventory has been acquired directly from artists, as well as from dealers, collectors and estates of artists. The gallery also holds inventory for sale on consignment. The need to maintain a broad selection of works requires a large inventory investment in relation to sales volume. AAA competes with other galleries in the United States. AAA maintains exhibitions of outstanding artists from Old Masters to Contemporary Masters, and loans works for exhibitions to major museums, universities, libraries and other institutions around the country.

Industry Segments

Financial information by industry segment is included in Note 17 to the Company's financial statements included in Item 14 elsewhere in this Annual Report on Form 10-K.

Regulatory Environment

Most of the businesses which the Company either owns or in which the Company has an interest are subject to regulation at federal, state and local levels in the United States or at various levels in other countries. The Company's domestic broadcasting and communications assets and investments are generally regulated by the FCC, and its Mexican communications assets and investments are subject to Mexican regulatory authority. The Company currently anticipates that similar regulations will govern certain of the industries in which it is likely to operate or make investments in the future. Changes in the laws or regulations governing these industries, in the United States or elsewhere, could adversely affect the Company's business.

At the time of the Spin-Off, the Company's indirect interest in the Portfolio Securities constituted a substantial majority of the total value of its assets, and the Company could have been considered to be engaged in the business of holding or owning investment securities within the meaning of the Investment Company Act of 1940 (the "1940 Act"), potentially subjecting the Company to regulation as an investment company by the Securities and Exchange Commission (the "Commission") and potentially significantly and adversely affecting the Company's activities. In accordance with the rules promulgated by the Commission under the 1940 Act, the Company was deemed not to be engaged in such business (and was therefore not subject to such regulation) for a period of at least one year following the Spin-Off because of the Company's intent to be engaged primarily in a business other than holding or owning investment securities as soon as reasonably possible and, in any event, prior to the end of such one-year period. These rules require that the Company's intent be evidenced by the Company's business activities and an appropriate resolution of its Board of Directors. The Board of Directors adopted such a resolution.

During 1995 and 1996, the Board of Directors of the Company conducted extensive reviews of the Company's development, activities, assets and sources of income. The Board of Directors in particular reviewed the Company's progress in developing various communications technologies, ranges of valuations for the Company's businesses and other assets at that time, the Company's policy of borrowing against the Portfolio Securities, and disposing of a portion of the Portfolio Securities from time to time to the extent net operating loss carryforwards are available to offset tax liabilities resulting from such dispositions and otherwise as deemed appropriate by the Company, to finance the Company's development and commercialization of its communications technologies and to make acquisitions of operating companies,

the commitments of the Company and Portfolio Sub to fund the anticipated capital needs of ART and MSI, as well as the anticipated operating cash requirements of the Company, as described above, the Company's restructuring of certain of its subsidiaries, the Company's interest in acquiring companies with emerging technologies and its efforts to do so, and the activities of the Company's officers and employees. In this connection the Board of Directors worked with professional advisors and also reviewed their analyses.

Based on this review, the Board of Directors determined that the Company was primarily engaged in businesses other than investing, owning, holding or trading in securities, and accordingly was not at those times required to register as an investment company under the 1940 Act. The Board's determination has been confirmed as a result of events occurring, and activities engaged in, by the Company during 1996. For example, as a result of the rapid development of the Company's broadband wireless communications business and wireless location business, as well as a decrease in the net after-tax value of the Portfolio Securities, the Company believes that the Portfolio Securities no longer constitute even 40% of the total value of the Company's assets. However, the Company's ability to continue not being subject to such registration is subject to numerous factors, some of which may be outside the Company's control. These factors include, among others, whether the Company's wireless communications businesses continue to develop favorably, whether the Company makes additional acquisitions, whether the Portfolio Securities increase or decrease in value, and the rate at which the Company borrows against and disposes of Portfolio Securities in order to finance its developing businesses and acquisitions. In view of the foregoing factors, no assurance can be given that the Company will not at some point in the future be required to register as an investment company or business development company under the 1940 Act.

Employees

As of March 25, 1997, the Company had an aggregate of 300 employees, including 47 employees of ACOM and 145 employees of Grupo and its subsidiaries.

ITEM 2. PROPERTIES

The Company owns its principal executive office in Pittsburgh, Pennsylvania. Additional executive offices are leased in New York, New York; Bala Cynwyd, Pennsylvania; Tampa, Florida and Wilmington, Delaware. The Company's wireless communications businesses lease office space in Alexandria, Virginia; Philadelphia, Pennsylvania; Los Angeles, California, and in southeastern Mexico. These businesses also lease transmitter and antenna sites in various major cities in the United States and in southeastern Mexico. The Company's radio broadcast operations maintain administrative offices, studios, transmitter and antenna sites, located in Bellaire, Delaware and Steubenville, Ohio, which are either owned or leased. The Company's New York City art gallery leases sales and administrative offices.

See Note 12 to the Company's financial statements included in Item 14 elsewhere in this Annual Report on Form 10-K for additional information regarding future minimum lease commitments.

The Company's management believes that its properties are adequate for the existing business conditions and are in adequate operating condition.

ITEM 3. LEGAL PROCEEDINGS

On August 30, 1996, the FCC issued a Freeze Order freezing the filing of applications for new licenses (including amendments and modifications to existing licenses) for DEMS in the 18 GHz band. The Freeze Order held in abeyance ACOM's applications for additional DEMS licenses, pending the outcome of an FCC review of the current licensing approach and related issues in the 18 GHz band. The Freeze Order did not affect the ability of existing DEMS licensees, including MSI and DSC, to continue to build out their licensed markets. On September 30, 1996, MSI and DSC filed a Joint Petition for Reconsideration of the Freeze Order requesting clarification or amendment of portions thereof.

Subsequently, Teledesic Corporation ("Teledesic"), MSI and DSC filed petitions and pleadings with the FCC with respect to the status of DEMS licenses held by MSI and DSC, and whether or not Teledesic's proposed satellite system could frequency coordinate in the 18 GHz band with existing licensed terrestrial DEMS networks and therefore co-exist in

the 18 GHz band. Specifically, on September 6, 1996, Teledesic filed a Consolidation Petition to Deny and Petition to Determine Status of Licenses with respect to the DEMS licenses held by MSI and DSC. On September 16, 1996, MSI and DSC filed with the FCC a Joint Petition to Deny Teledesic's Applications for a Non-Geostationary Orbit Fixed Satellite Service System, seeking a denial of Teledesic's application for licenses in the 18 GHz band.

On February 24, 1997, MSI, DSC, ACOM, and Teledesic entered into an agreement to resolve their dispute regarding sharing and frequency coordination in the 18 GHz DEMS band. Pursuant to the agreement, the parties subsequently withdrew all pleadings before the FCC with regard to these proceedings.

On March 14, 1997, the FCC issued an Order providing for the relocation of DEMS from the 18 GHz to the 24 GHz band, modifying the freeze on the 18 GHz band to provide for, among other things, the grant of licenses for pending applications that had passed the 60-day period for filing mutually exclusive applications prior to the Freeze Order.

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

During the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K, there were no matters submitted to a vote of public security holders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Class A Common Stock (symbol: AGRPA) and Class B Common Stock (symbol: AGRP B) are traded on the Nasdaq National Market®. The table below sets forth the quarterly high and low bid quotations for the Class A Common Stock and the Class B Common Stock for each quarter since January 1, 1995, compiled from information supplied by Nasdaq®. All prices represent inter-dealer quotations without retail mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions.

	<u>Class A</u>		<u>Class B</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1995:				
First Quarter.....	\$23.00	\$18.50	\$22.88	\$18.00
Second Quarter.....	19.50	15.00	19.00	14.75
Third Quarter.....	22.50	17.00	22.50	16.25
Fourth Quarter.....	20.75	16.50	20.75	16.50
1996:				
First Quarter.....	\$21.00	\$17.75	\$20.75	\$18.00
Second Quarter.....	34.75	19.00	34.25	18.75
Third Quarter.....	34.00	22.25	33.00	22.25
Fourth Quarter.....	33.50	27.50	33.50	27.25

On March 25, 1997, the Company's Class A Common Stock and Class B Common Stock were held by approximately 495 and 457 stockholders of record, respectively, which numbers do not include stockholders who beneficially own shares held in street name by brokers.

The Company does not anticipate the payment of cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected historical financial data of the Company for each of the past five years. The financial data is on a consolidated basis for the periods subsequent to the Spin-Off and on a combined basis for the periods prior to the Spin-Off. Combined financial data includes the accounts of the Company, certain of its subsidiaries, and certain other assets and liabilities of Associated, all transferred to the Company prior to the Spin-Off. The table should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements of the Company and notes thereto, referred to in Item 8.

	Year ended December 31				
	1996 (A)	1995	1994	1993	1992
	<i>(In Thousands Except Per Share Amounts)</i>				
Income Statement Data					
Revenues	\$ 20,035	\$ 4,272	\$ 4,664	\$ 6,075	\$ 5,550
Cost and expenses	52,821	20,938	17,555 (B)	10,360	8,606
Operating loss	(32,786)	(16,666)	(12,891)	(4,285)	(3,056)
Equity in loss of affiliates	(2,119)	(2,912)	(2,957)	(1,239)	(1,214)
Other income (expense)	9,373 (C)	(458)	3,599 (C)	3,215	2,701
(Loss) income before cumulative effect of accounting change for income taxes	(17,196)	(13,213)	(9,436)	(1,971)	43
Cumulative effect of accounting change for income taxes	—	—	—	883 (D)	—
Net (loss) income	\$(17,196)	\$(13,213)	\$(9,436)	\$(1,088)	\$ 43
(Loss) income per share before cumulative effect of accounting change for income taxes (pro forma 1992 - 1994) (E)	\$(.92)	\$(.70)	\$(.50)	\$(.11)	\$.00
Net (loss) income per share (pro forma 1992 - 1994) (E)	\$(.92)	\$(.70)	\$(.50)	\$(.06)	\$.00
Average shares outstanding (pro forma 1992 - 1994) (E)	18,774	18,766	18,766	18,766	18,766
Balance Sheet Data					
Total assets (F)	\$ 518,934	\$574,471	\$478,555	\$653,282	\$65,401
Working capital (deficit)	(96,222)	(34,385)	(15,986)	3,899 (G)	42,709
Long-term debt	(8,326)	—	—	—	—

(A)—Reflects consolidation of Grupo Portatel, S.A. de C.V. and subsidiaries as of January 1, 1996.

(B)—Includes \$4,026,000 in net transaction expenses relating to the Spin-Off.

(C)—Includes \$3,398,000 and \$2,831,000 gain on sale of marketable equity securities for the years ended December 31, 1996 and 1994, respectively.

(D)—Reflects the adoption as of January 1, 1993 of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

(E)—Pro forma (loss) income per share data were calculated using 18,766,000 average shares outstanding from the Spin-Off to December 31, 1994, as if such shares were outstanding for the years ended December 31, 1994, 1993 and 1992.

(F)—Reflects the adoption at December 31, 1993 of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

(G)—Reflects the settlement of net intercompany amounts payable to the Company by Associated.

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

The historical operating results of the Company are presented on a consolidated basis for the periods subsequent to the Spin-Off and on a combined basis for the periods prior to the Spin-Off, when such amounts were included in Associated's consolidated operating results. Combined financial data includes the accounts of the Company, certain of its subsidiaries, and certain other assets and liabilities of Associated, all transferred to the Company prior to the Spin-Off. Past results of operations may not be indicative of future results.

As discussed in Notes 1 and 3 to the financial statements of the Company, included in Item 14 of this Annual Report on Form 10-K, for the year ending December 31, 1996, the Company has consolidated the financial statements of Grupo, an investment which was previously accounted for under the equity method. As a result of the consolidation of Grupo, and the formation of Grupo Holdings, equity in loss of affiliates in the 1996 period no longer reflects Grupo, and the Company's minority interests at December 31, 1996, include third-party ownership interests for Grupo and Grupo Holdings.

This Annual Report on Form 10-K contains certain forward looking statements about the Company's completion of pending transactions and availability of certain tax benefits. Any such statements are subject to risks that could cause the actual results or needs to vary materially.

Liquidity and Capital Resources

The Company has used its bank lines of credit and brokerage margin loan facilities to fund the start-up operating and capital costs for its wireless communications related businesses and interests, primarily TruePosition, MSI and ACOM, during 1996. The Company expects to continue to incur substantial costs developing these businesses and technologies. As described above under Item 1, "Marketable Equity Securities," the Company has entered into an agreement with ART and MSI to contribute to their capital a combined minimum of \$25 million during 1997. In light of the developmental nature of these businesses and other factors, there can be no assurance regarding the rate, and extent to which, such amounts will be expended by ART and MSI or that significant additional investment by the Company in these businesses in excess of such amounts will not be required. Other business opportunities or acquisitions, which may also require additional capital, may also be evaluated from time to time.

In the first quarter of 1997 through March 25, 1997, the Company sold 100,000 shares of Liberty Media Group Series A Common Stock for pretax proceeds of approximately \$2,245,000. The Company will recognize a gain on the sale of approximately \$2,223,000, and expects to utilize its net operating loss carryforwards to offset the taxes resulting from the gain. The Company used the proceeds from the sale of the securities for working capital and to fund the development of its wireless communications businesses.

Portatel has long-term debt obligations under various credit facilities with a U.S. bank and various related parties (the "Portatel Credit Agreements"). Such long-term obligations are denominated in U.S. dollars and were incurred for working capital, including the purchase and construction of cellular telephone infrastructure equipment. The outstanding debt under the Portatel Credit Agreements is guaranteed by a cellular equipment vendor of Portatel (the "Guarantor"). During 1995 and January 1996, Portatel failed to meet a portion of its debt obligations under such credit facilities. Accordingly, payments were made by the Guarantor to Portatel's lenders on Portatel's behalf. Such amounts are included in current liabilities at December 31, 1996. As a result of Portatel's failure to make such payments, the Guarantor had the right to require Grupo to transfer to the Guarantor 40% of the stock of Portatel held in trust as collateral for such guarantee, but did not exercise its right to acquire such shares. Grupo, Portatel and certain shareholders of Grupo (including the Company) entered into a Contribution Agreement with the Guarantor, effective January 31, 1996, to convert the payments made by the Guarantor in 1995 and January 1996 on behalf of Portatel into capital stock of Grupo. Closing under the Contribution Agreement was contingent upon certain Mexican regulatory consents and approvals, the last of which was obtained in the first quarter of 1997. Upon closing, excluding the effects of the Company's rights under an Association in Participation Agreement ("AP Agreement"), the conversion provided for in the Contribution Agreement will result in a reduction of the Company's economic interest in Grupo from 30.2% to approximately 23.6% and a reclassification of \$15,069,000 between due to cellular equipment vendor and minority interests on the Company's consolidated balance sheet. The Guarantor will continue to guarantee the remaining debt of Portatel of approximately \$10.4 million at December 31, 1996, secured by an

approximate 30.7% equity interest in Portatel.

Grupo and Portatel have no external available lines of credit as of December 31, 1996. The Company may be required to meet additional capital requirements with respect to its ownership interest in Grupo, and is committed to making additional loans to the Grupo stockholder who is a Mexican national and a party to the AP Agreement for a portion of any such capital requirements with respect to his ownership interest.

The Company's future cash requirements are expected to be met by a \$100,000,000 demand discretionary bank line of credit and margin loan facilities with three brokerage firms. Borrowings under the \$100,000,000 line of credit are limited to 65% of the market value of the TCI Group Series Common Stock pledged as security under the agreement, and bear interest at rates as offered by the bank at the time of borrowing. The line expires on November 30, 1997, and the Company presently anticipates renewal of such facility.

The Company's margin loan facilities are also secured by shares of TCI Group Series A Common Stock. Borrowings under one of the margin loan facilities are limited to 65% of the market value of the pledged stock, with an additional 15% collateral requirement if borrowings exceed \$100,000,000, up to a maximum of \$200,000,000. Borrowings under the other two brokerage margin loan facilities are limited to 50% of the market value of the pledged stock. Borrowings under the three margin loan facilities bear interest at variable rates based upon the broker call rate or the Fed Funds rate plus an applicable margin, as offered by the brokerage firm at the time of borrowing. At December 31, 1996, the weighted average interest rate under the \$100,000,000 line of credit and the margin loan facilities was approximately 6.3%.

As of March 25, 1997, based on the market value of the 10,899,980 shares of TCI Group Series A Common Stock pledged in the aggregate and aggregate outstanding short-term obligations under these credit facilities of approximately \$80,409,000, the Company's unused borrowing capacity is approximately \$7,290,000. A significant portion of the Company's assets are liquid, and can be pledged as security for added borrowing capacity. Given the market value of the remaining shares of marketable equity securities that can be pledged as additional security, the Company's borrowing facilities provide for maximum aggregate unused borrowings of approximately \$175,043,000 as of March 25, 1997. The Company's ability to meet cash needs in the near term for future development depends in large part on the value of the Portfolio Securities. The Company periodically evaluates its financial position and alternative financing arrangements.

In addition, ACOM has a \$50,000,000 secured bank revolving credit facility which is available to meet the cash needs of ACOM. Borrowings under this credit facility bear interest at variable rates based upon the LIBOR rate, prime rate or the Fed Funds rate plus an applicable margin, as offered by the bank. A facility fee of 1/2% of the total credit available and a commitment fee of 1/2% of the unused portion of the facility are payable quarterly. Borrowings under ACOM's credit facility are secured by a pledge of the Company's stock in MSI, a pledge of the stock of DSC, a pledge of MSI's and DSC's member interests in ACOM, and a pledge of all of the assets of MSI, DSC, and ACOM, and are guaranteed by MSI and DSC. The revolving credit facility restricts the payment of distributions or dividends by ACOM. Based upon outstanding short-term obligations under the ACOM credit facility of approximately \$13,500,000 as of March 25, 1997, ACOM has unused borrowing capacity of approximately \$36,500,000. The revolving credit facility matures on December 19, 1997, and ACOM is presently evaluating its long-term financing options.

