KELLEY DRYE & WARREN LLP
A PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS
1200 19TH STREET, N.W.
SUITE 500
WASHINGTON, D. C. 20036
(202) 955-9600

NEW YORK, N.Y.
LOS ANGELES, CA.
MIAMI, FL.
CHICAGO, IL.
STAMFORD, CT.
PARSIPPANY, N.J.
BRUSSELS, BELGIUM
HONG KONG
AFFILIATED OFFICES
NEW DELHI, INDIA
TOKYO, JAPAN

FACSIMILE
(202) 955-9792

WRITER'S DIRECT LINE
(202) 955-9866

WRITER'S E-MAIL
esoriano@kelleydrye.com

ORIGINAL

March 2, 1998

980313

VIA OVERNIGHT COURIER

Ms. Blanca Bayo
Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Application of LCI International Telecom Corp. and LCI International Management Services, Inc. for Approval of a Merger

Dear Ms. Bayo:

Enclosed herewith for filing with the Commission are the original and seven (7) conformed copies of LCI International Telecom Corp. and LCI International Management Services, Inc.'s Application for Approval of a Merger. Please date-stamp the additional copy of this filing and return to the undersigned in the enclosed self-addressed, stamped envelope.

Sincerely,

Enrico C. Soriano

enclosures

cc: J. Scott Nicholls

DC01/SORIE/12910.1

Before the
STATE OF FLORIDA
PUBLIC SERVICE COMMISSION

Application of	)	
	)	
LCI INTERNATIONAL TELECOM CORP. and	)	
LCI INTERNATIONAL MANAGEMENT	)	Docket No.
SERVICES, INC.	)	
	)	
For Approval of a Merger	)	

To the Commission:

APPLICATION

LCI International Telecom Corp. ("LCI Telecom") and LCI International Management Services, Inc. ("LCIM") (collectively, the "Applicants"), by their attorneys, respectfully request authority, pursuant to Section 364.33 of the Florida Statutes, to merge LCIM with and into its wholly owned subsidiary LCI Telecom, a certificated telecommunications carrier and operator services provider in Florida.[1]. The Applicants' proposed reorganization ultimately will result in

[1] In conjunction with this transaction, the Applicants also notify the Commission that they plan to complete a series of financial transactions which will result in LCI Telecom incurring certain debt obligations. In particular, the financial transactions will involve (a) LCI Telecom issuing a debt instrument formalizing an intercompany arrangement pursuant to which LCIM and/or its affiliate has advanced (or will advance) $150 million to LCI Telecom to purchase network assets, and (b) the parties establishing an intercompany line of credit between LCI Telecom and LCIM that will allow LCI Telecom to borrow working capital from LCI Telecom and will be payable upon demand. The intercompany credit line will have a maximum limit of $400 million and will also be payable on demand. Interest will accrue, and be payable, annually on both the loan and the intercompany credit line. These obligations have been, or will be, assigned by LCIM to a wholly owned LCI affiliate before LCIM is merged with and into LCI telecom. The Applicants understand that prior approval of these financial transactions is not required
(continued...)

LCI Telecom being a direct wholly owned subsidiary of LCI International, Inc. ("LCI"), the ultimate corporate parent of the LCI family of companies. The transactions proposed herein will have no adverse impact on LCI Telecom's operations, or its ability to provide high quality telecommunications services to customers in Florida.

Due to the timing of the Applicants business plans, the Applicants respectfully request that the Commission issue an order granting this Application on or before ***March 30, 1998***. In support of their Application, the Applicants provide the following information:

I. THE APPLICANTS

LCI Telecom., a Delaware corporation, is the sixth largest long distance telecommunications carrier in the United States based upon presubscribed telephone lines as reported by the Federal Communications Commission ("FCC"). It provides resold and facilities-based local and long distance telecommunications services to business and residential customers throughout the state of Florida and the nation. LCI Telecom is authorized by the FCC to provide a variety of international telecommunications services. It is also authorized (or permitted) to provide intrastate interexchange services in 48 states, including Florida, and local exchange services in at least 32 states, including Florida. LCI Telecom was authorized by the Commission to provide interexchange services on July 26, 1989, in Docket No. 890381-TI; operator services on August 19, 1993, in Docket No. 94A-013T, and local exchange service on May 29, 1996, in Docket No. T-96-116.

...(continued)

and, hence, the Applicants are not seeking authorization to complete said financial transactions in this Application.

LCI Telecom is a wholly owned subsidiary of LCIM, a Delaware corporation that provides management services to LCI Telecom. LCIM, in turn is a wholly owned subsidiary of LCI, a publicly traded Delaware corporation. The LCI companies are headquartered at 8180 Greensboro Drive, Suite 800, McLean, Virginia 22102.

II. DESIGNATED CONTACTS

The designated contacts for purposes of this Application are:

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

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

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

III. REQUEST FOR APPROVAL OF MERGER OF LCIM WITH AND INTO LCI TELECOM

The Applicants respectfully request that the Commission authorize the merger of LCIM with and into LCI Telecom. The proposed consolidation of LCI Telecom and LCIM will not adversely affect LCI Telecom's customers in Florida. LCI Telecom's operations and tariff will be unaffected and customers will be able to purchase the same high-quality telecommunications services, at the same rates and under the same terms and conditions, that they currently purchase. The proposed merger of LCI Telecom and LCIM will simplify the LCI companies' corporate structure, eliminating administrative redundancy and improving the LCI companies' overall efficiency.[2]

The Applicants respectfully request that the Commission approve the merger of LCIM with and into LCI Telecom at the earliest possible opportunity.