In 1996, 1995 and 1994, the Company's operations used cash of \$34,230,000, \$16,319,000 and \$3,706,000, respectively. The increase in cash used in operations from 1995 to 1996 of \$17,911,000 was due primarily to ACOM start-up expenses (including the advance to the ACOM Executive discussed in Note 6 to the financial statements included in Item 14 of this Annual Report on Form 10-K). The increase in the cash used in operations from 1994 to 1995 of \$12,613,000 was due primarily to the increase in research and development expenditures for TruePosition and the payment in 1995 of \$5,433,000 of accrued transaction expenses related to the Spin-Off and transactions related thereto.

In 1996, 1995 and 1994, the Company used cash of \$12,125,000, \$3,052,000 and \$9,348,000, respectively, in investing activities. The increase in cash used in investing activities from 1995 to 1996 of \$9,073,000 was primarily due to \$2,639,000 paid for WCEZ-FM, \$4,452,000 in capital expenditures which were primarily for the build-out of the broadband wireless network, and equity investments of \$5,533,000 in Teletrac in the 1996 period. These cash outlays were partially offset by proceeds of \$3,414,000 from the sale of marketable equity securities in the 1996 period. The decrease in the cash used in investing activities from 1994 to 1995 of \$6,296,000 was primarily due to a reduction in the Company's net investment in wireless communications ventures in the 1995 period as compared to the 1994 period. The 1994 period also

reflects proceeds the Company received from the sale of marketable equity securities of \$2,921,000 relating to the merger of Republic Pictures Corporation with Spelling Entertainment Group.

In 1996, 1995 and 1994, the Company's financing activities provided net cash of \$48,678,000, \$18,470,000 and \$14,886,000, respectively. Increases in net cash from financing activities between periods related primarily to higher borrowings to finance the investing and operating activities described above.

Operating results

Wireless Communications

Revenues from wireless communications were \$16,606,000, \$1,884,000, and \$2,244,000 in 1996, 1995, and 1994, respectively. Cost of wireless communications services were \$9,475,000, \$778,000 and \$904,000 in 1996, 1995, and 1994, respectively. The majority of the increases in both revenues and costs from 1995 to 1996 was attributable to the consolidation of Grupo. The decrease in revenues from 1994 to 1995 was the result of price competition from alternate access providers and a local exchange carrier experienced by the Company's Los Angeles, California digital microwave communications business. Cost of wireless communication services decreased by 14% from 1994 to 1995 as a result of renegotiation of certain transmission facility leases and maintenance contracts for the Los Angeles digital microwave communications business. Direct research and development expenses were \$7,562,000, \$7,361,000, and \$1,381,000 in 1996, 1995, and 1994, respectively, and were higher in 1996 and 1995 compared to 1994 primarily due to increased expenditures for TruePosition.

Radio Broadcasting

Revenues from radio broadcasting were \$2,688,000, \$1,854,000, and \$1,897,000 in 1996, 1995, and 1994, respectively. Cost of radio broadcasting was \$698,000, \$599,000, and \$548,000, and gross margins were 74%, 68%, and 71% in 1996, 1995, and 1994, respectively. The increase in revenues and costs from 1995 to 1996 was principally the result of the acquisition of WCEZ-FM in the second quarter of 1996. Revenues from 1994 to 1995 are comparable between periods. The decrease in the margin from 1994 to 1995 was the result of expenses related to programming changes at the Company's radio stations in 1995.

General

Sales, general and administrative expenses were \$29,439,000, \$10,466,000, and \$8,920,000 in 1996, 1995, and 1994, respectively. The increase from 1995 to 1996 of \$18,973,000 was the result of the consolidation of Grupo, as well as expenditures for ACOM, which began providing wireless communications services in 1996. The increase from 1994 to 1995 was primarily a result of professional service expenses and internal costs relating to evaluating potential business opportunities and acquisitions.

Transaction expenses in 1994 were for legal and other costs incurred in completing the Spin-Off and transactions related thereto, which, under the agreements with SBC Communications Inc. ("SBC"), were payable by the Company. Transaction expenses were offset by the allowable amount of corporate expenses allocable to Associated and its subsidiaries that were acquired by SBC (see Note 1 to the Company's financial statements included in Item 14 of this Annual Report on Form 10-K).

The Company's equity in loss of affiliates was \$2,119,000, \$2,912,000, and \$2,957,000 in 1996, 1995, and 1994, respectively. Due to the consolidation of Grupo, the Company's equity in loss of affiliates in 1996 reflects only the Company's share of the results of Teletrac for 1996. The Company's initial equity investment in Teletrac was made in November 1995. Therefore, the Company's equity in loss of affiliates in the 1995 and 1994 periods primarily reflects only the Company's share of the results of Grupo for those periods.

Foreign currency translation losses of Grupo are included in the statement of operations and are immaterial in 1996. On an equity basis, translation losses included in the equity in loss of affiliates in 1995 and 1994 were \$473,000 and \$1,068,000, respectively. Grupo's operating results will continue to be subject to fluctuations in the Mexican peso's

exchange rate based upon changes in the Mexican economy, the extent of which is unknown.

The Company recognized a \$3,398,000 gain on the sale of marketable equity securities in 1996 from the sale of 41,598 shares of TCI Class B 6% Cumulative Redeemable Exchangeable Junior Preferred Stock and 90,000 shares of General Communication, Inc. Class A Common Stock. The \$2,831,000 gain from the sale of marketable equity securities in 1994 was the result of the merger of Republic Pictures Corporation with Spelling Entertainment Group. Interest and dividend income was \$2,296,000, \$1,223,000 and \$1,150,000 in 1996, 1995 and 1994, respectively. The increase from 1995 to 1996 of \$1,073,000 was the result of additional interest income on notes receivable from related parties included as a result of the formation and consolidation of Grupo Holdings. Interest expense was \$4,328,000, \$1,689,000, and \$395,000 in 1996, 1995 and 1994, respectively. The increase from 1995 to 1996 of \$2,639,000 was the result of an increase in the level of outstanding short-term obligations and interest on the borrowings of Grupo. The increase from 1994 to 1995 of \$1,294,000 resulted from increases in both the level of outstanding short-term obligations and interest rates. Minority interests increased \$7,892,000 from 1995 to 1996, reflecting a 45% outside ownership interest in ACOM, as well as the third-party ownership interests in Grupo and Grupo Holdings.

The Company recognized an income tax benefit (net of foreign tax expense of Grupo in 1996) at an effective rate of approximately 33%, 34%, and 23% in 1996, 1995, and 1994, respectively. For the 1994 period through the Spin-Off, the Company filed income tax returns as a consolidated group with Associated and its other subsidiaries. See Note 13 to the Company's financial statements included in Item 14 of this Annual Report on Form 10-K for a discussion regarding the income tax allocation used. As of December 31, 1996, the Company has recorded net deferred tax assets of \$21,622,000, including net operating loss carryforwards. Management believes that it is more likely than not that such assets, net of the valuation allowance provided, will be realized based on the Company policy referred to above (see Item 1, "Marketable Equity Securities") of disposing of a portion of the Portfolio Securities from time to time to the extent net operating loss carryforwards are available to offset tax liabilities resulting from such dispositions and otherwise as deemed appropriate by the Company.

The Company's net loss was \$17,196,000 for the year ended December 31, 1996 compared to a net loss of \$13,213,000 for the year ended December 31, 1995. The higher loss in 1996 of \$3,983,000 resulted primarily from start-up expenditures for ACOM, increased interest expense, and the equity in loss of affiliates of \$2,119,000 relating to the Company's investment in Teletrac. Such expenses and loss were offset in part by the gain on marketable equity securities of \$3,398,000. In addition, although the consolidation of the financial statements of Grupo had no effect on the amount of the Company's consolidated net loss for 1996, the reduction of Grupo's net loss from 1995 to 1996 partially offset other expenses that were higher in 1996 than in 1995. The Company's net loss was \$13,213,000 for the year ended December 31, 1995 compared to a net loss of \$9,436,000 for the year ended December 31, 1994. The higher loss in 1995 resulted primarily from increased direct research and development costs of \$5,980,000 relating to TruePosition.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's financial statements and supplementary data, as well as those of Grupo for 1995 and 1994, together with the reports of independent auditors, are included or incorporated by reference elsewhere herein. Reference is made to the "Index of Financial Statements and Financial Statement Schedule" following the signature page hereto.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for the 1997 annual meeting of stockholders scheduled to be held on June 5, 1997.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for the 1997 annual meeting of stockholders scheduled to be held on June 5, 1997.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for the 1997 annual meeting of stockholders scheduled to be held on June 5, 1997.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for the 1997 annual meeting of stockholders scheduled to be held on June 5, 1997.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

Financial Statements and Financial Statement Schedules. The list of financial statements and financial statements schedule following the Exhibit Index is incorporated herein by reference.

Exhibits. The following exhibits are filed as a part of this Annual Report on Form 10-K:

- 2.1 Agreement and Plan of Distribution, dated as of December 14, 1994, among Associated Communications Corporation, Associated Communications of Delaware, Inc. and Associated Cellular Holdings, Inc., filed as Exhibit 2.1 to Registration Statement on Form 10/A dated November 15, 1994 and incorporated herein by reference.
- 3.1 Restated Certificate of Incorporation, filed as Exhibit 3.1 to Registration Statement on Form 10/A dated November 15, 1994 and incorporated herein by reference.
- 3.2 Amended and Restated By-Laws, filed as Exhibit 3.2 to Registration Statement on Form 10/A dated November 15, 1994 and incorporated herein by reference.
- 4.1 Common Stock Certificates, filed as Exhibits 4.2 and 4.3 to Form 8-K, dated December 22, 1994 and incorporated herein by reference.
- 4.2 Rights Agreement, dated as of December 15, 1994, by and between the Company and Mellon Bank, N.A., filed as Exhibit 4.1 to Form 8-K, dated December 22, 1994 and incorporated herein by reference.
- 10.1 Tax Disaffiliation Agreement, dated as of December 14, 1994, by and among Associated Communications Corporation, Associated Communications of Delaware, Inc. and Associated Cellular Holdings, Inc., filed as Exhibit 10.1 to Registration Statement on Form 10/A dated November 15, 1994 and incorporated herein by reference.
- 10.2 The Associated Group, Inc. 1994 Stock Option and Incentive Award Plan, filed as Exhibit 10 to Form 8-K, dated December 22, 1994 and incorporated herein by reference.
- 10.3 Associated RT, Inc. 1995 Stock Incentive Plan, filed as Exhibit 10.3 to Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference.
- 10.4 Microwave Services, Inc. 1996 Stock Incentive Plan, filed as Exhibit 10.1 to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 and incorporated herein by reference.
- 10.5 Form of Employment Agreement, dated December 15, 1994, between Associated Communications of Delaware, Inc. and Myles P. Berkman, filed as Exhibit 10.6 to Registration Statement on Form 10/A dated November 15, 1994 and incorporated herein by reference.

- 10.6 Form of Employment Agreement, dated December 15, 1994, between Associated Communications of Delaware, Inc. and David J. Berkman, filed as Exhibit 10.7 to Registration Statement on Form 10/A dated November 15, 1994 and incorporated herein by reference.
- 10.7 Employment Agreement, dated as of August 19, 1996, between Associated Communications, L.L.C. and Alex J. Mandl, filed as Exhibit 99.2 to Form 8-K, dated September 6, 1996 and incorporated herein by reference.
- 10.8 Margin Agreement, dated January 31, 1995, by and between Associated Investments, Inc. and Pershing, a Division of Donaldson, Lufkin & Jenrette Securities Corporation, filed as Exhibit 10.9 to Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference.
- 10.9 Corporate Margin Account Application and Agreement, dated February 15, 1995, by and between Associated Investments, Inc. and Goldman Sachs & Co., filed as Exhibit 10.10 to Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference.
- 10.10 Amendment and Restatement of \$100,000,000 Secured Discretionary Line of Credit Letter Agreement, dated as of November 14, 1996, by and between Associated Investments, Inc. and PNC Bank, National Association.
- 10.11 Amended and Restated Discretionary Line of Credit Demand Note, dated as of November 15, 1996, by and between Associated Investments, Inc. and PNC Bank, National Association.
- 10.12 Amended and Restated Pledge Agreement, dated as of November 15, 1996, by Associated Investments, Inc. in favor of PNC Bank, National Association.
- 10.13 Loan Agreement, dated December 24, 1996, between Associated Communications, L.L.C. and The Toronto-Dominion Bank.
- 10.14 Client Agreement, dated January 28, 1997, by and between Associated Investments, Inc. and Lehman Brothers.
- 21 Subsidiaries of the Registrant.
- 23 Consents of Independent Accountants.
- 27 Article 5 Financial Data Schedule for Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (filed only electronically with the Securities and Exchange Commission).
- 99.1 Grupo Portatel, S.A. de C.V. and Subsidiaries Consolidated Financial Statements—Years ended December 31, 1995, 1994 and 1993, filed as Exhibit 99.1 to Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated herein by reference.

Reports on Form 8-K. No reports on Form 8-K were filed during the fourth quarter of 1996.

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.

THE ASSOCIATED GROUP, INC.
(Registrant)

Date: March 25, 1997

By: /s/ Myles P. Berkman
Myles P. Berkman
Chairman, President and Chief Executive Officer

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

Date: March 25, 1997

By: /s/ Myles P. Berkman
Myles P. Berkman
Chairman, President and Chief Executive Officer
(Principal Financial and
Accounting Officer)

Date: March 25, 1997

By: /s/ David J. Berkman
David J. Berkman
Director and Executive
Vice President

Date: March 25, 1997

By: /s/ Donald H. Jones
Donald H. Jones
Director

Date: March 25, 1997

By: /s/ Joseph A. Katarincic
Joseph A. Katarincic
Director

Annual Report on Form 10-K

Item 8, Item 14(a)(1) and (2), (c) and (d)

Financial Statements and Supplementary Data

Index of Financial Statements and Financial Statement Schedule

Certain Exhibits

Financial Statement Schedule

Year ended December 31, 1996

The Associated Group, Inc. and Subsidiaries

Pittsburgh, Pennsylvania

The Associated Group, Inc. and Subsidiaries

Form 10-K—Item 14(a)(1) and (2)

Index of Financial Statements and Financial Statement Schedule

The following financial statements of The Associated Group, Inc. and subsidiaries are included in Item 8:

Balance Sheets—December 31, 1996 and 1995

Statements of Operations—Years ended December 31, 1996, 1995, and 1994

Statements of Stockholders' Equity—Years ended December 31, 1996, 1995, and 1994

Statements of Cash Flows—Years ended December 31, 1996, 1995, and 1994

Notes to Financial Statements—December 31, 1996

The following financial statement schedule of The Associated Group, Inc. and subsidiaries and separate financial statements of a significant equity investee in 1995 and 1994 are included in Item 14(d):

Schedule II—Valuation and Qualifying Accounts

Grupo Portatel, S.A. de C.V. and Subsidiaries Consolidated Financial Statements—
Years ended December 31, 1995, 1994, and 1993 (filed as Exhibit 99.1 to this Form 10-K)

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

Report of Independent Auditors

To the Stockholders and Directors
The Associated Group, Inc.

We have audited the accompanying balance sheets of The Associated Group, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We did not audit the financial statements of Grupo Portatel, S.A. de C.V. (Grupo), a consolidated subsidiary as of January 1, 1996, and an investment accounted for on the equity method for the years ended December 31, 1995 and 1994. Grupo's statements reflect total assets of \$30,000,000 at December 31, 1996, and total revenues of \$15,175,000 for the year then ended. The Company's investment in and equity in Grupo was \$909,000 at December 31, 1995. The Company's equity in Grupo's net loss was \$2,751,000 in 1995 and \$2,957,000 in 1994. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Grupo, is based solely upon the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The Associated Group, Inc. and subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

s/ Ernst & Young LLP
Ernst & Young LLP

Pittsburgh, Pennsylvania
February 28, 1997

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Grupo Portatel, S.A. de C.V.:

We have audited the consolidated balance sheets of Grupo Portatel, S.A. de C.V. and Subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996 (not presented separately herein). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grupo Portatel, S.A. de C.V. and Subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles in the United States.

KPMG CARDENAS DOSAL, S.C.

Felipe López Villegas

Mexico, D.F.
February 21, 1997

The Associated Group, Inc. and Subsidiaries

Balance Sheets

	December 31	
	1996	1995
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,341	\$ 1,018
Accounts receivable, less allowance for doubtful accounts (1996—\$2,355,000; 1995—\$183,000)	4,103	626
Notes receivable from related parties	203	191
Inventory held for resale	1,622	1,311
Prepaid expenses and other assets	651	860
Deferred income taxes	2,008	1,057
Total current assets	11,928	5,063
Property and equipment—net of accumulated depreciation and amortization	27,513	3,117
Marketable equity securities, at fair value (cost: 1996— \$6,882,000; 1995—\$6,898,000)	425,895	540,082
Notes receivable from related parties	28,780	11,240
Investments in wireless communications affiliates	16,108	13,502
Other noncurrent assets	8,710	1,367
Total assets	<u>\$518,934</u>	<u>\$574,471</u>

	December 31	
	1996	1995
	<i>(In Thousands)</i>	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 7,716	\$ 4,681
Employee compensation	4,753	759
Due to cellular equipment vendor	15,069	-
Short-term obligations	77,526	33,470
Current portion of long-term debt	2,082	-
Other current liabilities	1,004	538
Total current liabilities	<u>108,150</u>	<u>39,448</u>
Deferred compensation	1,440	1,264
Long-term debt, excluding current portion	8,326	-
Deferred income taxes	127,183	175,564
Minority interests	7,830	797
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred stock, par value \$.01 per share; authorized 5,000,000 shares; none issued	-	-
Class A Common Stock, par value \$.10 per share; authorized 100,000,000 shares; 9,382,962 shares issued and outstanding in 1996 and 1995	938	938
Class B Common Stock, par value \$.10 per share; authorized 50,000,000 shares; 9,397,910 and 9,382,985 shares issued and outstanding in 1996 and 1995	940	938
Additional paid-in capital	12	-
Unrealized gain on marketable equity securities, net of deferred taxes (1996—\$146,654,000; 1995—\$186,614,000)	272,359	346,570
Retained earnings (deficit)	(8,244)	8,952
Total stockholders' equity	<u>266,005</u>	<u>357,398</u>
Total liabilities and stockholders' equity	<u>\$518,934</u>	<u>\$574,471</u>

See accompanying notes.

The Associated Group, Inc. and Subsidiaries

Statements of Operations

	Year ended December 31		
	1996	1995	1994
	<i>(In Thousands, Except Per Share Amounts)</i>		
Revenues:			
Wireless communication services	\$ 16,606	\$ 1,884	\$ 2,244
Radio broadcasting	2,688	1,854	1,897
Art gallery	741	534	523
	<u>20,035</u>	<u>4,272</u>	<u>4,664</u>
Cost and expenses:			
Cost of sales and services:			
Wireless communication services	9,475	778	904
Radio broadcasting	698	599	548
Art gallery	591	432	345
Direct research and development expenses	7,562	7,361	1,381
Sales, general and administrative expenses	29,439	10,466	8,920
Transaction expenses, net <i>(Note 1)</i>	-	-	4,026
Depreciation and amortization expense	5,056	1,302	1,431
	<u>52,821</u>	<u>20,938</u>	<u>17,555</u>
Operating loss	(32,786)	(16,666)	(12,891)
Equity in loss of affiliates	(2,119)	(2,912)	(2,957)
Other income (expense):			
Gain on sale of marketable equity securities	3,398	7	2,831
Interest and dividend income	2,296	1,223	1,150
Interest expense	(4,328)	(1,689)	(395)
Other	114	-	-
Minority interests	7,893	1	13
	<u>9,373</u>	<u>(458)</u>	<u>3,599</u>
Loss before income taxes	(25,532)	(20,036)	(12,249)
Income tax benefit	(8,336)	(6,823)	(2,813)
Net loss	<u>\$ (17,196)</u>	<u>\$ (13,213)</u>	<u>\$ (9,436)</u>
Net loss per common share (pro forma in 1994)	<u>\$ (.92)</u>	<u>\$ (.70)</u>	<u>\$ (.50)</u>
Weighted average common shares outstanding (pro forma in 1994)	18,774	18,766	18,766

See accompanying notes.

The Associated Group, Inc. and Subsidiaries

Statements of Stockholders' Equity

	Common Stock		Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Unrealized Gains	Retained Earnings (Deficit)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
	<i>(Dollars in Thousands)</i>										
Balance, January 1, 1994	1,000	\$ 1	-	\$ -	-	\$ -	\$ -	\$401,521	\$ 34,499	\$ -	\$436,021
Net loss	-	-	-	-	-	-	-	-	(9,436)	-	(9,436)
Recapitalization and issuance of common stock	(1,000)	(1)	9,383,076	938	9,383,076	938	-	-	(1,875)	-	-
Common stock issuance costs	-	-	-	-	-	-	-	-	(1,018)	-	(1,018)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(5)	(5)
Treasury stock retired	-	-	(114)	-	(91)	-	-	-	(5)	5	-
Change in unrealized gain on marketable equity securities, net of income taxes of \$64,345	-	-	-	-	-	-	-	(119,498)	-	-	(119,498)
Balance, December 31, 1994	-	-	9,382,962	938	9,382,985	938	-	282,023	22,165	-	306,064
Net loss	-	-	-	-	-	-	-	-	(13,213)	-	(13,213)
Change in unrealized gain on marketable equity securities, net of income taxes of \$34,756	-	-	-	-	-	-	-	64,547	-	-	64,547
Balance, December 31, 1995	-	-	9,382,962	938	9,382,985	938	-	346,570	8,952	-	357,398
Net loss	-	-	-	-	-	-	-	-	(17,196)	-	(17,196)
Change in unrealized gain on marketable equity securities, net of income taxes of \$39,960	-	-	-	-	-	-	-	(74,211)	-	-	(74,211)
Stock options exercised	-	-	-	-	14,925	2	12	-	-	-	14
Balance, December 31, 1996	-	\$ -	9,382,962	\$938	9,397,910	\$940	\$12	\$272,359	\$ (8,244)	\$ -	\$266,005

See accompanying notes.

The Associated Group, Inc. and Subsidiaries

Statements of Cash Flows

	Year ended December 31		
	1996	1995	1994
	<i>(In Thousands)</i>		
Cash flows from operating activities			
Net loss	\$(17,196)	\$(13,213)	\$ (9,436)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	4,205	1,291	1,421
Amortization	851	11	10
Provision for losses on accounts receivable	1,275	114	40
Equity in loss of affiliates	2,119	2,912	2,957
Gain on sale of marketable equity securities	(3,398)	(7)	(2,831)
Minority interests	(7,893)	(1)	(13)
Provision for deferred income taxes	(8,743)	(6,823)	(2,813)
Other	738	198	(9)
Change in assets and liabilities:			
Accounts receivable	(2,221)	(54)	906
Notes receivable from related parties	(8,427)	-	-
Inventory held for resale	(76)	224	171
Prepaid expenses and other assets	571	868	(409)
Accounts payable	189	3,776	98
Accrued transaction expenses	-	(5,433)	5,353
Employee compensation	3,774	(629)	1,119
Accrued expenses	(174)	242	(59)
Deferred compensation	176	205	(211)
Net cash used in operating activities	(34,230)	(16,319)	(3,706)
Cash flows from investing activities			
Cash and cash equivalents from consolidation of affiliate	751	-	-
Cash paid for acquisition	(2,639)	-	-
Purchases of property and equipment, net	(4,435)	(642)	(230)
Proceeds from sale of marketable equity securities	3,414	15	2,921
Repayments of notes receivable from related parties	50	31	4,742
Increase in notes receivable from related parties	(2,740)	(1,183)	(7,185)
Investments in wireless communications affiliates	(5,533)	(784)	(8,808)
Other investing activities, net	(993)	(489)	(788)
Net cash used in investing activities	(12,125)	(3,052)	(9,348)

Statements of Cash Flows (continued)

	Year ended December 31		
	1996	1995	1994
	<i>(In Thousands)</i>		
Cash flows from financing activities			
Proceeds from short-term obligations, net	44,056	18,470	15,000
Increase in due to cellular equipment vendor	455	-	-
Repayment of long-term debt	(2,082)	-	-
Investment by minority interests	6,235	-	909
Other financing activities, net	14	-	(1,023)
Net cash provided by financing activities	<u>48,678</u>	<u>18,470</u>	<u>14,886</u>
Net increase (decrease) in cash and cash equivalents	2,323	(901)	1,832
Cash and cash equivalents at beginning of year	1,018	1,919	87
Cash and cash equivalents at end of year	<u>\$ 3,341</u>	<u>\$ 1,018</u>	<u>\$ 1,919</u>
Supplemental disclosure of noncash financing activities			
Contribution by minority interests of notes receivable from related parties	<u>\$ 7,162</u>	<u>\$ -</u>	<u>\$ -</u>
Long-term debt assumed by cellular equipment vendor, as guarantor	<u>\$ 2,845</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements

December 31, 1996

I. Basis of Presentation

The Associated Group, Inc. ("AGI") (formerly known as Associated Communications of Delaware, Inc. ("ACDI")) was a wholly owned subsidiary of Associated Communications Corporation ("Associated") until December 15, 1994 (the "Distribution Date") when, in accordance with the Agreement and Plan of Distribution dated as of December 14, 1994 (the "Distribution Agreement"), among Associated, ACDI, and Associated Cellular Holdings, Inc. ("ACH"), all of the outstanding common stock of AGI, after giving effect to a recapitalization of AGI, was distributed pro rata to the stockholders of Associated (the "Distribution") and Associated, consisting of the parent company and its domestic cellular businesses and interests (the "Associated Business to be Merged"), was merged (the "Merger") with a subsidiary of Southwestern Bell Corporation, currently known as SBC Communications Inc. ("SBC"), pursuant to the Agreement and Plan of Merger and Reorganization dated as of February 23, 1994, by and among SBC, SBMS Acquisition Corp., and Associated.

Prior to the Distribution, Associated held all 1,000 outstanding shares of the then authorized 1,000 shares of \$1.00 par value common stock of ACDI. In accordance with the Distribution Agreement, prior to the Distribution, ACDI amended its Certificate of Incorporation (the "Charter Amendment") to, among other things, (i) change its name to AGI, (ii) create two classes of common stock of AGI, Class A Common Stock and Class B Common Stock (the "AGI Common Stock"), and increase the then currently authorized number of shares of common stock of AGI to 100,000,000 shares of Class A Common Stock and 50,000,000 shares of Class B Common Stock (and Associated exchanged the 1,000 shares of ACDI common stock then outstanding for 9,383,076 shares of Class A Common Stock and 9,383,076 shares of Class B Common Stock), and (iii) to authorize 5,000,000 shares of AGI Preferred Stock. On December 15, 1994, pursuant to the Distribution, each holder of record of Associated Class A Common Stock or Associated Class B Common Stock ("Associated Common Stock") received one-quarter of a share of AGI Class A Common Stock and one-quarter of a share of AGI Class B Common Stock for each share of Associated Common Stock held.

The accompanying financial statements include, on a consolidated basis subsequent to the Distribution Date and on a combined basis prior to the Distribution Date, the accounts of AGI, certain of its subsidiaries, and certain other assets and liabilities of Associated, all transferred to AGI prior to the Distribution. Such entities and accounts are referred to as the "Company" in these financial statements. For the period January 1, 1994 to December 15, 1994, the financial statements include all of the historical corporate expenses of Associated less an allowable amount (under the Distribution Agreement) of \$3,780,000 relating to expenses allocable to the Associated Business to be Merged. Such allocation has been recorded as an offset to transaction

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

1. Basis of Presentation (continued)

expenses for the year ended December 31, 1994, resulting in net transaction expenses of \$4,026,000. Management believes that the corporate expense allocation was made on a reasonable and consistent basis.

Through December 31, 1995, the Company has recorded its investment in Grupo Portatel, S.A. de C.V. ("Grupo") using the equity method. Effective January 1, 1996, the Company has consolidated the financial statements of Grupo with the Company's financial statements (see Note 3).

In the second quarter of 1996, the Company purchased the assets and was awarded an assignment of the Federal Communications Commission ("FCC") license of radio broadcasting station WCEZ-FM located in Delaware, Ohio, serving the Delaware/Columbus, Ohio market, for consideration of approximately \$3,250,000, including amounts for noncompete and consulting agreements. The Company has consolidated the results of operations of WCEZ-FM since the date of acquisition. The operations of WCEZ-FM are not material to the Company's revenues or net loss.

2. Significant Accounting Policies

Principles of Consolidation

The Company includes the accounts of AGI and its wholly owned and majority owned subsidiaries. Minority investments in affiliates where the Company exercises significant influence over operating and financial affairs are recorded under the equity method. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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

Revenue Recognition

Wireless communication services revenues are recognized when the service is provided. Radio broadcasting revenues are recognized when the commercial matter is aired. Art gallery sales are recorded at the time of shipment of art works.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Cash Equivalents

The Company considers all unrestricted highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventory Held for Resale

Inventory held for resale, comprised of finished goods, includes art prints of \$1,145,000 and \$1,311,000 at December 31, 1996 and 1995, respectively, and cellular telephones and related equipment of \$477,000 and \$0 at December 31, 1996 and 1995, respectively, and is recorded at the lower of cost or market value. Cost of art prints is determined under the first-in, first-out method and cost of cellular telephones and related equipment is determined under the last-in, first-out method. Inventory is reported net of a market valuation reserve relating to art inventory of \$1,570,000 and \$1,582,000 at December 31, 1996 and 1995, respectively. Provision for the difference between the cost and market value of art inventories is made based on management's periodic analysis of the composition of inventory and current art market conditions. The Company also sells art inventory held on consignment from others. The Company does not own these art prints; therefore, their cost is not included in the Company's balance sheets at December 31, 1996 and 1995.

Marketable Equity Securities

Under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FASB 115"), the Company's marketable equity securities, which are classified as available-for-sale, are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity until realized.

Foreign Currency Translation

The financial statements of Grupo are translated from Mexican new pesos to U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" ("FASB 52"). Based upon the inflationary and political environment in Mexico, along with the economic dependency Grupo has had on its shareholders (including the Company) and the source of its cash outflows, the U.S. dollar has been utilized as the functional currency. Nonmonetary assets and liabilities have been translated at historical exchange rates and monetary assets and liabilities have been translated based on the current exchange rate. Revenues and expenses have been translated at the weighted average exchange rate in effect during the

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

period, except depreciation which has been translated at historical exchange rates. Foreign currency translation gains and losses are included in the statement of operations.

For the year ending December 31, 1996, the translation loss of Grupo consolidated in the statement of operations was \$178,000. For the years ending December 31, 1995 and 1994, the equity in loss of affiliates includes the effects of foreign currency translation adjustments for Grupo. On an equity basis, translation losses were \$473,000 and \$1,068,000 in 1995 and 1994, respectively.

Property and Equipment

Property and equipment is recorded at cost. Depreciation and amortization are computed on the straight-line method.

Income Taxes

Income taxes have been recorded using the liability method in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FASB 109").

Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FASB 123"). This new standard establishes financial accounting and reporting standards for stock-based compensation plans and to transactions in which an entity issues its equity instruments to acquire goods and services from non-employees. The new accounting standards prescribed by FASB 123 are optional, and the Company has elected to account for its stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," consistent with prior years. Accordingly, as the Company grants stock options for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant, the Company recognizes no compensation expense for the stock option grants. Compensation expense is recorded for grants under variable award plans, based on the intrinsic value of the grant.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Stock-Based Compensation (continued)

Compensation expense recorded in 1996, 1995, and 1994 was not material to the Company's financial statements, and had compensation cost for the Company's stock-based compensation plans been determined based on the fair values at the grant dates for awards under those plans consistent with FASB 123, the effect on the financial statements would not have been material.

Reclassifications

Certain reclassifications have been made to the 1995 and 1994 financial statements to conform to the 1996 presentation. These reclassifications have no effect on the Company's net losses.

3. Consolidation of Grupo Portatel, S.A. de C.V.

At December 31, 1996, the Company, through a wholly owned subsidiary, Associated Communications of Mexico, Inc. ("ACM"), has a 30.2% economic interest in Grupo, of which Portatel del Sureste, S.A. de C.V. ("Portatel"), a Mexican cellular telephone company, is a wholly owned subsidiary. Portatel holds a cellular license for Region 8, one of nine regions in Mexico, to provide cellular telephone service in the southeastern portion of Mexico.

In 1994, the Company entered into an Association in Participation Agreement ("AP Agreement") and a related Joint Venture Agreement (together, the "Grupo Documents") with another United States shareholder of Grupo and one of the Mexican nationals to whom the Company has loaned funds for the acquisition of Grupo stock. The United States shareholder and the Mexican national have 18.8% and 1.7% direct equity interests in Grupo, respectively. Through the AP Agreement, the Mexican national, acting as the Active Partner (as defined in the AP Agreement), holds a 40.7% equity interest in Grupo as of December 31, 1996. The Company is a Silent Partner (as defined in the AP Agreement) in the AP Agreement. The Grupo Documents provide for the allocation to the parties to the Grupo Documents, at a given ratio, of proceeds received from distributions made by Grupo to its shareholders or from the sale of shares held pursuant to the AP Agreement, after adjustment to such proceeds for income tax liabilities and payment of capital advanced by the Company and the other Silent Partner and related investment fees thereon (the "Distribution of Proceeds Provision"). In the event that the Active Partner, after consultation with the Silent Partners, votes in such a way that is against the express will of the Silent Partners, then the Active Partner's proceeds from the sale of Grupo will be reduced by 50%, in accordance with the Distribution of Proceeds Provision. Additionally, the Grupo Documents provide that in the event of a change in Mexican law which would allow for the Silent Partners to hold direct ownership in Grupo without any percentage limitation, then, at the option of the Silent Partners, the Silent Partners may cause the AP

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

3. Consolidation of Grupo Portatel, S.A. de C.V. (continued)

Agreement to be dissolved, and the Silent Partners' ownership increase in Grupo will be determined based upon allocation methodology consistent with the Distribution of Proceeds Provision. As a result of a change in Mexican law, the Silent Partners have the ability to increase their direct percentage ownership in Grupo without any percentage limitation, subject to certain Mexican regulatory approvals which are routine in nature, and thus, are entitled at their option to cause the AP Agreement to be dissolved.

Effective January 1, 1996, the Company and the other United States shareholder of Grupo have granted voting rights with respect to, and have agreed to contribute, their interests in Grupo, including their rights under the Grupo Documents, to Grupo Holdings, L.L.C. ("Grupo Holdings"), a new joint venture limited liability company, in which the Company has a 61.6% controlling interest. Through December 31, 1995, the Company recorded its investment in Grupo using the equity method. As a result of the formation of Grupo Holdings and the effects of the AP Agreement, the Company has consolidated the financial statements of Grupo with the Company's financial statements as of January 1, 1996.