IV. Tariffs

The transactions described herein will not result in any changes to the services, rates, terms and conditions offered by LCI Telecom to its customers in Florida. Therefore, LCI Telecom will continue to provide telecommunications services in Florida pursuant to its existing tariff.

V. Public Interest Analysis

The transactions described herein will enable the LCI companies to operate more efficiently by effectively giving LCI Telecom access to the financial resources that it needs and by streamlining the LCI companies' corporate structure. By becoming more efficient, LCI Telecom will be positioned to become an even more effective competitor in the market for telecommunications services in Florida, which will benefit consumers in Florida by increasing the number of telecommunications products and services available at competitive prices.

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2 The Applicants attach as Exhibit A, Exhibit B, and Exhibit C, LCI's most recent Form 10-K and 10-Q, as well as a press release showing LCI's fourth quarter performance, respectively, to demonstrate that the proposed merger will not have any negative impact on LCI's and the Applicants' financial strength.

WHEREFORE, the Applicants respectfully request that, at the earliest possible opportunity, the Commission grant them authority as described herein and any other authority that the Commission may deem proper to grant.

Respectfully submitted,

LCI INTERNATIONAL MANAGEMENT SERVICES, INC.
and LCI INTERNATIONAL TELECOM CORP.

By: ______________________________

Brad E. Mutschelknaus
Enrico C. Soriano
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W.
Fifth Floor
Washington, D.C. 20036
(202) 955-9600

Their Attorneys

Dated: March 2, 1998

VERIFICATION OF APPLICANT

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

By: Lee Weiner

Name: LEE WEINER

Title: VICE PRESIDENT

Date: 2/19/98

SUBSCRIBED AND SWORN to before me this 19th day of February, 1998.

NOTARY PUBLIC in and for said County and State
My commission expires: 7-31-99

DC01/MACHMA/28171.41

APPENDIX A
FORM 10-K

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

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31,1996

OR

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

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

LCI INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: 1-800-296-0220

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

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

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

INDUSTRY BACKGROUND

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

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

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

TELECOMMUNICATIONS SERVICES

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

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

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

COMPETITION

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

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

TARGETED SERVICE OFFERINGS

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

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

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

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

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

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

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

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

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

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

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

FACILITIES EXPANSION

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

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

ACQUISITIONS

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

LEGISLATION

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

REGULATORY MATTERS

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

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

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

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

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

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

EMPLOYEES

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

ITEM 2. PROPERTIES

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

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

None.

EXECUTIVE OFFICERS OF THE COMPANY

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

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

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

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

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

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

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

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

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

PART II

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

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

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

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

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

LCI has not declared or paid any cash dividends on its Common Stock since its inception and does not currently anticipate paying any cash dividends on its Common Stock in the foreseeable future. LCI is a holding company which conducts substantially all of its operations through its subsidiaries. The Company is restricted from paying dividends under the terms of certain of its financing agreements.

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

PART III

ITEM 10. DIRECTORS AND OFFICERS OF THE COMPANY

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

(a) Documents filed as part of this report:

		(1) Financial Statements: Pages in 1996
Annual Report		
	Report of Independent Public Accountants	24
	Consolidated Statements of Operations	25
	Consolidated Balance Sheets	26 - 27
	Consolidated Statements of Shareowners' Equity	28
	Consolidated Statements of Cash Flows	29
	Notes to Consolidated Financial Statements	30 - 43

(2) Financial Statement Schedules

All supporting schedules other than those listed below have been omitted because they are not required or the information to be set forth therein is included in the financial statements or in the notes thereto. The following additional financial data should be read in conjunction with the financial statements incorporated by reference herein.

Report of Independent Public Accountants on Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts

(3) Exhibits.

The exhibits filed or incorporated by reference as part of this report are set forth in the Index of Exhibits on page E-1 of this Annual Report.

(b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the three months ended December 31, 1996.

(c) See Item 14(a)(3) above.

(d) See Item 14(a)(2) above.