At December 31, 1996, excluding the effects of the AP Agreement and any dilution that may result from the debt to equity conversion discussed in Note 11, the Company has a 30.2% economic interest and through Grupo Holdings controls a 49.0% voting interest in Grupo. Upon closing of the agreement discussed in Note 11, excluding the effects of the AP Agreement, the Company's economic interest in Grupo will be reduced to approximately 23.6%, and through Grupo Holdings, will control a 38.4% voting interest in Grupo. Subsequent to this transaction, through the AP Agreement and control of Grupo Holdings, the Company will continue to exert sufficient control over Grupo to warrant consolidation of Grupo's financial statements.

As a result of the consolidation of Grupo's financial statements and the formation of Grupo Holdings, equity in loss of affiliates in the 1996 period no longer includes Grupo, and at December 31, 1996, the Company's minority interests include third-party ownership interests for Grupo and Grupo Holdings. The consolidation of Grupo has no effect on the Company's consolidated net equity, consolidated net loss or per share data since its economic ownership percentage is the same regardless of consolidation of Grupo. The pro forma consolidated revenues of the Company for the years ended December 31, 1995 and 1994 would have been \$17,800,000 and \$32,226,000, respectively, assuming consolidation of Grupo as of January 1, 1994.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

3. Consolidation of Grupo Portatel, S.A. de C.V. (continued)

Summary financial information, in thousands, of Grupo for the periods prior to consolidation of Grupo is as follows:

	Year ended	
	1995	1994
Current assets	\$ 4,584	\$ 7,619
Noncurrent assets	28,240	32,159
Current liabilities	20,517	15,096
Noncurrent liabilities	10,408	15,335
Revenues	13,558	27,562
Expenses	20,708	33,425
Foreign currency translation loss	(1,569)	(3,541)
Net loss	(8,719)	(9,404)

The Company's share of the undistributed net deficit of Grupo is approximately \$9,273,000 at December 31, 1995. The Company has paid \$9,690,000 for stock in Grupo as of December 31, 1995.

4. Property and Equipment

Property and equipment, in thousands, consists of the following:

	December 31		Estimated Useful Life-Years
	1996	1995	
Land	\$ 448	\$ 100	
Buildings and leasehold improvements	5,209	1,812	3-20
Operating equipment	39,349	6,094	4-10
Office furniture and equipment	6,296	2,787	3-10
Wireless communications systems in progress	1,163	—	
	52,465	10,793	
Less accumulated depreciation and amortization	(24,952)	(1,676)	
	\$ 27,513	\$ 3,117	

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

5. Marketable Equity Securities

The cost and market value of the Company's marketable equity securities classified as available for sale, at December 31, 1996, are as follows:

Name of Issuer and Title of Each Issue	Number of Shares	Cost of Each Issue in Thousands	Market Value of Each Issue in Thousands
Tele-Communications, Inc.:			
TCI Group Series A Common Stock	12,479,976	\$3,505	\$163,020
TCI Group Series B Common Stock	7,071,852	1,178	99,006
Liberty Media Group Series A Common Stock	3,119,993	1,229	89,115
Liberty Media Group Series B Common Stock	1,767,963	410	51,271
TCI Satellite Entertainment, Inc.:			
Series A Common Stock	1,247,998	334	12,324
Series B Common Stock	707,185	90	7,072
Others	various	136	4,087
		<u>\$6,882</u>	<u>\$425,895</u>

During the first quarter of 1996, the Company sold 41,598 shares of Tele-Communications, Inc. ("TCI") Class B 6% Cumulative Redeemable Exchangeable Junior Preferred Stock for pretax proceeds of approximately \$2,690,000, and has recognized a gain on the sale of approximately \$2,678,000. During the second quarter of 1996, the Company sold 90,000 shares of General Communication, Inc. ("GCI") Class A Common Stock for pretax proceeds of approximately \$722,000, and has recognized a gain on the sale of approximately \$719,000. In 1994, the Company realized a gain on the disposal of marketable equity securities of \$2,831,000 pursuant to the merger of Republic Pictures Corporation with Spelling Entertainment Group. Gains on disposals realized in 1995 also resulted from mergers and acquisitions.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

5. Marketable Equity Securities (continued)

In August 1995, TCI divided its common stock into four series: TCI Group Series A Common Stock (which replaced TCI Class A), TCI Group Series B Common Stock (which replaced TCI Class B), Liberty Media Group Series A Common Stock ("Liberty Series A"), and Liberty Media Group Series B Common Stock ("Liberty Series B"). The Company received a distribution of one-quarter share of Liberty Series A and one-quarter share of Liberty Series B for each share of TCI Class A and TCI Class B owned, respectively.

In December 1996, TCI spun off its satellite business unit, TCI Satellite Entertainment, Inc. ("TCI Satellite") to holders of TCI Group Series A and TCI Group Series B Common Stock. The Company received a distribution of one share of TCI Satellite Series A Common Stock and one share of TCI Satellite Series B Common Stock for every ten shares of TCI Group Series A Common Stock and TCI Group Series B Common Stock owned, respectively.

In January 1997, the board of directors of TCI declared a dividend to holders of record of Liberty Series A and Liberty Series B as of December 27, 1996. In 1997, the Company received one share of Liberty Series A for every two shares of Liberty Series A owned and one share of Liberty Series A for every two shares of Liberty Series B owned.

On February 28, 1997, the aggregate market value of marketable equity securities held by the Company was approximately \$406,642,000.

6. Notes Receivable from Related Parties

Included in noncurrent notes receivable from related parties at December 31, 1996 and December 31, 1995 are amounts and accrued interest due from certain Mexican stockholders of Grupo of \$21,080,000 and \$11,240,000, respectively, used for their purchase of Grupo stock which is secured by said stock. Of the increase between periods, \$7,162,000 is the result of the formation of and initial contributions of notes receivable to Grupo Holdings by the minority member of Grupo Holdings as discussed in Note 3. Interest accrues on certain of these notes at the prime rate plus 2%.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

6. Notes Receivable from Related Parties (continued)

Also included in noncurrent notes receivable from related parties at December 31, 1996 is a \$8,250,000 note and accrued interest of \$177,000 due from the Chairman and Chief Executive Officer (the "Executive") of Associated Communications, L.L.C. ("ACOM"), in which Microwave Services, Inc. ("MSI"), a wholly owned subsidiary of the Company, has a 55% ownership interest, and Digital Services Corporation ("DSC"), a third-party, has the remaining 45% ownership interest. Under the terms of the Executive's employment agreement, one-fifth of the principal and interest due under the note will be forgiven on each of the Executive's first two employment anniversary dates if he is still employed by ACOM, and the remainder due will be forgiven on the fifth anniversary of employment. In the event that the Executive terminates his employment prior to the fifth anniversary date (other than by reason of his death or disability or for good reason as defined in the employment agreement), any outstanding principal and accrued interest on the note will become immediately due and payable. As a result, the Company is expensing the accrued interest and principal over five years, the term of the employment agreement, and as such, the balance at December 31, 1996 is \$7,700,000.

7. Investments in Wireless Communications Affiliates

Teletrac, Inc. ("Teletrac")

As of December 31, 1996, Associated RT, Inc. ("ART"), a wholly-owned subsidiary of AGI, held 50,000 shares, or 20%, of the outstanding Class A Common Stock and 5,772 shares, or 3%, of the outstanding Series A Convertible Preferred Stock of Teletrac, Inc. ("Teletrac"). Teletrac is in the business of providing location and, potentially, messaging services primarily for vehicle and fleet management. ART paid a total of \$6,000,000 as of December 31, 1996 for Teletrac stock. Through November 1996, ART held 20% of the voting stock of Teletrac and accounted for its investment in Teletrac under the equity method. As a result of Teletrac's issuance of the Series A Convertible Preferred Stock ("Teletrac Preferred") in early December 1996, ART's voting interest was reduced to 12.7% and, accordingly, ART began accounting for its investment under the cost method. Shares of Teletrac Preferred entitle holders to receive cumulative, compounding dividends at 15% per annum. Holders are entitled to voting rights, preference on liquidation, voluntary equal share conversion into Teletrac Class A Common Stock at a defined conversion price, and automatic equal share conversion into Teletrac Class A Common Stock after either a qualified public stock offering or a certain nonqualified public stock offering as defined.

Specialized Mobile Radio ("SMR")

The Company has an equity investment in a Mexican corporation, Corporacion Mobilcom, S.A. de C.V. ("Mobilcom"), which operates SMR systems in Mexico. SMR, or "trunked mobile

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

7. Investments in Wireless Communications Affiliates (continued)

Specialized Mobile Radio ("SMR") (continued)

radio," is a wireless communications service which can transmit voice and data. Mobilcom holds licenses or equity interests in corporations licensed to provide trunked mobile radio service in the 800 MHz and 400 MHz frequency bands in major metropolitan areas in Mexico, including Mexico City, Guadalajara, and Monterrey, as well as the connecting highways.

On March 3, 1995, Mobilcom and its shareholders completed a transaction with Nextel Communications, Inc. ("Nextel"), pursuant to which Nextel made an investment in Mobilcom of \$57.5 million for an approximate 18% equity interest. Nextel also received options which would allow Nextel to increase its ownership stake in Mobilcom to approximately 40% over the next three years. On August 23, 1996, Mobilcom and its shareholders completed a transaction with Nextel pursuant to which Nextel acquired an additional approximate 19% equity interest in Mobilcom. The Company's current effective ownership interest in Mobilcom, prior to exercise of the remaining Nextel options, is approximately 14%, compared to 19% just prior to the 1995 Nextel transactions.

In addition, on August 23, 1996, the Company and certain other shareholders of Mobilcom (collectively, the "Mobilcom Investors"), entered into a put-call agreement (the "Put-Call Agreement") with Nextel, pursuant to which, under certain circumstances, the Mobilcom Investors have the right to cause Nextel to purchase, and Nextel shall have the right to buy, the entire equity interest of the Mobilcom Investors. The Put-Call Agreement became effective on October 24, 1996 (the "Effective Date"). After the first anniversary of the Effective Date, and prior to the third anniversary of the Effective Date, the Mobilcom Investors collectively shall have the right to put their shares to Nextel upon the taking of certain actions by Mobilcom, if the Mobilcom Investors, or directors designated by them, have voted against such actions (a "Put Event"). On the third anniversary of the Effective Date, a Put Event is deemed to have occurred automatically, and if the Mobilcom Investors do not exercise their put rights, Nextel shall have the right to call such shares. A Put Event shall also be deemed to have occurred on January 22, 1998 if the Mobilcom Investors have not had the opportunity to vote for or against certain actions proposed by Mobilcom. The purchase price for the put-call shares is based upon a fair market value of Mobilcom, which fair market value shall in no event be deemed to be less than \$150 million. In the event that the fair market value of Mobilcom exceeds \$250 million, for purposes of the Put-Call Agreement, the fair market value shall be deemed to be \$250 million plus 50% of the amount by which such valuation exceeds \$250 million.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

7. Investments in Wireless Communications Affiliates (continued)

Personal Communications Services ("PCS")

The Company has a 75% interest in a general partnership (the "PCS Partnership") which holds a 4.42% interest in Omnipoint Communications, Inc. ("OCI"), a subsidiary of Omnipoint Corporation ("Omnipoint Parent"). Omnipoint Parent, through OCI, was awarded one of three pioneer's preference licenses by the Federal Communications Commission ("FCC") to construct and operate a broadband PCS system in the New York Major Trading Area, a region with a population of approximately 27 million. In January 1996, Omnipoint Parent successfully completed an initial public offering and is traded on the Nasdaq National Stock Market under the symbol "OMPT."

8. Other Noncurrent Assets

At December 31, 1996, included in other noncurrent assets are amounts for preoperating expenses of Grupo of \$1,188,000, net of accumulated amortization of \$1,782,000, and amounts for the cost of concession rights granted to Portatel from the Mexican Ministry of Communications and Transportation ("SCT") to operate cellular telephone services in the southeast region of Mexico of \$2,452,000, net of accumulated amortization of \$1,073,000. The preoperating expenses are being amortized over a ten-year period and the cost of concession rights is being amortized over twenty years, the life of the concession.

At December 31, 1996, also included in other noncurrent assets are amounts for goodwill and noncompete agreements related to the second quarter 1996 purchase of the assets of WCEZ-FM (see Note 1) of \$2,330,000, net of accumulated amortization of \$204,000. The goodwill is being amortized over a fifteen-year period and the noncompete agreements are being amortized over three years, the term of the agreements.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

9. Short-Term Obligations

The Company's short-term borrowings as of December 31 were as follows (in thousands):

	1996	1995
General Credit Facilities:		
\$100 million demand discretionary bank line of credit	\$19,000	\$16,500
Two brokerage margin loan facilities	56,526	16,970
	75,526	33,470
ACOM Credit Facility:		
\$50 million secured bank revolving credit facility	2,000	-
	\$77,526	\$33,470
 Weighted average interest rate	 6.3%	 6.6%

a. General Credit Facilities

Borrowings under the \$100,000,000 line of credit are limited to 65% of the market value of the shares of TCI Group Series A Common Stock pledged as security under the agreement, and bear interest at rates as offered by the bank at the time of borrowing. The line expires on November 30, 1997 and the Company presently anticipates renewal of such facility.

Borrowings under one of the brokerage margin loan facilities are limited to 65% of the market value of the pledged TCI Group Series A Common Stock, with an additional 15% collateral requirement if borrowings exceed \$100,000,000, up to a maximum of \$200,000,000. Borrowings under the other brokerage margin loan facilities are limited to 50% of the market value of the pledged stock. Borrowings under these facilities bear interest at variable rates based upon the broker call rate or the Fed Funds rate plus an applicable margin, as offered by the brokerage firm at the time of borrowing.

As of December 31, 1996, 9,799,980 shares of TCI Group Series A Common Stock were pledged as security under the line of credit and brokerage margin loan facilities. Subsequent to December 31, 1996 and through February 28, 1997, an additional 700,000 shares of TCI Group Series A Common Stock were pledged as security under the margin loan facilities.

b. ACOM Credit Facility

The ACOM \$50,000,000 secured bank revolving credit facility is available to meet the cash flow needs of ACOM only. Borrowings under this credit facility bear interest at variable rates based upon the LIBOR rate, prime rate, or the Fed Funds rate plus an applicable margin, as offered by

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

9. Short-Term Obligations (continued)

b. ACOM Credit Facility (continued)

the bank. A facility fee of 1/2% of the total credit available and a commitment fee of 1/2% of the unused portion of the facility are payable quarterly. The ACOM credit facility is secured by a pledge of the Company's stock in MSI, a pledge of the stock of DSC, and all of the assets of ACOM, and matures on December 19, 1997.

10. Deferred Compensation

Two executive officers of the Company serve under employment agreements that provide for the annual payment for ten years to the officers' beneficiary of one-half of the officers' base salary upon termination due to disability or death. The Company accrues the present value of the estimated payments due over the expected service period of the employees, which is based on their life expectancy.

The Executive of ACOM serves under an employment agreement that provides for, among other things, a payment of \$5,000,000 on the fifth anniversary of the Executive's employment, or earlier in certain circumstances. In the event of termination of employment prior to his fifth anniversary, the Executive will receive either \$5,000,000, or a pro rata portion thereof, depending on the circumstances of his termination. The Company accrues the present value of the payment due over the expected service period of five years.

11. Long-Term Debt and Amounts Due to Cellular Equipment Vendor

Portatel has long-term debt obligations under various credit facilities with a U.S. bank and various related parties (the "Portatel Credit Agreements"). Such long-term obligations are denominated in U.S. dollars and were incurred for working capital, including the purchase and construction of cellular telephone infrastructure equipment. The outstanding debt under the Portatel Credit Agreements is guaranteed by a cellular equipment vendor of Portatel (the "Guarantor"). During 1995 and January 1996, Portatel failed to meet a portion of its debt obligations under such credit facilities. Accordingly, payments were made by the Guarantor to Portatel's lenders on Portatel's behalf. Such amounts are included in current liabilities at December 31, 1996. As a result of Portatel's failure to make such payments, the Guarantor had the right to require Grupo to transfer to the Guarantor 40% of the stock of Portatel held in trust as collateral for such guarantee, but did not exercise its right to acquire such shares. Grupo, Portatel and certain shareholders of Grupo (including ACM) entered into a Contribution Agreement with the Guarantor, effective January 31, 1996, to convert the payments made by the Guarantor in 1995 and January 1996 on behalf of Portatel into capital stock of Grupo. Closing under the Contribution Agreement was contingent upon certain Mexican regulatory consents and

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

11. Long-Term Debt and Amounts Due to Cellular Equipment Vendor (continued)

approvals, the last of which was obtained in the first quarter of 1997. Upon closing, excluding the effects of the AP Agreement, the conversion provided for in the Contribution Agreement will result in a reduction of ACM's economic interest in Grupo to approximately 23.6% and a reclassification of \$15,069,000 between due to cellular equipment vendor and minority interests on the Company's consolidated balance sheet. The Guarantor will continue to guarantee the remaining debt of Portatel secured by an approximate 30.7% equity interest in Portatel. Portatel has complied with its debt covenants or has obtained waivers as of December 31, 1996.

The remaining debt of Portatel is subdivided into various pieces, referred to as Tranches. The loans under Tranche I bear interest at the LIBOR rate plus 2.5%. Interest and principal are payable in semiannual installments through November 15, 2001. The loans under Tranche II bear interest at the LIBOR rate plus 6%. Interest and principal are payable in semiannual installments through September 25, 2001. The amounts outstanding under the Portatel Credit Agreements at December 31, 1996 are as follows (in thousands):

	Tranche I	Tranche II	Total
Current	\$ 1,742	\$ 340	\$ 2,082
Long-Term	6,964	1,362	8,326
	<u>\$ 8,706</u>	<u>\$ 1,702</u>	<u>\$10,408</u>
Weighted average interest rate at year-end	8.39%	12.12%	

Maturities of long-term debt for the next five years are as follows (in thousands):

1997	\$ 2,082
1998	2,082
1999	2,082
2000	2,081
2001	2,081
Total	<u>10,408</u>
Less current portion	<u>(2,082)</u>
Total long-term debt	<u>\$ 8,326</u>

Cash paid for interest on both short-term and long-term debt obligations amounted to approximately \$2,211,000, \$1,116,000, and \$349,000 for the years ended December 31, 1996, 1995, and 1994, respectively.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

12. Leases

The Company and its subsidiaries lease sales, studio, administrative, and certain corporate offices, as well as transmitter and antenna sites, under operating lease agreements. Total rent expense was approximately \$2,424,000, \$1,390,000, and \$1,551,000 for the years ended December 31, 1996, 1995, and 1994, respectively.

Approximate future minimum lease payments, in thousands, by year and in the aggregate, are as follows at December 31, 1996:

1997	\$1,461
1998	1,169
1999	1,012
2000	644
2001 and thereafter	1,828
	<hr/>
	\$6,114

13. Income Taxes

Prior to the Distribution Date, the Company filed income tax returns as a consolidated group with Associated and its other subsidiaries. Income taxes for 1994 presented in these financial statements represent the portion of income taxes that were attributable to the taxable income and book and tax bases differences of the companies included in these financial statements. Such amounts do not represent the taxes which would have been recorded if the Company had filed income tax returns as an independent entity in that year. Had the tax provision been calculated as though separate income tax returns were filed, the pro forma income tax benefit and the pro forma net loss for the year ended December 31, 1994 would have been \$2,113,000 and \$10,136,000, respectively.

The Company has no current tax liability for any periods prior to the Distribution Date under the provisions of a Tax Disaffiliation Agreement entered into by the Company, Associated, and ACH in connection with the Distribution.

Mexican tax law does not permit the use of net operating losses of one Mexican subsidiary to offset the taxable income of other Mexican subsidiaries. Current Mexican income taxes are computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values and the deduction of purchases in place of cost of sales, which permit the deduction of current cost, and taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the inflationary component.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

13. Income Taxes (continued)

Mexican tax law provides for an alternative minimum tax ("assets tax"). The assets tax is computed at an annual rate of 1.8% of the average of the majority or restated assets less certain liabilities, and the tax is paid only to the extent that it exceeds regular income tax of the period. Any required payment of assets tax is refundable against the excess of income taxes over asset taxes for the following ten years. Cash paid for Mexican income taxes for the year ended December 31, 1996 was approximately \$553,000.

The tax effects of temporary differences that give rise to the net deferred tax liability are as follows (in thousands):

	December 31	
	1996	1995
Deferred tax assets:		
Net operating loss and assets tax credit carryforwards:		
United States	\$ 13,781	\$ 7,372
Mexican	6,235	-
Equity in loss of affiliates	4,462	3,083
Inventory reserves and capitalized costs	994	995
Other	2,662	657
Total deferred tax assets	<u>28,134</u>	12,107
Valuation allowance	(6,512)	-
Net deferred tax assets	<u>21,622</u>	12,107
Deferred tax liabilities:		
Unrealized gain on marketable equity securities	(146,654)	(186,614)
Other	(143)	-
Total deferred tax liabilities	<u>(146,797)</u>	(186,614)
Net deferred tax liability	<u>\$ (125,175)</u>	<u>\$ (174,507)</u>

The changes in the valuation allowance recorded by Grupo were as follows (in thousands):

Beginning balance, January 1, 1996	\$6,437
Provision	187
Foreign currency translation gain	(112)
Ending balance, December 31, 1996	<u>\$6,512</u>

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

13. Income Taxes (continued)

The increase in the 1996 valuation allowance relates to 1996 net operating losses and assets tax credit carryforwards, along with the allowance for doubtful accounts. In assessing the realizability of deferred tax assets, Grupo's management considered whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the level and trend of historical taxable income of Grupo measured by individual subsidiary of Grupo, Grupo's management believes that it is more likely than not Grupo will realize the benefit of these deductible differences, net of the existing valuation allowances at December 31, 1996.

The income tax benefit for the three years ended December 31, 1996 consists of the following (in thousands):

	1996	1995	1994
Current:			
Mexican	\$ 407	\$ -	\$ -
Deferred:			
United States	(8,967)	(6,823)	(2,813)
Mexican	274	-	-
Total deferred	<u>(8,743)</u>	<u>(6,823)</u>	<u>(2,813)</u>
	<u>\$ (8,336)</u>	<u>\$ (6,823)</u>	<u>\$ (2,813)</u>

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

13. Income Taxes (continued)

At December 31, 1996, the Company's federal net operating loss ("NOL") carryforwards and Mexican NOL and assets tax credit carryforwards of Grupo were as follows (in thousands):

	Federal NOL	Mexican NOL	Mexican Assets Tax Credit
Expiration date:			
2001	\$ -	\$ 27	\$ -
2002	-	75	-
2003	-	641	353
2004	-	5,160	341
2005	-	5,903	399
2006	-	2,167	391
2008	1,244	-	-
2009	980	-	-
2010	18,870	-	-
2011	19,437	-	-
	<u>\$40,531</u>	<u>\$13,973</u>	<u>\$1,484</u>

Portatel del Sureste, S.A. de C.V., a subsidiary of Grupo, realized taxable income for the year ended December 31, 1996. Net operating losses of \$1,925,000 were utilized in 1996 to offset the liability for current Mexican tax expense.

A reconciliation between income taxes computed using the statutory federal income tax rate (34%) and the effective rate, in thousands, is as follows:

	1996	1995	1994
Federal income tax (credit) at statutory rate	\$(8,681)	\$(6,812)	\$(4,165)
Tax effects attributable to Mexican operations	1,145	-	-
Effect of income tax allocation between the Company and Associated	-	-	1,244
Other	(800)	(11)	108
	<u>\$(8,336)</u>	<u>\$(6,823)</u>	<u>\$(2,813)</u>

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

14. Common Stock

In connection with the Distribution, the Company approved and adopted a Stockholder Rights Plan. On December 14, 1994, the Board of Directors of the Company declared a Rights dividend payable for each outstanding share of AGI Common Stock distributed to Associated stockholders pursuant to the Distribution on December 15, 1994. Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of Series A Junior Participating Preferred Stock, par value \$.01 per share, at a purchase price of \$100 per Unit, subject to adjustment (the "Purchase Price").

Upon occurrence of certain events as set forth in the Stockholder Rights Plan, each holder of a Right will thereafter have the right to receive, upon exercise, Class B Common Stock (or, in certain circumstances, cash, property, or other securities of the Company) having a value equal to two times the Purchase Price.

Each share of the Class A Common Stock entitles the holder to one vote and each share of the Class B Common Stock entitles the holder to one twenty-fifth (1/25) of a vote. There is no cumulative voting.

Class B Common Stock is mandatorily convertible at the election of the Company and without stockholder action, into one share of Class A Common Stock, upon the determination of the Company's Board of Directors that such a conversion is necessary or appropriate in connection with an election by the Company to become a business development company under the Investment Company Act of 1940, as amended ("1940 Act"), or to register as an investment company under the 1940 Act. A total of 10,823,668 shares of Class A Common Stock are reserved for issuance in the event of such a conversion.

1996 and 1995 per common share data is calculated using 18,774,261 and 18,765,947 weighted average common shares outstanding during the years ended December 31, 1996 and 1995, respectively, and does not include common stock equivalents since their effect on the net loss per share would be antidilutive. 1994 pro forma per common share data is calculated using 18,766,031 weighted average common shares outstanding from December 15 to December 31, 1994, as if such shares were outstanding throughout the entire year, and does not include common stock equivalents since their effect on the pro forma net loss per share would be antidilutive.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

15. Stock Options

1989 Stock Option Plan of Associated Communications Resources, Inc. ("ACORN Plan")

The ACORN Plan was sponsored by a wholly owned subsidiary of Associated which was merged with the Company in connection with the Distribution and the Merger. In accordance with the provisions of the ACORN Plan and as a result of the Merger, all outstanding ACORN Plan options became fully vested and, as of the effective time of the Merger, were rolled over into and became options for Class B Common Stock of the Company. Such "rollover" options are governed by the provisions of the Company's 1994 Stock Option and Incentive Award Plan described below, with an option period of ten years from the date of original grant of the ACORN Options.

ACORN Options held by persons who were not employees of Associated or the Company at the Distribution Date were cashed out resulting in compensation expense of \$544,500 in 1994.

1994 Stock Option and Incentive Award Plan ("1994 Plan")

The 1994 Plan authorizes, among other award programs, the granting of options to purchase up to 950,000 shares of Class B Common Stock, and an additional 490,683 shares of Class B Common Stock for the rollover options as described above. Under the 1994 Plan, in general, options may be granted at an option price no less than the fair market value of the stock covered by the option on the grant date, for an option period of ten years. Options become exercisable over a period determined by the committee of nonemployee directors which administers the 1994 Plan. As of December 31, 1996, options for 903,458 shares were exercisable under the 1994 Plan.

Activity of the 1994 Plan is summarized below:

	Number of Options			Option Price Per Share
	1996	1995	1994	
Options outstanding, beginning of year	1,151,683	495,683	-	
Rolled over from ACORN Plan	-	-	490,683	\$0.90-\$1.31
Granted	35,000	656,000	5,000	\$16.50-\$22.625
Exercised	(14,925)	-	-	\$0.90
Canceled and returned to plan	(10,000)	-	-	\$16.50
Options outstanding, end of year	1,161,758	1,151,683	495,683	

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

15. Stock Options (continued)

Associated RT, Inc. 1995 Stock Incentive Plan ("ART Plan")

The ART Plan, adopted in October 1995, authorizes the granting of options to purchase up to 200,000 shares of common stock of Associated RT, Inc. Under the ART Plan, in general, options may be granted at an option price no less than the fair value of the stock covered by the option on the grant date, for an option period of ten years. Options become exercisable over a period determined by the committee of nonemployee directors which administers the ART Plan. Options granted in 1996 and 1995 are exercisable over either a one- or four-year period. As of December 31, 1996, options for 49,500 shares were exercisable under the ART Plan.

Activity of the ART Plan is summarized below:

	Number of Options		Option Price Per Share
	1996	1995	
Options outstanding, beginning of year	97,500	-	
Granted	41,050	97,500	\$21.00-\$42.00
Canceled and returned to plan	(10,000)	-	\$21.00
Options outstanding, end of year	<u>128,550</u>	<u>97,500</u>	

Microwave Services, Inc. 1996 Stock Incentive Plan ("MSI Plan")

The MSI Plan, adopted in April 1996, authorizes the granting of options to purchase up to 200,000 shares of common stock of MSI. Under the MSI Plan, in general, options may be granted at an option price no less than the fair value of the stock covered by the option on the grant date, for an option period of ten years. Options become exercisable over a period determined by the committee of nonemployee directors which administers the MSI Plan. In 1996, options for 194,250 shares were granted under the MSI Plan at exercise prices from \$25.00 to \$30.00 per share. Such options are exercisable over either a one- or four-year period, and none were exercisable as of December 31, 1996.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

15. Stock Options (continued)

ACOM Company Appreciation Rights ("CARs")

On September 1, 1996, six separate CARs were granted to the Executive of ACOM under the terms of his employment agreement. For each CAR, the Executive is entitled to receive, as soon as practicable after the "settlement date" as defined in the employment agreement, an amount equal to a percentage (initially 3%) of the excess of ACOM's fair market value over the target value for that CAR. ACOM's Board of Directors, in its sole discretion, shall determine if the CAR amount is settled with cash, equity securities of ACOM, a combination thereof, or any other form of consideration as the Board may determine. The CAR percentage and target values are subject to adjustment for certain equity and other transactions of ACOM, as defined in the agreement, and expire ten years after the grant date. The vesting date and unadjusted target value for each CAR granted is as follows:

CAR	Vesting Date	Unadjusted Target Value
1	September 1, 1997	\$ 200,000,000
2	September 1, 1998	250,000,000
3	September 1, 1999	325,000,000
4	September 1, 2000	425,000,000
5	September 1, 2001	500,000,000
6	September 1, 2002	2,750,000,000

16. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

Cash and Cash Equivalents

The carrying amount reported in the balance sheets for cash and cash equivalents approximates its fair value.

Marketable Equity Securities

The fair values of marketable equity securities are based on quoted market prices.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

16. Fair Values of Financial Instruments (continued)

Notes Receivable from Related Parties

The fair value of the notes receivable from related parties is estimated using discounted cash flow analyses.

Due to Cellular Equipment Vendor

The carrying amount of the amount due to cellular equipment vendor approximates its fair value.

Short-Term Obligations

The carrying amount of the Company's short-term borrowings approximates fair value.

Long-Term Debt

The carrying amount of the long-term debt, including the current portion, approximates fair value based on quoted market prices for similar types of borrowing arrangements.

Considerable judgment enters into estimates of fair value. Accordingly, the estimates presented may not be indicative of the amounts that the Company could realize in a current market exchange. The carrying amounts and fair values of the Company's financial instruments, in thousands, were as follows:

	December 31, 1996		December 31, 1995	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$ 3,341	\$ 3,341	\$ 1,018	\$ 1,018
Marketable equity securities	425,895	425,895	540,082	540,082
Notes receivable from related parties	28,983	28,983	11,431	11,431
Due to cellular equipment vendor	15,069	15,069	-	-
Short-term obligations	77,526	77,526	33,470	33,470
Long-term debt, including current portion	10,408	10,408	-	-

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

16. Fair Values of Financial Instruments (continued)

Based upon the information reasonably available to it, including the information set forth in Note 7, the Company believes that the fair market value of its investments in Teletrac, SMR, and PCS are in excess of carrying value.

17. Segment Information

The Company operates principally in three industry segments: wireless communication services in major cities across the United States and Southeastern Mexico, radio broadcasting in Ohio, and retail art in New York, New York. Financial information by industry segment, in thousands, is as follows:

	Year ended December 31		
	1996	1995	1994
Revenues:			
Wireless communication services	\$ 16,606	\$ 1,884	\$ 2,244
Radio broadcasting	2,688	1,854	1,897
Art gallery sales	741	534	523
Total revenues	<u>\$ 20,035</u>	<u>\$ 4,272</u>	<u>\$ 4,664</u>
Operating loss:			
Wireless communication services	\$ (25,601)	\$ (7,462)	\$ (1,680)
Radio broadcasting	(645)	(293)	(53)
Art gallery	(731)	(742)	(659)
Corporate	(5,809)	(8,169)	(10,499)
Operating loss	<u>(32,786)</u>	<u>(16,666)</u>	<u>(12,891)</u>
Equity in loss of affiliates	(2,119)	(2,912)	(2,957)
Other income (expense)	9,373	(458)	3,599
Loss before income taxes	<u>\$ (25,532)</u>	<u>\$ (20,036)</u>	<u>\$ (12,249)</u>
Identifiable assets:			
Wireless communication services	\$ 82,209	\$ 26,489	\$ 28,358
Radio broadcasting	3,740	947	976
Art gallery	1,290	1,421	1,654
Corporate	431,695	545,614	447,567
	<u>\$518,934</u>	<u>\$574,471</u>	<u>\$478,555</u>

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

17. Segment Information (continued)

	Year ended December 31		
	1996	1995	1994
Depreciation and amortization:			
Wireless communication services	\$ 4,426	\$ 906	\$ 1,058
Radio broadcasting	330	112	110
Art gallery	13	10	11
Corporate	287	274	252
	<u>\$ 5,056</u>	<u>\$ 1,302</u>	<u>\$ 1,431</u>
Capital expenditures:			
Wireless communication services	\$ 4,087	\$ 269	\$ 45
Radio broadcasting	179	115	41
Art gallery	23	12	2
Corporate	163	251	201
	<u>\$ 4,452</u>	<u>\$ 647</u>	<u>\$ 289</u>

Segment information by geographic area, in thousands, is as follows:

	Year ended December 31		
	1996	1995	1994
Revenues:			
United States	\$ 4,860	\$ 4,272	\$ 4,664
Mexico	15,175	-	-
	<u>\$ 20,035</u>	<u>\$ 4,272</u>	<u>\$ 4,664</u>
Operating loss:			
United States	\$ (30,457)	\$ (16,666)	\$ (12,891)
Mexico	(2,329)	-	-
	<u>\$ (32,786)</u>	<u>\$ (16,666)</u>	<u>\$ (12,891)</u>
Identifiable assets:			
United States	\$488,934	\$574,471	\$478,555
Mexico	30,000	-	-
	<u>\$518,934</u>	<u>\$574,471</u>	<u>\$478,555</u>

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

17. Segment Information (continued)

Revenues from wireless communication services included sales to one customer representing approximately 19% and 24% of total revenues in 1995 and 1994, respectively. No single customer accounted for more than 10% of the Company's total revenues in 1996.

Approximately 50% of the Company's accounts receivables at December 31, 1996, relate to Grupo. As part of its business of rendering cellular telephone services in the southeast region of Mexico, Grupo grants unsecured credit to customers, the majority of which are residents of that area. Grupo estimates an allowance for doubtful accounts based on the creditworthiness of its customers as well as general economic conditions. Consequently, an adverse change in those factors could affect the Company's estimates for bad debts.

Corporate assets consist principally of cash and cash equivalents, marketable equity securities, and prepaid expenses and other assets. Assets of the wireless communications segment include Mexican cellular telephone services (consolidated in 1996), microwave communications services, the investments in Grupo (equity method in 1994 and 1995), Mobilcom, Omnipoint, and Teletrac, in addition to assets related to ACOM and ART.