INDEX TO EXHIBITS

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

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

10(j)(i) - Interim Loan Agreement, dated as of October 15, 1993, between LCI International, Inc. and STN Incorporated.(3)
10(j)(ii) - Secured Demand Note, dated as of October 15, 1993, between LCI International, Inc. and STN Incorporated.(3)
10(j)(iii) - Note Pledge Agreement, dated as of October 15, 1993, between LCI International, Inc. and STN Incorporated.(3)
10(j)(iv) - Debenture Purchase Agreement, dated as of October 15, 1993, between LCI International, Inc. and STN Incorporated.(3)
10(j)(viii) - TransPrairie Option Agreement, dated as of October 15, 1993, by and among LCI International, Inc., TransPrairie Energy Management Partnership and certain persons named on the signature pages thereof.(3)
10(j)(ix) - Services Agreement and License, dated as of October 26, 1993, between LCI International Management Services, Inc. and STN Incorporated.(3)
10(j)(x) - Traffic Exchange Agreement, dated as of October 26, 1993, between LCI International Telecom Corp. and STN Incorporated.(3)
10(j)(xii) - Promissary note dated April 29, 1994 between LCI International Telecom Corp. and STN Incorporated.(6)
10(j)(xiii)- Promissary Note dated May 12, 1994 between LCI International Telecom Corp. and STN Incorporated.(6)
10(j)(xiv) - Debenture Purchase Agreement Amendment, dated as of June 1, 1994, between LCI International, Inc., and STN Incorporated.(7)
10(j)(xv) - Loan Agreement, dated June 1, 1994, between STN Incorporated and LCI International, Inc.(7)
10(j)(xix) - Form of Share Option Agreement, dated May 31, 1994, between LCI International, Inc. and Robey Company Limited, Vanier Company Limited and Yarker Company Limited.(7)
10(j)(xx) - Debenture Purchase Agreement Second Amendment, dated July 7, 1994, between LCI International, Inc. and STN Incorporated.(7)
10(j)(xxi) - Debenture Purchase Agreement Third Amendment, dated July 22, 1994, between LCI International, Inc. and STN Incorporated.(7)
10(j)(xxii) - Loan Agreement Amendment, dated July 7, 1994, between LCI International, Inc. and STN Incorporated.(7)
10(j)(xxiii)- Loan Agreement Second Amendment, dated July 22, 1994, between LCI International, Inc. and STN Incorporated.(7)
10(j)(xxvi) - Promissory Note dated June 30, 1994 between LCI International, Inc. and STN Incorporated.(7)
10(j)(xxvii)- Agreement of Purchase and Sale of Assets dated as of March 31, 1994 by and among LCI International Management Services, Inc., T.M. Sepulveda, Inc. and Gene Elmore.(10)
10(j)(xxviii)-Agreement of Purchase and Sale of Assets dated as of March 31, 1994 by and among LCI International Management Services, Inc., Premium Access, Inc. and Gene Elmore.(10)
10(j)(xxvix)- Amendment No. 1 dated July 11, 1994 to Agreement of Purchase and Sale of Assets of Glendale Gene, Inc. (formerly known as T.M. Sepulveda, Inc.).(10)
10(j)(xxx) - Amendment No. 1 dated July 11, 1994 to Agreement of Purchase and Sale of Assets of Glendale Access International, Inc. (formerly known as Premium Access, Inc.).(10)
10(j)(xxxi) - Assignment of T.M. Sepulveda, Inc. Agreement of Purchase and Sale of Assets from LCI International Management Services, Inc. to LCI International Telecom Corp. dated April 4, 1994.(10)
10(j)(xxxii)- Assignment of Premium Access, Inc. Agreement of Purchase and Sale of Assets from LCI International Management Services, Inc. to LCI International Telecom Corp. dated April 4, 1994.(10)
10(j)(xxxiii)-Promissory Note of STN Incorporated, dated as of December 21, 1994, for Cnd. $6,951,500.(11)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10(o)	- Forth Amendment to Lease and Consent to Assignment dated as of June 28, 1994 by and between LCI International Telecom Corp. and One Wilshire Arcade Imperial, LTD.(8)
10(p)	- Network Services Agreement dated December 22, 1994 between MCI Telecommunications Corporation and LCI International Telecom Corp.(11),(22)
10(q)(i)	- Contractor Agreement dated January 18, 1993 by and between LCI International Telecom Corp. and American Communications Network, Inc. (14),(22)
10(q)(ii)	- Addendum to Contractor Agreement by and between American Communications Network, Inc. and LCI International Telecom Corp. dated January 18, 1993.(14)
10(q)(iii)	- Amendment No.1 to Contractor Agreement by and between LCI International Telecom Corp. and American Communications Network, Inc. dated _______, 1994. (14),(22)
10(q)(iiii)	- Contractor Agreement dated May 1, 1996 between LCI International Telecom Corp. and American Communications Network, Inc. (21), (22)
10(r)(i)	- Transfer and Administrative Agreement among Enterprise Funding Corporation, LCI SPC I, Inc., LCI International Telecom Corp., NationsBank, N.A. and certain other parties thereto, dated August 29, 1996. (20)
10(r)(ii)	- Receivables Purchase Agreement dated August 29, 1996, among LCI International Telecom Corp. LCI SPC I, Inc. (20)
10(r)(iii)	- Subordinated Intercompany Revolving Note, date August 29, 1996, issued to LCI International Telecom Corp. by LCI SPC I, Inc. (20)
10(r)(iv)	- Support Agreement, dated August 29, 1996, by LCI International, Inc. in favor of LCI SPC I, Inc. (28)
10(s)(i)	- Participation Agreement dated as of November, 1996 among LCI International, Inc., as the Construction Agent and as the Lessee, First Security Bank, National Association, as the Owner Trustee under the Stuart Park Trust, the various banks and lending institutions which are parties thereto from time to time as the Holders, the various banks and lending institutions which are parties thereto from time to time, as the Lenders and NationsBank of Texas, N.A., as the Agent for the Lenders.
10(s)(ii)	- Unconditional Guaranty Agreement dated as of November 15, 1996 made by LCI International, Inc., as Guarantor in favor of NationsBank of Texas, N.A., as Agent for the ratable benefit of the Tranche A Lenders
10(s)(iii)	- Agency Agreement between LCI Internationl, Inc., as the Construction Agent and First Security Bank, National Association, as the Owner Trustee under the Stuart Park Trust as the Lessor dated as of November 15, 1996
10(s)(iv)	- Deed of lease Agreement dated as of November 15, 1996 between First National Bank, National Association as the Owner Trsutee under the Stuart Park Trust, as Lessor and LCI International, Inc. as Lessee
11	- Statement re computation of per share earnings
13	- LCI International, Inc. 1996 Annual Report to Shareowners
21	- Subsidiaries of LCI International, Inc
23	- Consent of Arthur Andersen LLP
27	- Financial Data Schedule

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

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

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

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

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

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

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

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

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

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

SIGNATURES

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

LCI International, Inc.

By: /s/ H. BRIAN THOMPSON

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

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

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

Report of Independent Public Accountants

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

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

ARTHUR ANDERSEN LLP

Washington, D.C.
February 6, 1997

LCI INTERNATIONAL, INC.

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

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts - Describe (a)(c)	Deductions - Describe (b)	Balance at End of Period
Reflected as reductions to the related assets:					
Allowance for doubtful accounts (deductions from trade accounts receivable)					
Year ended December 31, 1994	6,020	5,791	9,610	(14,966)	6,455
Year ended December 31, 1995	6,455	8,173	37,235	(42,108)	9,755
Year ended December 31, 1996	9,755	15,760	67,380	(69,477)	23,418

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

EXHIBIT 13

Excerpt from 1996 Annual Report to Shareowners

LCI INTERNATIONAL, INC.

Selected Consolidated Financial Data

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

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

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

Excerpt from 1996 Annual Report to Shareowners

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

INTRODUCTION

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

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

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

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

INDUSTRY ENVIRONMENT

LEGISLATIVE MATTERS

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

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

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

REGULATORY MATTERS

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

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

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

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

INDUSTRY STRUCTURE

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

Excerpt from 1996 Annual Report to Shareowners

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

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

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

REVIEW OF OPERATIONS

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

REVENUES

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

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

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

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

Excerpt from 1996 Annual Report to Shareowners

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

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

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

GROSS MARGIN

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

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

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

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

OPERATING EXPENSES AND OPERATING INCOME

The following table provides information regarding operating expenses and operating income:

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

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

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

The increase in selling, general and administrative expenses reflects, in part, the $35.3 million, $15.7 million and $5.5 million increase in commission expenses for the years ended December 31, 1996, 1995 and 1994, respectively, over the comparable prior periods. The growth in residential/small business revenue sold by third-party sales agents with an ongoing commission was the primary cause of the increase in commission expense. The costs incurred for commissions primarily replace other variable marketing and selling expenses for this revenue segment. Billing services expenses increased $14.6 million, $6.5 million and $2.7 million year-over-year for 1996, 1995 and 1994, respectively, primarily for residential/small business billing service expenses, which are performed by LECs. LEC billing costs declined year-over-year on a per-bill basis, but the increase in residential/small business customers and the related revenue caused an overall increase in this expense year-over-year. Both commission and billing services expenses grew at a faster rate than total revenues due to the shift in customer mix toward residential/small business services.

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

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

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

OTHER (INCOME)EXPENSE, NET

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

INTEREST EXPENSE, NET

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

INCOME TAXES

Income tax expense was $40.2 million and $16.4 million in 1996 and 1995, respectively, and a benefit of $24.5 million in 1994. Increased income tax expense resulted from an increase in the effective tax rate to 35% in 1996 from 24% in 1995 and the increase in income before income taxes for the year ended December 31, 1996 as compared to the same period in 1995. The effective income tax rate was lower than the statutory rate in 1996 and 1995 and was a benefit in 1994, primarily due to the Company's expected utilization of available net operating losses (NOLs). Previously generated NOLs for financial reporting purposes have been fully realized as of December 31, 1996. (See Note 10 to the Consolidated Financial Statements.)

PREFERRED DIVIDENDS

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

NET INCOME AND EARNINGS PER COMMON SHARE

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

CASH FLOWS – OPERATING ACTIVITIES

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

CASH FLOWS – INVESTING ACTIVITIES

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

CASH FLOWS – FINANCING ACTIVITIES

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

CAPITAL RESOURCES

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

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

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

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

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

CAPITAL REQUIREMENTS

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

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

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

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

COMMITMENTS AND CONTINGENCIES

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

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

FEDERAL INCOME TAXES

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

IMPACT OF INFLATION AND SEASONALITY

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

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

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

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

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

OTHER MATTERS

ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

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

Excerpt from 1996 Annual Report to Shareowners

REPORT OF MANAGEMENT

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

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

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

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

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

Jeffrey H. VonDeylen
Corporate Controller

Excerpt from 1996 Annual Report to Shareowners

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

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

LCI International, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In Millions Except for Earnings per Common Share)

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

The accompanying notes are an integral part of these statements.