18. Related Party Transactions

The Company provided technical, administrative, and management services to the 45% minority member of ACOM, Grupo, and to other related organizations. The Company was reimbursed for these services at rates which approximate cost. The reimbursement of these costs is used to offset operating and sales, general and administrative expenses. The total reimbursement for these services on a net equity basis was approximately \$456,000, \$9,000, and \$19,000 in 1996, 1995, and 1994, respectively. In 1996, related parties provided technical, administrative and management services to ACOM at rates which approximate cost. The total charge for these services is included in operating and sales, general and administrative expenses and was approximately \$378,000 on a net equity basis in 1996.

Accounts receivable at December 31, 1996 and 1995 includes approximately \$517,000 and \$252,000, respectively, for balances due from related parties for technical, administrative, and management services and other expenses. Accounts payable at December 31, 1996 includes approximately \$576,000 for balances due to related parties for technical, administrative, and management services and other expenses.

The Associated Group, Inc. and Subsidiaries

Notes to Financial Statements (continued)

19. Quarterly Data (Unaudited)

	Quarter			
	First	Second	Third	Fourth
	<i>(In Thousands, Except Per Share Data)</i>			
1996				
Revenues	\$ 4,436	\$ 5,089	\$ 5,122	\$ 5,388
Operating loss	(5,107)	(5,097)	(8,927)	(13,655)
Net loss	(1,589)	(3,213)	(4,966)	(7,428)
Net loss per common share	\$ (.08)	\$ (.17)	\$ (.26)	\$ (.41)
1995				
Revenues	\$ 1,201	\$ 1,083	\$ 999	\$ 989
Operating loss	(3,321)	(3,369)	(4,174)	(5,802)
Net loss	(2,507)	(2,654)	(3,339)	(4,713)
Net loss per common share	\$ (.13)	\$ (.14)	\$ (.18)	\$ (.25)

The Associated Group, Inc. and Subsidiaries

Schedule II—Valuation and Qualifying Accounts

Column A Description	Column B Balance at Beginning of Period	Column C Additions		Column D Deductions	Column E Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
<i>(In Thousands)</i>					
Year ended December 31, 1996:					
Deducted from assets:					
Allowance for doubtful accounts (deducted from accounts receivable)	\$ 183	\$1,275	\$2,730 (A)	\$1,833 (B)	\$2,355
Inventory market valuation reserve (deducted from inventory)	\$1,582	\$ -	\$ -	\$ 12 (C)	\$1,570
Deferred tax asset valuation allowance (deducted from deferred taxes)	\$ -	\$ 187	\$6,325 (A)	\$ -	\$6,512
Year ended December 31, 1995:					
Deducted from assets:					
Allowance for doubtful accounts (deducted from accounts receivable)	\$ 92	\$ 114	\$ -	\$ 23 (B)	\$ 183
Inventory market valuation reserve (deducted from inventory)	\$1,573	\$ 60	\$ -	\$ 51 (C)	\$1,582
Year ended December 31, 1994:					
Deducted from assets:					
Allowance for doubtful accounts (deducted from accounts receivable)	\$ 263	\$ 40	\$ -	\$ 211 (B)	\$ 92
Inventory market valuation reserve (deducted from inventory)	\$1,573	\$ -	\$ -	\$ -	\$1,573
Investment valuation reserve	\$ 461	\$ -	\$ -	\$ 461 (D)	\$ -

(A)—Consolidation of Grupo Portatel, S.A. de C.V.

(B)—Accounts written off, net of recoveries.

(C)—Inventory written off or sold below cost.

(D)—Transferred to net unrealized gain on marketable equity securities.

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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 0-24924

THE ASSOCIATED GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

51-0260858
(I.R.S. Employer Identification No.)

200 Gateway Towers, Pittsburgh, Pennsylvania
(Address of principal executive offices)

15222
(Zip Code)

412-281-1907
(Registrant's telephone number)

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 No

The number of shares outstanding of each of the issuer's classes of common stock, as of August 11, 1997:

Common Stock, Class A	9,382,962
Common Stock, Class B	9,399,410

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

THE ASSOCIATED GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 1997	December 31, 1996
	(amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents (approximates fair value)	\$ 4,039	\$ 3,341
Accounts receivable, less allowance for doubtful accounts (June 30, 1997--\$2,535,000; December 31, 1996--\$2,355,000)	3,766	4,051
Receivable from related parties	871	203
Inventory held for resale	1,581	1,622
Prepaid expenses and other assets	1,028	651
Deferred income taxes	4,287	2,008
Total current assets	<u>15,572</u>	<u>11,876</u>
Property and equipment, net of accumulated depreciation and amortization (June 30, 1997-- \$27,153,000; December 31, 1996--\$24,952,000)	29,755	27,513
Marketable equity securities, at fair value (cost: June 30, 1997--\$7,622,000; December 31, 1996--\$6,882,000)	495,181	425,895
Notes receivable from related parties	30,790	28,780
Investments in wireless communications affiliates	16,504	16,108
Other noncurrent assets	14,169	8,762
Total assets	<u>\$ 601,971</u>	<u>\$ 518,934</u>

See notes to consolidated financial statements

THE ASSOCIATED GROUP, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS (UNAUDITED) - Continued

	June 30, 1997	December 31, 1996
(amounts in thousands)		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,936	\$ 7,716
Employee compensation	2,158	1,575
Due to cellular equipment vendor	15,069	15,069
Short-term obligations	111,238	77,526
Current portion of long-term debt	2,082	2,082
Subsidiary appreciation rights liability - current (Note 5)	14,948	1,879
Other current liabilities	2,167	1,004
Total current liabilities	154,598	107,251
Deferred compensation	1,919	1,440
Subsidiary appreciation rights liability - long-term (Note 5)	25,704	899
Long-term debt, excluding current portion	7,286	8,326
Deferred income taxes	140,840	127,183
Minority interests (Note 6)	9,180	7,830
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred stock, par value \$.01 per share; authorized 5,000,000 shares; none issued	-	-
Class A Common Stock, par value \$.10 per share; authorized 100,000,000 shares; 9,382,962 issued and outstanding in 1997 and 1996	938	938
Class B Common Stock, par value \$.10 per share; authorized 50,000,000 shares; 9,398,410 and 9,397,910 issued and outstanding in 1997 and 1996	940	940
Additional paid-in capital	20	12
Unrealized gain on marketable equity securities, net of deferred taxes (June 30, 1997--\$170,645,000); December 31, 1996--\$146,654,000)	316,914	272,359
Retained earnings (deficit)	(56,368)	(8,244)
Total stockholders' equity	262,444	266,005
Total liabilities and stockholders' equity	\$ 601,971	\$ 518,934

See notes to consolidated financial statements

THE ASSOCIATED GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
(amounts in thousands, except share and per share amounts)				
Revenues:				
Wireless communication services	\$ 5,328	\$ 4,323	\$ 10,136	\$ 8,285
Radio broadcasting	813	588	1,458	930
Art gallery sales	118	178	307	310
	<u>6,259</u>	<u>5,089</u>	<u>11,901</u>	<u>9,525</u>
Costs and expenses:				
Cost of sales:				
Wireless communication services	3,655	2,340	6,428	4,438
Radio broadcasting	219	164	405	329
Art gallery sales	83	133	211	229
Direct research and development expenses	1,727	1,955	3,304	3,683
Sales, general and administrative expenses	11,874	4,395	20,706	8,383
Non-cash subsidiary appreciation rights (Note 5)	35,790	-	37,873	-
Depreciation and amortization expense	1,336	1,245	2,668	2,511
	<u>54,684</u>	<u>10,232</u>	<u>71,595</u>	<u>19,575</u>
Operating loss	(48,425)	(5,143)	(59,694)	(10,050)
Equity in loss of affiliate	-	(467)	-	(794)
Other income (expense):				
Gain on sale of marketable equity securities	262	719	2,485	3,397
Interest and dividend income	808	432	1,332	1,128
Interest expense	(1,946)	(813)	(3,512)	(2,007)
Other	79	46	111	(154)
Minority interests (Note 6)	43	501	(1,350)	1,351
	<u>(754)</u>	<u>885</u>	<u>(934)</u>	<u>3,715</u>
Loss before income taxes	(49,179)	(4,725)	(60,628)	(7,129)
Income tax benefit	10,161	1,512	12,504	2,327
Net loss	<u>\$ (39,018)</u>	<u>\$ (3,213)</u>	<u>\$ (48,124)</u>	<u>\$ (4,802)</u>
Net loss per common share	<u>\$ (2.08)</u>	<u>\$ (.17)</u>	<u>\$ (2.56)</u>	<u>\$ (.26)</u>
Weighted average common shares outstanding	18,781,372	18,769,428	18,781,229	18,767,936

See notes to consolidated financial statements

Note:

The net losses for the three and six months ended June 30, 1997 include non-cash subsidiary rights expense of Teligent, L.L.C., and does not reflect a minority interest in Teligent's losses for the periods of \$19,400 and \$23,715 (income effects) for the three and six months ended June 30, 1997, respectively. Such minority interest income is not recognizable under Generally Accepted Accounting Principles due to the negative equity position of Teligent and the limited liability of the members of Teligent. If such minority interests were recognized, the losses would have been \$(19,618), or \$(1.04) per share, and \$(24,409), or \$(1.30) per share, for the respective three and six months ended June 30, 1997.

THE ASSOCIATED GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
	1997	1996
	(amounts in thousands)	
Cash Flows From Operating Activities		
Net loss	\$ (48,124)	\$ (4,802)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,668	2,513
Provision for losses on accounts receivable	554	628
Equity in loss of affiliate	-	794
Gain on sales of marketable equity securities	(2,485)	(3,397)
Minority interests (Note 6)	1,350	(1,351)
Provision for deferred income taxes	(12,750)	(2,541)
Subsidiary appreciation rights (Note 5)	37,873	-
Other	1,521	-
Changes in assets and liabilities:		
Accounts receivable	(269)	(2,215)
Inventory held for resale	41	137
Prepaid expenses and other assets	(377)	407
Accounts payable	(780)	(804)
Employee compensation	183	(320)
Other current liabilities	1,163	(260)
Deferred compensation	479	39
Net Cash Used In Operating Activities	<u>(18,953)</u>	<u>(11,172)</u>
Cash Flows From Investing Activities		
Cash and cash equivalents from consolidation of affiliate	-	751
Cash paid for acquisition	-	(2,639)
Purchases of property and equipment, net	(4,473)	(1,790)
Proceeds from sale of marketable equity securities	2,512	3,412
Purchase of marketable equity securities	(767)	-
Increase in receivable from related parties	(4,063)	(1,674)
Investments in wireless communications affiliates	(397)	(2,672)
Payment relating to acquisition of wireless communications business (Note 2)	(5,770)	-
Other investing activities, net	(71)	(427)
Net Cash Used In Investing Activities	<u>(13,029)</u>	<u>(5,039)</u>
Cash Flows From Financing Activities		
Proceeds from short-term obligations, net	33,712	14,736
Increase in due to cellular equipment vendor	-	605
Repayment of long-term debt	(1,040)	(1,041)
Investment by minority interests	-	2,038
Other financing activities, net	8	13
Net Cash Provided By Financing Activities	<u>32,680</u>	<u>16,351</u>
Net Increase In Cash And Cash Equivalents	698	140
Cash And Cash Equivalents At Beginning Of Period	3,341	1,018
Cash And Cash Equivalents At End Of Period	<u>\$ 4,039</u>	<u>\$ 1,158</u>

See notes to consolidated financial statements

THE ASSOCIATED GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of The Associated Group, Inc. and Subsidiaries (the "Company," as used herein, includes all consolidated subsidiaries, unless the context otherwise indicates) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 1997, are not necessarily indicative of the results that may be expected for the year ended December 31, 1997. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

Certain amounts in the financial statements for the 1996 periods have been reclassified to conform to the financial statement presentation for the current period. These reclassifications have no effect on the net loss.

2. PENDING TRANSACTION

Microwave Services, Inc. ("MSI"), a wholly owned subsidiary of the Company and a licensee of Digital Electronic Message Services ("DEMS") channels, and Digital Services Corporation ("DSC"), another licensee of DEMS channels, hold 55% and 45% voting member equity interests, respectively, in Teligent, L.L.C. ("Teligent"), formerly known as Associated Communications, L.L.C., a joint venture limited liability company which provides administrative and management services to each of MSI and DSC. On March 10, 1997, Teligent entered into a Stock Contribution Agreement (the "Stock Agreement") with another DEMS licensee (the "Licensee") and its sole shareholder (the "Sole Shareholder") for the contribution of all of the stock of the Licensee to Teligent in exchange for initial cash payments and additional cash payments and ownership interests in Teligent upon consummation of the transaction and Teligent's acquisition of the stock and the licenses contemplated by the Stock Agreement. Consummation of the transaction and transfer of these licenses is subject to certain closing conditions and the receipt of all necessary regulatory approvals, including approval by the Federal Communications Commission. The amount of equity interest in Teligent to be issued to the Sole Shareholder is dependent upon certain conditions, but shall not exceed 5% determined as of the date of the Stock Agreement. Subsequent to a closing, the Sole Shareholder will have a full member interest in Teligent pursuant to the Limited Liability Company Agreement, to which MSI and DSC are parties. Included in other noncurrent assets on the Company's consolidated balance sheet at June 30, 1997 is \$5,770,000 relating to the initial cash payments for the transaction.

3. MARKETABLE EQUITY SECURITIES

In January 1997, the board of directors of Tele-Communications, Inc. ("TCI") declared a dividend to holders of record of Liberty Media Group Series A Common Stock ("Liberty Series A") and Liberty Media Group Series B Common Stock ("Liberty Series B") as of December 27, 1996. In 1997, the Company received one share of Liberty Series A for every two shares of Liberty Series A owned and one share of Liberty Series A for every two shares of Liberty Series B owned.

During 1997, the Company has sold 110,000 shares of Liberty Series A for pretax proceeds of approximately \$2,512,000, and has recognized gains on these sales of approximately \$2,223,000 and \$262,000 in the first and second quarters, respectively.

The cost and market value of marketable equity securities classified as available for sale at June 30, 1997, are as follows:

Name of Issuer and Title of Each Issue	Number of Shares	Cost of Each Issue In Thousands	Market Value of Each Issue In Thousands
Tele-Communications, Inc.:			
TCI Group Series A Common Stock	12,479,976	\$ 3,505	\$185,640
TCI Group Series B Common Stock	7,071,852	1,178	114,917
Liberty Media Group Series A Common Stock	5,453,970	1,339	129,532
Liberty Media Group Series B Common Stock	1,767,963	273	44,199
TCI Satellite Entertainment, Inc.:			
Series A Common Stock	1,247,997	334	9,828
Series B Common Stock	707,185	90	6,188
Others	Various	903	4,877
		<u>\$ 7,622</u>	<u>\$495,181</u>

Including the effects of the sale of marketable equity securities during the periods, adjustments to the unrealized gain on marketable equity securities, net of tax, recorded as a separate component of stockholders' equity were \$44,555,000 and (\$26,947,000) in the six months ended June 30, 1997 and 1996, respectively.

4. SHORT-TERM OBLIGATIONS

The Company's outstanding short-term obligations were as follows (in thousands):

	June 30, 1997	December 31, 1996
General Credit Facilities:		
\$100 million demand discretionary bank line of credit	\$ 19,000	\$ 19,000
Three brokerage margin loan facilities	67,238	56,526
	<u>86,238</u>	<u>75,526</u>
Teligent Credit Facility:		
\$50 million secured bank revolving credit facility	25,000	2,000
	<u>\$111,238</u>	<u>\$77,526</u>

Included in the general credit facilities listed above is a brokerage margin loan facility obtained by the Company in January 1997. At June 30, 1997, an aggregate of 11,879,976 shares of TCI Group Series A Common Stock was pledged as collateral under the Company's general credit facilities.

5. SUBSIDIARY APPRECIATION RIGHTS

On September 1, 1996, Teligent granted six separate Company Appreciation Rights ("CARs") to Teligent's Chairman and CEO (the "Executive") under his employment agreement (the "Agreement"). For each CAR, the Executive is entitled to receive, as soon as practicable after the "settlement date", as defined in the Agreement, an amount equal to a percentage (initially 3%) of the excess of Teligent's fair market value over the target value for that CAR. Teligent's Board of Directors, in its sole discretion, shall determine if the CAR amount is settled with cash, equity securities of Teligent, a combination thereof, or any other form of consideration as the Board may

determine. The CAR percentage and target values are subject to adjustment for equity contributions and other transactions of Teligent, as defined in the Agreement, and expire ten years after the grant date. The vesting date and unadjusted target value for each CAR granted is as follows:

CAR	Vesting Date	Unadjusted Target Value
1	September 1, 1997	\$ 200,000,000
2	September 1, 1998	250,000,000
3	September 1, 1999	325,000,000
4	September 1, 2000	425,000,000
5	September 1, 2001	500,000,000
6	September 1, 2002	2,750,000,000

In addition, Teligent has a Long-Term Incentive Compensation Plan (the "Plan") under which an aggregate of 1,600,000 appreciation rights ("Rights") may be granted to employees, directors, and consultants (the "Grantees") of Teligent. Each appreciation right represents .00001% (subject to adjustment) of the Appreciation Value associated with that Right, as defined in the Plan. As of June 30, 1997, 1,450,950 Rights have been granted for a term of ten years with a five-year vesting period. Teligent's Board of Directors, in its sole discretion, shall determine if the amount payable to a Grantee under the Plan is settled in cash, an actual or "phantom" equity interest in Teligent, a combination thereof, or any other form of consideration as the Teligent Board may determine.