Excerpt from 1996 Annual Report to Shareowners

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

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

Excerpt from 1996 Annual Report to Shareowners

	December 31,	
	1996	1995
LIABILITIES AND SHAREOWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$37.1	$39.2
Facility Costs Accrued and Payable	123.0	66.7
Accrued Expenses and Other	53.3	22.0
Total Current Liabilities	213.4	127.9
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	235.8	274.7
OTHER LIABILITIES AND DEFERRED CREDITS	70.0	26.0
COMMITMENTS AND CONTINGENCIES		
SHAREOWNERS' EQUITY		
Preferred Stock - Authorized 15 Shares, Issued and Outstanding 4.6 Shares in 1995	--	114.5
Common Stock - Authorized 300 Shares, Issued and Outstanding 77.5 Shares in 1996 and Authorized 100 Shares, Issued and Outstanding 64.4 Shares in 1995	.8	.6
Paid-in Capital	427.2	298.9
Retained Earnings (Deficit)	2.8	(69.2)
Total Shareowners' Equity	430.8	344.8
Total Liabilities and Shareowners' Equity	$950.0	$773.4

The accompanying notes are an integral part of these statements.

LCI International, Inc.

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

(In Millions)

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

The accompanying notes are an integral part of these statements.

LCI International, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)

	For the Year Ended December 31,		
	1996	1995	1994
OPERATING ACTIVITIES			
Net Income	$74.8	$50.8	$6.8
Adjustments to Net Income:			
Depreciation and Amortization	63.5	44.0	36.1
Provision for Bad Debt	15.8	8.2	5.8
Change in Deferred Taxes	36.4	(1.2)	(30.7)
Loss Contingencies and Other Charges	--	-	62.5
Change in Assets/Liabilities:			
Trade Accounts Receivable	(59.0)	(71.3)	(35.6)
Net Securitization Activity	112.0	-	--
Accounts Payable and Facility Costs Accrued and Payable	49.0	20.9	1.4
Other Assets/Liabilities	7.6	2.5	(8.2)
Net Cash Provided by Operating Activities	300.1	53.9	38.1
INVESTING ACTIVITIES			
Capital Expenditures - Property, Plant and Equipment	(144.3)	(97.3)	(66.0)
Payment for Acquisitions and Other	(121.0)	(66.4)	(7.9)
Payments for STN Incorporated	--	(12.0)	(31.5)
Net Cash Used in Investing Activities	(265.3)	(175.7)	(105.4)
FINANCING ACTIVITIES			
Net Debt (Payments) Borrowings	(41.3)	122.8	70.9
Preferred Dividend Payments	(2.8)	(5.8)	(5.7)
Proceeds from Employee Stock Plans and Warrants	9.3	4.8	2.1
Net Cash (Used in) Provided by Financing Activities	(34.8)	121.8	67.3
Change in Cash and Cash Equivalents	--	--	--
Cash and Cash Equivalents at the Beginning of the Year	--	--	--
Cash and Cash Equivalents at the End of the Year	$--	$--	$--
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Paid for Interest	$26.1	$15.1	$8.8
Cash Paid for Income Taxes	$1.3	$2.9	$1.1

NON-CASH ACTIVITY:

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

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS ORGANIZATION AND PURPOSE

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

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

2. ACCOUNTING POLICIES

ESTIMATES

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

PRINCIPLES OF CONSOLIDATION

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

CASH AND CASH EQUIVALENTS

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

TRADE ACCOUNTS RECEIVABLE

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

ACCOUNTS RECEIVABLE SECURITIZATION PROGRAM

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

PREPAIDS AND OTHER

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

EXCESS OF COST OVER NET ASSETS ACQUIRED

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

OTHER ASSETS

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

OTHER LIABILITIES AND DEFERRED CREDITS

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

REVENUE RECOGNITION

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

ADVERTISING COST

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

INCOME TAXES

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

WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EARNINGS PER COMMON SHARE

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

CONCENTRATION OF CREDIT RISK

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

RECLASSIFICATIONS

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

ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

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

3. ACQUISITIONS

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

In June 1996, the Company purchased the long-distance business assets of Pennsylvania Alternative Communications, Inc. (PACE). The results of operations for PACE were included in the Company's consolidated statement of operations from June 1, 1996 and the acquisition was not considered significant for financial reporting purposes.

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

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

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

(In Millions Except Earnings per Common Share Amounts)	Unaudited Pro Forma Information for the Years Ended December 31,	
	1995	1994
Net Revenues	$814.7	$520.0
Net Income	54.0	0.5
Earnings per Common Share	$0.63	$0.01

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

4. ACCOUNTS RECEIVABLE SECURITIZATION

In August 1996, the Company entered into an agreement to sell a percentage ownership interest in a defined pool of its trade accounts receivable (Securitization Program). LCI SPC I, Inc. (SPC), a wholly owned, bankruptcy-remote subsidiary of the Company, was formed to execute the sale of receivables. Under this Securitization Program, the Company can transfer an undivided interest in a designated pool of its accounts receivable on an ongoing basis to maintain the participation interest up to a maximum of $150 million. At December 31, 1996, the pool of trade accounts receivable that were available for sale totaled approximately $120 million. The amount of receivables sold, but not yet collected at December 31, 1996, totaled $112 million and the proceeds were used to reduce the outstanding balance of the Company's long-term debt. Total proceeds from the sale of accounts receivable during the year was $535 million. The accounts receivable balances sold are not included in the accompanying consolidated balance sheet at December 31, 1996. The cost of the Securitization Program is based on a discount rate equal to the short-term commercial paper rate plus certain fees and expenses. The Company retains substantially all the same risk of credit loss as if the receivables had not been sold, and has established reserves for such estimated credit losses.

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

5. DEBT

CREDIT FACILITY

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

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

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

LINES OF CREDIT

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

6. LEASES

The Company's capital leases primarily include its operating subsidiaries' headquarters building lease, which expires in 2005. The noncurrent portion of capital lease obligations was $12.9 and $14.2 million as of December 31, 1996 and 1995, respectively. The Company has operating leases for office space and equipment with lease terms from three to ten years with options for renewals. The Company has entered into several rights-of-way (ROW) lease agreements that allowed for installation of its fiber-optic network facilities. The terms of these agreements range from one to 30 years, and most contain renewal options. These agreements also provide for rental payments to be made for use of other land and buildings occupied in connection with the ROW agreements, maintenance and repairs.

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

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

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

7. COMMITMENTS AND CONTINGENCIES

CAPITAL EXPENDITURES

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

VENDOR AGREEMENTS

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

Excerpt from 1996 Annual Report to Shareowners

LEGAL MATTERS

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

Both the Plaintiffs and the Company appealed the matter to the Court of Appeals in Ohio, which, in a two-to-one decision, overruled each of the Company's assignments of error and two of the Plaintiffs' claims, and sustained the Plaintiffs' request for approximately $.1 million in pre-judgment interest in addition to the previous award. The Company appealed the matter to the Supreme Court of Ohio (the Court). On December 11, 1996, the Court reversed the Court of Appeals, finding that, as a matter of law, there was insufficient evidence to sustain the verdict for Plaintiffs. In December 1996, the Plaintiffs filed with the Court a Motion for Reconsideration, which was denied by the Court in January 1997. At this time, the Company is unable to determine whether the Plaintiffs will file a petition asking the United States Supreme Court to consider the case.

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

8. SHAREOWNERS' EQUITY

PREFERRED STOCK

On September 3, 1996, the remaining outstanding shares of the Company's previously outstanding 5% Cumulative Convertible Exchangeable Preferred Stock (Preferred Stock) were redeemed by the Company. Preferred dividends, cumulative from the date of issuance, were paid quarterly at an annual rate of $1.25 per share on the outstanding shares until redemption. Prior to redemption, shareowners converted 4,599,895 shares of Preferred Stock into 12,104,661 shares of Common Stock.

In January 1997, the Board of Directors adopted a shareholder rights plan (the Rights Plan). In order to implement the Rights Plan, the Board of Directors declared a dividend of one preferred share purchase right (a Right) for each share of the Company's Common Stock to shareowners of record on January 22, 1997. Each Right, when exercisable, represents the right to purchase one one-thousandth of a share of a newly issued series of Preferred Stock of the Company, designated as Junior Participating Preferred Stock, par value $.01 per share, or, in certain circumstances, to purchase shares of Common Stock at less than the prevailing market price. The exercise price is $100 per Right, the redemption price is $.01 per Right, and the Right expires on January 22, 2007. The Rights will be exercisable only in the event that any person or entity, together with its affiliates or associates, acquires more than a certain specified percentage of Common Stock of the Company. The Rights Plan was designed to ensure that shareowners receive fair and equal treatment in the event of any proposed takeover of the Company.

COMMON STOCK

In September 1995, the Company issued 4,601,586 shares of Common Stock to purchase CTG at $20.25 per share, the market price at the date of acquisition.

COMMON STOCK WARRANTS

In 1993, the Company issued warrants for 5,408,900 shares of Common Stock, at $2.83 per share, that expire in 2003. During 1996, 1995 and 1994, holders exercised 164,336, 40,572 and 41,216 warrants for an aggregate amount of 148,253, 33,100 and 41,216 shares of Common Stock, respectively. As of December 31, 1996, there were 5,162,776 unexercised Common Stock warrants.

EMPLOYEE BENEFIT PLANS

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

9. INCENTIVE STOCK PLANS

STOCK OPTIONS

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

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

Excerpt from 1996 Annual Report to Shareowners

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

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

EMPLOYEE STOCK PURCHASE PLAN

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

STOCK-BASED COMPENSATION PLANS

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

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

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

10. INCOME TAXES

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

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

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

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

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

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

11. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

Excerpt from 1996 Annual Report to Shareowners

10. INCOME TAXES

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

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

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

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

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

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

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The Company has filed a shelf registration statement with the Securities and Exchange Commission to register $300 million of debt and/or equity securities, for issuance on a delayed or continuous basis. Any debt securities issued may be guaranteed by certain of the Company's wholly owned subsidiaries (Guarantor Subsidiaries). Such guarantees will be full, unconditional and joint and several. Certain of the Company's subsidiaries would not provide any guarantees (Non-Guarantor Subsidiaries) primarily as a result of contractual prohibitions. The primary Non-Guarantor Subsidiary is SPC, discussed in Note 4. Separate financial statements of the Guarantor Subsidiaries have not been presented because the Company's management has determined that they would not be material. The following supplemental financial information sets forth, on an unconsolidated basis, statement of operations, balance sheet and statement of cash flow information for the parent company only (Parent Company), for the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. The comparative statements for 1995 and 1994 have not been presented as the Non-Guarantor information is not material to the consolidated financial statements for that period. The supplemental financial information reflects the Company's investments in subsidiaries using the equity method of accounting. Certain immaterial reclassifications have been made to provide for uniform disclosure for the period presented.

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1996

(In Millions)

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

(Continued on next page.)

11. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

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

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS:					
Trade Accounts Receivable, Net	$--	$14.8	$70.4	$--	$85.2
Current Deferred Tax Assets, Net	19.7	29.2	--	--	48.9
Prepaids and Other	4.5	11.9	--	--	16.4
Intercompany Receivable	370.4	--	--	(370.4)	--
Total Current Assets	394.6	55.9	70.4	(370.4)	150.5
Property, Plant and Equipment, Net	--	402.8	--	--	402.8
Excess of Cost over Net Assets Acquired, Net	--	350.5	--	--	350.5
Investment in Affiliates	250.4	--	--	(250.4)	--
Other, Net	16.3	29.5	0.4	--	46.2
Total Assets	$661.3	$838.7	$70.8	$(620.8)	$950.0
LIABILITIES AND SHAREOWNERS' EQUITY					
CURRENT LIABILITIES:					
Accounts Payable	$--	$37.1	$--	$--	$37.1
Facility Costs Accrued and Payable	--	123.0	--	--	123.0
Intercompany Payable	--	363.2	7.3	(370.5)	--
Accrued Expenses and Other	3.4	49.9	--	--	53.3
Total Current Liabilities	3.4	573.2	7.3	(370.5)	213.4
Long-term Debt and Capital Lease Obligations	223.0	12.8	--	--	235.8
Other Liabilities and Deferred Credits	4.1	65.9	--	--	70.0
SHAREOWNERS' EQUITY:					
Preferred Stock	--	66.4	--	(66.4)	--
Common Stock	0.8	--	12.0	(12.0)	0.8
Paid-in Capital	427.2	43.2	60.5	(103.7)	427.2
Retained (Deficit) Earnings	2.8	77.2	(9.0)	(68.2)	2.8
Total Shareowners' Equity	430.8	186.8	63.5	(250.3)	430.8
Total Liabilities and Shareowners' Equity	$661.3	$838.7	$70.8	$(620.8)	$950.0

(Continued on next page.)

11. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION (CONTINUED)

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1996
(In Millions)

	Parent Company Only	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES:					
Net Cash Provided by (Used in) Operating Activities	$91.7	$268.9	$(60.5)	$--	$300.1
INVESTING ACTIVITIES:					
Investment in SPC	(60.5)	--	60.5	--	--
Capital Expenditures	--	(144.3)	--	--	(144.3)
Payments for Acquisitions and Other	--	(121.0)	--	--	(121.0)
Net Cash (Used in) Provided by Investing Activities	(60.5)	(265.3)	60.5	--	(265.3)
FINANCING ACTIVITIES:					
Net Debt Payments	(37.7)	(3.6)	--	--	(41.3)
Preferred Dividend Payments	(2.8)	--	--	--	(2.8)
Proceeds from Employee Stock Plans and Warrants	9.3	--	--	--	9.3
Net Cash (Used in) Financing Activities	(31.2)	(3.6)	--	--	(34.8)
Change in Cash and Cash Equivalents	--	--	--	--	--
Cash and Cash Equivalents at the Beginning of the Year	--	--	--	--	--
Cash and Cash Equivalents at the End of the Year	$--	$--	$--	$--	$--

12. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

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

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

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

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

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

APPENDIX B
FORM 10-Q

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1997

or

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

For the transition period from ____________ to ____________

Commission file number 0-21602

LCI INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3498232
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8180 Greensboro Drive, Suite 800 McLean, Virginia	22102
(Address of principal executive offices)	(Zip Code)

(703) 442-0220
(Registrant's telephone number, including area code)

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

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

As of October 31, 1997, there were 83,500,312 shares of LCI International, Inc. Common Stock (par value $.01 per share) outstanding.

LCI INTERNATIONAL, INC.

INDEX

Item 1. Financial Statements

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1997	1996	1997	1996
REVENUES	$ 364.8	$ 289.2	$ 1,017.9	$ 809.1
Cost of services	213.5	166.6	596.6	472.8
GROSS MARGIN	151.3	122.6	421.3	336.3
Selling, general and administrative expenses	83.0	67.7	230.8	185.9
Depreciation and amortization	22.8	16.3	61.4	46.0
OPERATING INCOME	45.5	38.6	129.1	104.4
Interest and other expense, net	8.5	7.7	22.2	22.9
INCOME BEFORE INCOME TAXES	37.0	30.9	106.9	81.5
Income tax expense	14.4	10.8	42.4	28.5
NET INCOME	22.6	20.1	64.5	53.0
Preferred dividends	--	.5	--	2.8
INCOME ON COMMON STOCK	$ 22.6	$ 19.6	$ 64.5	$ 50.2
PER SHARE DATA				
Earnings Per Common Share				
Primary	$ 0.26	$ 0.23	$ 0.75	$ 0.61
Fully Diluted	$ 0.26	$ 0.23	$ 0.74	$ 0.61
Weighted Average Number of Common Shares	86.9	87.7	86.6	87.5

The accompanying notes are an integral part of these statements.