The Company has recognized a liability and related compensation expense for the CARs and the Rights under the provisions of Accounting Principals Board Opinion No. 25 ("APB 25") "Accounting for Stock Issued to Employees". Under APB 25, expense recognition is accelerated such that the expense recorded exceeds the actual amount exercisable under the vesting schedules applicable to the CARs and Rights. The recorded liability under APB 25 is \$40,652,000 as of June 30, 1997, however there were no CARs or Rights exercisable as of that date. The actual amount of compensation payable, if any, to the Executive and the Grantees at the time of settlement, as well as the cumulative amount of compensation expense recorded in the financial statements, if any, will depend upon the vesting status and the fair market value of Teligent, among other factors.

6. MINORITY INTEREST

The minority interest liability and related income or expense reflects the outside minority ownership of consolidated subsidiaries. However, in 1997 the minority interest for the three and six month periods ended June 30, 1997 do not reflect the minority interest in Teligent's losses of \$19,400 and \$23,715 (income effects). Such minority interest income is not recognizable under Generally Accepted Accounting Principles due to the limited liability of the members of Teligent. If such minority interests were recognized, the Company's losses would have been \$(19,618), or \$(1.04) per share, and \$(24,409) or \$(1.30) per share, for the respective three and six months ended June 30, 1997.

7. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest was approximately \$1,578,000 and \$1,107,000 for the six months ended June 30, 1997 and 1996, respectively. The Company made no federal or state income tax payments during the six months ended June 30, 1997 and 1996. Grupo Portatel, S.A. de C.V. ("Grupo"), a consolidated subsidiary of the Company, paid approximately \$251,000 and \$394,000 in Mexican taxes in the six months ended June 30, 1997 and 1996, respectively. Noncash financing activities of the Company for the six months ended June 30, 1996 include a contribution by minority interests of notes receivable from related parties of \$7,162,000 and long-term debt of \$2,845,000 assumed by a cellular equipment vendor, as guarantor of Grupo's long-term debt.

8. PER SHARE DATA

Weighted average common shares outstanding do not include common stock equivalents since their effect on the net loss per common share would be antidilutive.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("FASB 128"). FASB 128 specifies the computation, presentation and disclosure requirements for earnings per share. FASB 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods, and requires restatement of all prior-period per share data presented. Earlier application is not permitted. The Company plans to adopt FASB 128 at year-end 1997. The implementation of FASB 128 is not expected to have a material impact on the reported per share data of the Company.

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

This Form 10-Q contains certain forward looking statements about the Company's completion of pending transactions and availability of certain tax benefits. Any such statements are subject to risks that could cause the actual results or needs to vary materially.

Financial Condition

Currently, the Company's cash requirements (other than those of Teligent) are being met by a \$100,000,000 demand discretionary bank line of credit and margin loan facilities with three brokerage firms. Borrowings under the \$100,000,000 line of credit are limited to 65% of the market value of the TCI Group common stock pledged as security under the agreement, and bear interest at rates as offered by the bank at the time of borrowing. The line expires on November 30, 1997, and the Company presently anticipates renewal of such facility.

The Company's margin loan facilities are also secured by shares of TCI Group common stock. Borrowings under one of the margin loan facilities are limited to 65% of the market value of the pledged stock, with an additional 15% collateral requirement if borrowings exceed \$100,000,000, up to a maximum of \$200,000,000. Borrowings under the other two brokerage margin loan facilities are limited to 50% of the market value of the pledged stock. Borrowings under the three margin loan facilities bear interest at variable rates based upon the broker call rate or the Fed Funds rate plus an applicable margin, as offered by the brokerage firm at the time of borrowing. The weighted average interest rate under the \$100,000,000 line of credit and the margin loan facilities for the six months ended June 30, 1997 was approximately 6.2%.

As of August 11, 1997, based on the market value of the 11,879,976 shares of TCI Group Series A Common Stock pledged in the aggregate and aggregate outstanding short-term obligations under these credit facilities of approximately \$88,586,000 the Company's unused borrowing capacity is approximately \$52,346,000. A significant portion of the Company's assets are liquid, and can be pledged as security for added borrowing capacity. Given the market value of the remaining shares of marketable equity securities that can be pledged as additional security, the Company's borrowing facilities provide for maximum aggregate unused borrowings of approximately \$237,269,000 as of August 11, 1997. The Company's ability to meet cash needs in the near term for future development depends in large part on the value of the marketable equity securities. The Company periodically evaluates its financial position and alternative financing arrangements.

In addition, Teligent has a \$50,000,000 secured bank revolving credit facility which is available to meet the cash needs of Teligent. Borrowings under this credit facility bear interest at variable rates based upon the LIBOR rate, prime rate or the Fed Funds rate, plus an applicable margin, as offered by the bank. The weighted average interest rate under this credit facility for the six months ended June 30, 1997 was approximately 8.1%. A facility fee of 1/2% of the total credit available and a commitment fee of 1/2% of the unused portion of the facility are payable quarterly. Borrowings under Teligent's credit facility are secured by a pledge of the Company's stock in MSI, a pledge of the stock of DSC, a pledge of MSI's and DSC's member interests in Teligent, and a pledge of all of the assets of MSI, DSC, and Teligent, and are guaranteed by MSI and DSC. The revolving credit facility restricts the payment of distributions or dividends by Teligent. Based upon outstanding short-term obligations under the Teligent credit facility of \$29,000,000 as of August 11, 1997, Teligent has unused borrowing capacity of \$21,000,000. The revolving credit facility matures on December 19, 1997, and Teligent is presently evaluating its long-term financing options.

In the six months ended June 30 1997, the Company sold 110,000 shares of Liberty Series A for pretax proceeds of approximately \$2,512,000, and has recognized a gain on the sale of approximately \$2,485,000. The Company expects to utilize its federal net operating loss carryforwards to offset the taxes resulting from the gain. The Company used the proceeds from the sale of the securities for working capital and to fund the development of its wireless communications businesses.

Portatel del Sureste, S.A. de C.V. ("Portatel"), a wholly owned subsidiary of Grupo, has long-term debt obligations under various credit facilities with a U.S. bank and various related parties (the "Portatel Credit Agreements"). Such long-term obligations are denominated in U.S. dollars and were incurred for working capital, including the purchase and construction of cellular telephone infrastructure equipment. The outstanding debt under the Portatel Credit Agreements at June 30, 1997 is \$9,368,000. Grupo and Portatel have no external available lines of credit as of June 30, 1997. The Company may be required to meet additional capital requirements with respect to its ownership interest in Grupo.

Pursuant to the Stock Agreement, Teligent has made payments totaling \$5,770,000 (see Note 2 to the consolidated financial statements included elsewhere herein). Upon consummation of the transaction contemplated by the Stock Agreement, Teligent may be required to make an additional cash payment of up to \$4,950,000.

Net cash used in operating activities was \$18,953,000 and \$11,172,000 for the six months ended June 30, 1997 and 1996, respectively. The Company's operating cash needs increased in the 1997 period primarily for expenses of Teligent, which was formed in March 1996. Net cash used in investing activities was \$13,029,000 for the six months ended June 30, 1997 and \$5,039,000 for the same period of 1996. The \$7,990,000 change between periods was primarily due to \$5,770,000 paid pursuant to the Stock Agreement (see Note 2 to the consolidated financial statements included elsewhere herein) and an increase in capital expenditures attributable to construction of Teligent's broadband wireless network. Net cash provided by financing activities in the 1997 and 1996 periods of \$32,680,000 and \$16,351,000, respectively, was principally from borrowings by the Company. The increase between periods is primarily the result of higher borrowings in the 1997 period principally to finance the investing and operating activities of Teligent and TruePosition™, the Company's cellular telephone and wireless transmitter location system.

Operating Results for the Three Months Ended June 30, 1997, Compared to the Three Months Ended June 30, 1996

Revenues from wireless communication services increased \$1,005,000, or 23% in the 1997 period compared to the 1996 period. The increase is attributable to an increase in Grupo's cellular communication services revenue, principally a result of growth in Grupo's subscriber base. Cost of wireless communication services increased \$1,315,000, or 56% between periods principally due to the costs associated with the growth of Grupo's subscriber base and to operating costs incurred by Teligent, which began providing wireless communication services in 1996.

Radio broadcasting revenues increased \$225,000, or 38% for the 1997 period compared to the 1996 period, and the cost of radio broadcasting increased \$55,000, or 34%. The increase in revenues and costs is principally the result of the acquisition of WLYR-FM (formerly known as WCEZ-FM) on May 31, 1996.

Direct research and development expenses of \$1,727,000 and \$1,955,000 in the 1997 and 1996 periods, respectively, primarily represent expenditures for TruePosition. Sales, general and administrative expenses were \$11,874,000 and \$4,395,000 in the 1997 and 1996 periods, respectively. The increase from 1996 to 1997 of \$7,479,000 was principally the result of expenditures for Teligent, which was formed in March 1996.

The subsidiary appreciation rights expense for Teligent of \$35,790,000 recorded in the second quarter of 1997 reflects a non-cash charge resulting from additional grants, vesting, and the appreciation in value of Teligent. Grants commenced in September 1996, thus there is no comparable expense in the 1996 period.

The Company's equity in loss of affiliate was \$467,000 in the 1996 period and reflects the Company's share of the results of Teletrac, Inc. ("Teletrac") for the 1996 period. Through November 1996, the Company held 20% of the voting stock of Teletrac and accounted for its investment in Teletrac under the equity method. As a result of Teletrac's issuance of convertible preferred stock in early December 1996, the Company's voting interest

in Teletrac was reduced to approximately 13% and, accordingly, the Company began accounting for its investment under the cost method.

The \$262,000 gain on the sale of marketable equity securities in the 1997 period is the result of the sale of 10,000 shares of Liberty Series A and the \$719,000 gain on the sale of marketable equity securities in the 1996 period is the result of the sale of 90,000 shares of General Communication, Inc. Class A Common Stock. Interest and dividend income was \$808,000 and \$432,000 in the 1997 and 1996 periods, respectively. The increase in 1997 of \$376,000 is primarily the result of an increase in the level of receivables from related parties, which includes certain interest-bearing notes. Interest expense was \$1,946,000 and \$813,000 in the 1997 and 1996 periods, respectively. The increase in 1997 of \$1,133,000 is the result of an increase in the level of short-term obligations, offset in part by a decrease in the level of Portatel's long-term debt. Minority interests were \$43,000 and \$501,000 in the 1997 and 1996 periods, respectively. The 1997 minority interest expense represents the minority ownership interest in the net income of all consolidated subsidiaries except Teligent. The 1996 minority interest included the minority interest ownership interest in Teligent's net loss. Such interest is not recognized in 1997 under Generally Accepted Accounting Principles ("GAAP") due to the negative equity position of Teligent in 1997 (See Note 6 to the consolidated financial statements included elsewhere herein).

The Company recognized an income tax benefit (net of foreign tax expense of Grupo) at an effective rate of approximately 26% and 32% in the 1997 and 1996 periods, respectively. The principal difference between the 1997 effective tax rate and the statutory rate is the recognition by the Company of 100% of the net loss of Teligent with no minority interest adjustment (see Note 6 to the consolidated financial statements included elsewhere herein), while the Company's tax benefit reflects 55% of such loss. Based on current projections, the Company anticipates it will generate a net operating loss for federal income taxes for the year ended December 31, 1997.

The Company's net loss was \$39,018,000 for the three months ended June 30, 1997, compared to a net loss of \$3,213,000 for the three months ended June 30, 1996. The higher loss in the 1997 period of \$16,405,000 resulted primarily from the non-cash charge recorded for the Teligent appreciation rights (net of the income tax benefit), as well as increased operating and administrative expenditures for the start-up of Teligent.

Operating Results for the Six Months Ended June 30, 1997, Compared to the Six Months Ended June 30, 1996

Revenues from wireless communication services increased \$1,851,000, or 22% in the 1997 period compared to the 1996 period. The increase is attributable to an increase in Grupo's cellular communication services revenue, principally a result of growth in Grupo's subscriber base. Cost of wireless communication services increased \$1,990,000, or 45% between periods principally due to the costs associated with the growth of Grupo's subscriber base and to operating costs incurred by Teligent, which began providing wireless communication services in 1996.

Radio broadcasting revenues increased \$528,000, or 57% for the 1997 period compared to the 1996 period, and the cost of radio broadcasting increased \$76,000, or 23%. The increase in revenues and costs is principally the result of the acquisition of WL.YR-FM (formerly known as WCEZ-FM) on May 31, 1996.

Direct research and development expenses of \$3,304,000 and \$3,683,000 in the 1997 and 1996 periods, respectively, primarily represent expenditures for TruePosition. Sales, general and administrative expenses were \$20,706,000 and \$8,383,000 in the 1997 and 1996 periods, respectively. The increase from 1996 to 1997 of \$12,323,000 was principally the result of expenditures for Teligent, which was formed in March 1996.

The subsidiary appreciation rights expense for Teligent of \$37,873,000 recorded in the first half of 1997 reflects a non-cash charge resulting from additional grants, vesting, and the appreciation in value of Teligent. Grants commenced in September 1996, thus there is no comparable expense in the 1996 period.

The Company's equity in loss of affiliate was \$794,000 in the 1996 period and reflects the Company's share of the results of Teletrac, Inc. ("Teletrac") for the 1996 period. Through November 1996, the Company held 20% of the voting stock of Teletrac and accounted for its investment in Teletrac under the equity method. As a result of Teletrac's issuance of convertible preferred stock in early December 1996, the Company's voting interest in Teletrac was reduced to approximately 13% and, accordingly, the Company began accounting for its investment under the cost method.

The \$2,485,000 gain on the sale of marketable equity securities in the 1997 period is the result of the sale of 110,000 shares of Liberty Series A and the \$3,397,000 gain on the sale of marketable equity securities in the 1996 period is the result of the sale of 41,598 shares of Tele-Communications, Inc. Class B 6% Cumulative Redeemable Exchangeable Junior Preferred Stock and 90,000 shares of General Communication, Inc. Class A Common Stock. Interest and dividend income was \$1,332,000 and \$1,128,000 in the 1997 and 1996 periods, respectively. The increase in 1997 of \$204,000 is primarily the result of an increase in the level of receivables from related parties, which includes certain interest-bearing notes. Interest expense was \$3,512,000 and \$2,007,000 in the 1997 and 1996 periods, respectively. The increase in 1997 of \$1,505,000 is the result of an increase in the level of short-term obligations, offset in part by a decrease in the level of Portatec's long-term debt. Minority interests were \$1,350,000 of expense in the 1997 period and \$1,351,000 of income in the 1996 period. The 1997 minority interest expense represents the minority ownership interest in the net income of all consolidated subsidiaries except Teligent. The 1996 minority interest included the minority interest ownership interest in Teligent's net loss. Such interest is not recognized in 1997 under GAAP due to the negative equity position of Teligent in 1997 (See Note 6 to the consolidated financial statements included elsewhere herein).

The Company recognized an income tax benefit (net of foreign tax expense of Grups) at an effective rate of approximately 21% and 33% in the 1997 and 1996 periods, respectively. The principal difference between the 1997 effective tax rate and the statutory rate is the recognition by the Company of 100% of the net loss of Teligent with no minority interest adjustment (see Note 6 to the consolidated financial statements included elsewhere herein), while the Company's tax benefit reflects 55% of such loss. Based on current projections, the Company anticipates it will generate a net operating loss for federal income taxes for the year ended December 31, 1997.

The Company's net loss was \$48,124,000 for the six months ended June 30, 1997, compared to a net loss of \$4,802,000 for the six months ended June 30, 1996. The higher loss in the 1997 period of \$43,322,000 resulted primarily from the non-cash charge recorded for the Teligent appreciation rights (net of the income tax benefit), as well as increased operating and administrative expenditures for the start-up of Teligent.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, the Federal Communications Commission (the "FCC") issued an Order (the "Relocation Order") on March 14, 1997 providing for the relocation of the digital electronic message system licenses ("DEMS") from the 18 GHz band to a reallocated portion of the 24 GHz band, pursuant to a request by the National Telecommunications & Information Administration acting on behalf of the Department of Defense. The Relocation Order provided for the relocation of DEMS from 100 MHz over 5 channels at 18 GHz to 400 MHz over 5 channels at 24 GHz, allowing DEMS systems to maintain equivalent information capacity to the similarly engineered systems at 18 GHz. On June 24, 1997, the FCC issued an additional order (the "Implementation Order"), which implemented the Relocation Order in part by modifying various DEMS licenses, including those held by affiliates of the Company, to authorize DEMS operations at 24 GHz. The Relocation Order and the Implementation Order were subject to an administrative and judicial review period and, during this period, five parties filed petitions with the FCC seeking either partial or full reconsideration or review of one or both orders. The parties -- BellSouth Corporation, WinStar Communications, Inc., Millimeter Wave Carrier Association, Inc., DirecTV Enterprises, Inc. and WebCel Communications, Inc. -- have challenged the FCC's issuance of the Relocation Order without conducting a notice and comment rulemaking proceeding pursuant to the national security exemption to the FCC's otherwise applicable statutory requirement to promulgate rules through notice and comment proceedings. In addition, DirecTV Enterprises, Inc. has filed a petition for rulemaking with the FCC, requesting that the FCC grant permission for DirecTV to construct and operate satellite uplink facilities in certain areas on a portion of the 24 GHz frequencies allocated and granted to DEMS licensees. The FCC has the option to dismiss the petitions or to initiate public notice and comment proceedings concerning the issues which the FCC decided in the Relocation Order. The Company and its affiliates have filed timely responses with the FCC opposing the petitions for reconsideration and review, and continue to build-out their networks as permitted under their licenses, the Relocation Order and the Implementation Order.

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

On June 5, 1997, the Company held its 1997 Annual Meeting, at which the Company's stockholders elected Donald H. Jones as a director of the Company to hold office for a term of three years. 8,165,087 votes were cast for the election of Mr. Jones, and there were 106,865 votes to withhold authority. The terms of Myles P. Berkman and Joseph A. Katarincic as directors continue until such terms expire at the Company's 1998 Annual Meeting and the term of David J. Berkman continues until such term expires at the Company's 1999 Annual Meeting.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits. The following exhibits are filed as part of this Form 10-Q:

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, filed as Exhibit 3.1 to Registration Statement on Form 10/A dated November 15, 1994 and incorporated herein by reference.
3.2	Amended and Restated By-Laws, filed as Exhibit 3.2 to Registration Statement on Form 10/A dated November 15, 1994 and incorporated herein by reference.

- 4.1 Common Stock Certificates, filed as Exhibits 4.2 and 4.3 to Form 8-K, dated December 22, 1994 and incorporated herein by reference.
- 4.2 Rights Agreement, dated as of December 15, 1994, by and between the Company and Mellon Bank, N.A., filed as Exhibit 4.1 to Form 8-K, dated December 22, 1994 and incorporated herein by reference.
- 27 Article 5 Financial Data Schedule for Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 (filed only electronically with the Securities and Exchange Commission).

(b) Reports on Form 8-K. The Company did not file any reports on Form 8-K during the three months ended June 30, 1997.

SIGNATURES

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.

THE ASSOCIATED GROUP, INC.
(Registrant)

Date: August 11, 1997

By: /s/ Myles P. Berkman
Myles P. Berkman
Chairman, President, Chief Executive Officer
and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

<u>Exhibit Number</u>		<u>Page Where Found or Incorporated by Reference</u>
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* Previously filed and incorporated by reference

** Filed only electronically with the Securities and Exchange Commission

REVISED

ASSOCIATED COMMUNICATIONS, L.L.C.

FOR IMMEDIATE RELEASE

Contact: Emma Clurman
The Dilenschneider Group
(212) 922-0900

**ASSOCIATED COMMUNICATIONS COMPLETES
\$50 MILLION FINANCING WITH TORONTO-DOMINION BANK**

Alexandria, VA, January 7, 1997 -- Associated Communications L.L.C. today announced the completion of a \$50 million revolving credit facility with The Toronto-Dominion Bank. The facility will provide Associated Communications and its owners with additional capital to rapidly continue the construction and enhancement of digital wireless networks in 31 metropolitan areas. These wireless networks will provide voice, high-speed data, Internet access and video conferencing services at 18 GHz frequencies.

Alex J. Mandl, chairman and chief executive officer of Associated Communications, stated that the Toronto-Dominion facility provides additional capital necessary for the planned expansion of the business. The networks managed by Associated Communications are designed to provide a broadband component of a fully integrated suite of telecommunications services. Initial marketing will be aimed at the business sector.

Associated Communications is a joint venture of Microwave Services, Inc., a wholly-owned subsidiary of The Associated Group, Inc. (NASDAQ:AGPRA, AGRP), and Digital Services Corporation.

CONFIDENTIAL

LOAN AGREEMENT
BETWEEN
ASSOCIATED COMMUNICATIONS, L.L.C.,
as the Borrower,
AND
THE TORONTO-DOMINION BANK,
as the Bank

December 24, 1996

CONFIDENTIAL

LOAN AGREEMENT

THIS LOAN AGREEMENT (the "Agreement"), made as of this 24th day of December, 1996, by and between ASSOCIATED COMMUNICATIONS, L.L.C., a Delaware limited liability company (the "Borrower"), and THE TORONTO-DOMINION BANK (the "Bank").

REDACTED MATERIAL

CONFIDENTIAL

REDACTED MATERIAL

"Commitment" shall mean the obligation of the Bank to make Loans to the Borrower, subject to the terms and conditions hereof, up to an aggregate principal amount not to exceed at any

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one time outstanding Fifty Million Dollars (\$50,000,000), subject to reduction as set forth in Section 2.5 hereof.

REDACTED MATERIAL

CONFIDENTIAL

IN WITNESS WHEREOF, the parties hereto have executed this Agreement or caused it to be executed by their duly authorized officers, all as of the day and year first above written.

BORROWER:

ASSOCIATED COMMUNICATIONS, LLC, a Delaware limited liability company

By: 

Its: Chief Executive Officer

BANK:

THE TORONTO-DOMINION BANK

By: _____

Its: _____

Teligent possesses the managerial ability to provide the proposed telecommunications services within the State of Florida. As demonstrated by the following biographies, Teligent's senior management team has extensive telecommunications experience in the provision of competitive telecommunications services, including wireless services. Indeed, this highly-qualified team was assembled by Teligent's owners, MSI and DSC, because of their unique qualifications to manage and market MSI's and DSC's telecommunications businesses. This experience, coupled with the equally extensive telecommunications experience of Teligent's owners and their respective owners and affiliates, demonstrates Teligent's managerial ability to provide facilities-based service in the State of Florida.

Alex J. Mandl
Chairman and Chief Executive Officer
Teligent

As Chairman and Chief Executive Officer of Teligent, Alex J. Mandl is building a competitive communications company that will offer customers significant savings on local, long distance, Internet and other advanced services. Teligent will operate in most major markets throughout the United States using proven digital microwave networks and other advanced technologies.

Small and medium-sized business customers, in particular, will benefit from the company's offerings of reliable, value-priced, high-bandwidth products, including voice, high-speed data, Internet access, and audio and video conferencing.

Mr. Mandl, 53, joined Teligent in August, 1996, after serving as president and chief operating officer of AT&T. At AT&T, Mr. Mandl had overall responsibility for directing the company's long distance, wireless and local communications services, in addition to its Direct TV, credit card and Internet businesses. He also led the team that planned AT&T's entry into the local service market to compete against the regional Bell operating companies and other local telephone monopolies.

... for the company's core long distance and wireless businesses.

Earlier, he served as chief financial officer and group executive. In that capacity, he directed AT&T's overall financial strategy, policy and operations and oversaw AT&T Capital Corp. (an equipment leasing company), as well as AT&T's corporate purchasing, real estate and information systems functions. During his tenure as CFO, Mr. Mandl orchestrated AT&T's successful, \$11.5 billion acquisition of McCaw Cellular, and supervised its integration into the company.

Between 1988 and 1991, Mr. Mandl was chairman and chief executive officer of Sea-Land Services, Inc., the world's leading provider of ocean transport and distribution services. Under his leadership, Sea-Land nearly doubled in size and became a highly profitable company.

Mr. Mandl began his business career in 1969, when he joined Boise Cascade Corp. as a merger and acquisition analyst. He held various financial posts with the company during the next 11 years. In 1980, he joined Seaboard Coast Line Industries, a diversified transportation company, as senior vice president and chief financial officer. After Seaboard merged with Chessie Systems to become CSX Corp., Mr. Mandl was named senior vice president in charge of corporate development and human resources, and chief information officer. In addition, he had operating responsibility for three transportation and information technology subsidiaries.

Mr. Mandl serves on the boards of the Warner-Lambert Company, Forstmann Little & Co., General Instrument Corp., WETA-Public Television and Radio, The Museum of Television and Radio, the Walter A. Haas School of Business at the University of California at Berkeley and Willamette University. He is on the Advisory Board of the Chancellor of Austria and a board member of the American Enterprise Institute for Public Policy Research.

Mr. Mandl holds an M.B.A. from the University of California at Berkeley and a B.A. in economics from Willamette University in Salem, Oregon.

Kirby G. ("Buddy") Pickle, Jr.
President and Chief Operating Officer
Teligent

Buddy Pickle, President and Chief Operating Officer of Teligent, has the day-to-day responsibility for building the company into a first-choice provider of advanced local telecommunications services.

Mr. Pickle's move to Teligent in February, 1997 caps a long career in telecommunications. Most recently, Mr. Pickle, 40, was executive vice president of MFS Communications Co., an early entrant into the competitive local telecommunications market. Mr. Pickle was directly involved in the MFS acquisition of UUNET Technologies, Inc., a major supplier of Internet services to business customers. Following the acquisition, Mr. Pickle became UUNET's president and chief operating officer.

Mr. Pickle joined MFS in 1991, eventually becoming president and chief operating officer of the MFS Intelenet Companies. In that role, he ran Centex Telemanagement, MFS Intelenet and Realcom Communications, which together generated more than 60 percent of MFS Communications' revenues. The three companies were the first to offer facilities-based, bundled, local, long distance and customer equipment services to small and medium-sized businesses.

Earlier, Mr. Pickle held a series of executive positions at US Sprint, the long distance carrier and local service provider now known simply as Sprint. He left Sprint as vice president of sales operations.

During he tenure at MCI, in 1984 and 1985, Mr. Pickle was a regional sales manager. Before that, worked for Southern Bell and AT&T in a series of management positions.

Mr. Pickle received a B.B.A. in management from the University of Georgia in 1978.

Laurence E. Harris
Senior Vice President and General Counsel
Teligent

Larry Harris, Senior Vice President and General Counsel of Teligent, oversees the company's legal group and is responsible for the company's political relationships, including those with the White House, Congress and state and federal regulators.

Before joining Teligent in December 1996, Mr. Harris, 61, was senior vice president for law and public policy at MCI. He directed the company's federal, state and international policy initiatives, and led MCI's efforts to enact balanced telecommunications legislation.

In an earlier stint at MCI that lasted from 1972 until 1982, Mr. Harris served as the fledgling long distance carrier's vice president of telephone company relations and tariffs. He managed corporate relations with AT&T, independent telephone companies, the Federal Communications Commission and the office of Telecommunications Policy at the White House. He also coordinated the company's anti-trust lawsuits.

After leaving MCI, Mr. Harris went to work for the FCC, where he was chief of the commission's mass media bureau. In that capacity, he acted as a principal adviser to the FCC chairman on matters involving policy and programs for radio, television and cable.

In addition to his work in the public policy arena, Mr. Harris has extensive experience in the wireless industry. Before he re-joined MCI in 1993, he was president and chief executive officer of International Telecom Systems, Inc. and CRICO Communications, major paging firms that he founded. Earlier, he served as president and chief operating officer of Metromedia Telecommunications.

Mr. Harris was a Lieutenant in the U.S. Navy, serving in the destroyer fleet. He holds a B.A. in mathematics and history from Columbia University and a J.D. from Georgetown University, where he was editor of the law review. He is a member of the board of directors of the Association for Local Telecommunications Services and the board of visitors of the Georgetown University Law School.

Abraham L. Morris
Senior Vice President and Chief Financial Officer
Teligent

As Senior Vice President and Chief Financial Officer of Teligent, Abe Morris is responsible for building the economic foundation of an important new communications competitor.

Before joining Teligent, Mr. Morris, 38, served as senior vice president, operations support, at MFS Communications Company, Inc. Recently acquired by WorldCom, MFS was an early entrant into the competitive local telecommunications market for switched and dedicated access service.

At MFS, Mr. Morris was directly involved in raising the company's capital, including MFS' initial public stock offering. He also was involved in the company's business development, revenue assurance, toll fraud management and co-carrier/local service activities. Mr. Morris joined MFS in 1992 as a vice president, and later became the company's treasurer. In 1994, he was named vice president and chief transition officer for MFS Intelenet, Inc. Along with two other companies in the Intelenet group, MFS Intelenet was the first to offer bundled, facilities-based local, long distance and customer equipment services to small and medium sized businesses.

Between 1986 and 1991, Mr. Morris was general manager for mergers and acquisitions for Peter Kiewit Sons', Inc. (PKS), a diversified industrial services company engaged in construction, mining, telecommunications, energy and packaging. Mr. Morris was responsible for identifying, evaluating and executing domestic and international mergers and acquisitions. PKS was the original equity investor in MFS.

Mr. Morris was an associate specializing in corporate securities at the law firm of Akin, Gump, Strauss, Hauer & Feld in Washington, D.C. between 1984 and 1986.

He received a J.D. with high honors from the National Law Center at The George Washington University in 1984, and a B.A. in political science from The George Washington University in 1981.

Richard J. Hanna
Senior Vice President for Sales and Marketing
Teligent

As the senior sales and marketing executive at Teligent, Rick Hanna is building the sales organization and charting the marketing strategy for an important new competitor in the local telecommunications market.

Before joining Teligent in April, 1997, Mr. Hanna, 41, was president and chief executive officer of MFS Intelenet, based in San Ramon, California. Along with two other companies in the Intelenet group, MFS Intelenet was the first to offer bundled, facilities-based local, long distance and customer equipment services to small and medium-sized businesses. In his three years at MFS Intelenet, Mr. Hanna and his team grew the company from a start-up to a thriving, profitable enterprise with national revenues of \$340 million.

Mr. Hanna previously served as vice president of sales for AT&T at the company's headquarters in Basking Ridge, N.J. At AT&T, Mr. Hanna presided over the build-up of a commercial sales force of 5,000 representatives, packaged AT&T's long distance products to recapture market share and built and managed new support systems for order processing, commission accounting and sales reporting.

Earlier, Mr. Hanna held senior sales positions at MCI Communications Corp.; US Sprint (now known as Sprint); Telic Corporation, the largest independent software consulting company for the regional Bell companies; and Telelogic, a manufacturer of auto-dialing equipment for the long distance industry.

Mr. Hanna earned a bachelor's degree from Central Connecticut University in 1977, and did post-graduate work at Stanford University.

Keith W. Kaczmarek
Senior Vice President for Engineering and Operations
Teligent

As Senior Vice President for Engineering and Operations, Keith Kaczmarek is responsible for designing, building, maintaining and integrating Teligent's state-of-the-art digital microwave networks and other technical facilities.

Before joining Teligent in May of 1997, Mr. Kaczmarek, 41, served as vice president for engineering and operations and chief technology officer for PrimeCo PCS, based in Westlake, Texas. At PrimeCo, he oversaw development and installation of the first and largest PCS deployment of CDMA (code division multiple access) wireless technology.

Between 1993 and 1995, Mr. Kaczmarek was vice president for technology development and product development for Nextel Communications in Lafayette, California. He was responsible for identifying, analyzing and developing new technologies to introduce into Nextel's digital mobile wireless networks. He managed strategic alliances with foreign and domestic companies, and also helped manage relations with the investment community.

Earlier, Mr. Kaczmarek held a number of technology-development positions at Pacific Telesis Group's wireless subsidiary, which was spun off as AirTouch Communications in 1994.

Between 1983 and 1989, Mr. Kaczmarek worked in a variety of engineering and management positions at GTE Corp. and GTE Mobilnet, Inc.

Mr. Kaczmarek holds bachelor of science, master of science and master of business administration degrees from the University of Illinois.

David S. Turetsky
Vice President for Law and Regulatory Affairs
Teligent

As Vice President for Law and Regulatory Affairs for Teligent, David Turetsky is responsible for guiding an important new competitor in the local communications market through the thicket of federal, state and international communications law and public policy issues.

Before he joined Teligent in May, 1997, Mr. Turetsky, 40, served as Deputy Assistant Attorney General for civil and regulatory affairs in the Antitrust Division of the U.S. Department of Justice. He joined the Justice Department in October, 1993 as senior counsel to Assistant Attorney General Anne K. Bingaman. During his tenure at the Justice Department, Mr. Turetsky was involved in a wide range of anti-trust issues, focusing on matters involving the media and telecommunications industry.

He acted as the department's principal liaison with the interagency group led by Vice President Al Gore that was charged with developing the Administration's policy on telecommunications issues. That effort culminated in the enactment of the Telecommunications Act of 1996. He has testified frequently before Congress on telecommunications and competition issues, both domestic and international.

Mr. Turetsky has represented the United States government in a variety of international forums on telecommunications policy. He also served as the Justice Department's representative on the White House group that worked for the successful conclusion of the World Trade Organization's negotiations on an international telecommunications accord.

Earlier, Mr. Turetsky was a litigation partner in the New York and New Jersey law offices of LeBoeuf, Lamb, Leiby & MacRae. He also has served as vice chair of the committee on Legislation of the American Bar Association Section of Antitrust Law, and is a member of the Bar in New York and New Jersey.

A 1979 graduate of Amherst College, *magna cum laude*, Mr. Turetsky attended the London School of Economics and Political Science. He was awarded a J.D. by the University of Chicago School of Law.

EXHIBIT H
Question 15(C)

MSI and DSC, Teligent's two parent companies, currently have pending before the FCC applications to assign to Teligent their microwave licenses for the Miami and Tampa, Florida markets. Based on that assignment, as well as Teligent's currently-held FCC licenses to provide service in the Standard Metropolitan Statistical Areas ("SMSAs") that include the West Palm Beach/Lake Worth, Jacksonville, and Orlando, Florida markets, Teligent will construct and operate its own microwave facilities using frequencies in the 18 GHz and 24 GHz frequency bands. Teligent, acting on behalf of MSI and DSC, has already constructed the backbone for many of its communications networks that are currently serving a limited number of customers in the 31 markets where it is able to construct facilities pursuant to MSI's and DSC's FCC licenses. Within the next few years, its total number of market areas will expand to approximately 74 markets, covering 34 states.

Teligent will provide the same facilities-based switched and dedicated high-speed interstate common carrier and enhanced telecommunications services as well as intrastate local and long distance services that MSI and DSC planned to provide in Florida. Through the technical telecommunications experience of its current officers, directors, and employees, access to the technical abilities and experience of its affiliated parent entities, and use of technologically-advanced, state-of-the-art equipment it has worked closely with manufacturers to develop, Teligent has the requisite technical ability to render the telecommunications services for which authority is sought herein.