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

ASSETS	September 30, 1997 (Unaudited)	December 31, 1996
CURRENT ASSETS:		
Trade accounts receivable, net	$ 162.5	$ 85.2
Current deferred tax assets, net	34.3	48.9
Prepaids and other	20.0	16.4
Total current assets	216.8	150.5
PROPERTY AND EQUIPMENT:		
Fiber optic network	437.0	392.5
Technology platforms, equipment and building leases	203.9	123.2
Less – Accumulated depreciation and amortization	(187.5)	(171.8)
	453.4	343.9
Property and equipment under construction	140.9	58.9
Total property and equipment, net	594.3	402.8
OTHER ASSETS:		
Excess of cost over net assets acquired, net	348.1	350.5
Other, net	54.2	46.2
Total other assets	402.3	396.7
Total Assets	$ 1,213.4	$ 950.0

(Continued on next page)

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

LIABILITIES AND SHAREOWNERS' EQUITY	September 30, 1997 (Unaudited)	December 31, 1996
CURRENT LIABILITIES:		
Accounts payable	$ 37.2	$ 37.1
Facility costs accrued and payable	108.4	123.0
Accrued expenses and other	72.5	53.3
Total current liabilities	218.1	213.4
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	396.1	235.8
OTHER LIABILITIES AND DEFERRED CREDITS	89.4	70.0
COMMITMENTS AND CONTINGENCIES		
SHAREOWNERS' EQUITY:		
Preferred Stock - Authorized 15.0 shares, no shares issued and outstanding	--	--
Common stock - Authorized 300.0 shares, issued and outstanding 78.6 shares as of September 30, 1997 and 77.5 shares as of December 31, 1996	0.8	0.8
Paid-in capital	441.7	427.2
Retained earnings	67.3	2.8
Total shareowners' equity	509.8	430.8
Total Liabilities and Shareowners' Equity	$ 1,213.4	$ 950.0

The accompanying notes are an integral part of these statements.

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

	Common Stock				
	Issued and Outstanding	$.01 Par Value	Paid-In Capital	Retained Earnings	Total
BALANCE AT DECEMBER 31, 1996	77.5	$ 0.8	$ 427.2	$ 2.8	$ 430.8
Employee stock purchases and exercise of options/warrants, including related tax benefits	1.1	--	14.5	--	14.5
Net Income	--	--	--	64.5	64.5
BALANCE AT SEPTEMBER 30, 1997	78.6	$ 0.8	$ 441.7	$ 67.3	$ 509.8

The accompanying notes are an integral part of these statements.

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

	For the Nine Months Ended September 30, 1997	1996
OPERATING ACTIVITIES:		
Net cash provided by operating activities	$ 80.6	$ 238.9
INVESTING ACTIVITIES:		
Capital expenditures	(224.5)	(105.8)
Payments for acquisitions and other	(7.8)	(118.2)
Net cash used in investing activities	(232.3)	(224.0)
FINANCING ACTIVITIES:		
Net debt (payments) borrowings	(204.2)	(16.0)
Senior Notes issuance proceeds	350.0	--
Financing fee payments	(8.6)	(2.7)
Preferred dividend payments	--	(2.8)
Proceeds from employee stock plans and warrants	14.5	6.6
Net cash provided by financing activities	151.7	(14.9)
Net increase in cash and cash equivalents	--	--
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	--	--
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ --	$ --

The accompanying notes are an integral part of these statements.

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

(1) GENERAL

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

(2) BUSINESS ORGANIZATION AND PURPOSE

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

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

(3) ACCOUNTING POLICIES

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

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

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

Earnings Per Common Share. For the three and nine months ended September 30, 1997 and 1996, earnings per common share is calculated as net income before preferred dividends divided by the weighted average number of common shares, as defined above.

(4) ACCOUNTS RECEIVABLE SECURITIZATION

Under the Company's agreement to sell trade accounts receivable (Securitization Program), LCI SPC I, Inc. (SPC), a bankruptcy-remote subsidiary of the Company, sells accounts receivable. Receivables sold are not included in the accompanying condensed consolidated balance sheets as of September 30, 1997 and December 31, 1996. SPC had approximately $141 million of accounts receivable available for sale and had sold, but not yet collected, a total of approximately $70 million as of September 30, 1997. The Company retains substantially the same risk of credit loss as if the receivables had not been sold, and has established reserves for such estimated credit losses.

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

(5) DEBT AGREEMENTS

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

The Company also has a $750 million Revolving Credit Facility (Credit Facility) from a syndicate of banks. The Credit Facility is comprised of two separate facilities of $500 million and $250 million. The first facility has a term of 5-years, while the second facility has a one-year term. Each facility may be extended for a limited number of periods. Both facilities bear interest at a rate consisting of two components: The base rate component is dependent upon a market indicator; the second component varies from 0.30% to 0.75% based on the more favorable of the relationship of borrowings levels to operating cash flow (leverage ratio) or senior unsecured debt rating. As of September 30, 1997, the Company had no outstanding balance under the Credit Facility. The Credit Facility contains various financial covenants, the most restrictive being the leverage ratio requirement. As of September 30, 1997, the Company was in compliance with all Credit Facility covenants.

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

(6) COMMITMENTS AND CONTINGENCIES

Vendor Agreements. The Company has agreements with certain telecommunications interexchange carriers and third party vendors that require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has historically met all minimum billing requirements and believes the minimum usage commitments will continue to be met.

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

In addition to its ongoing capital requirements, the Company has entered into several agreements to extend its fiber-optic network. These commitments will extend the Network throughout several geographic areas of the United States, and are expected to require incremental capital expenditures of approximately $270 million for fiber-optic capacity and related equipment. In September 1997, the Company accepted approximately 1,500 route-miles of fiber between Chicago, Illinois and Dallas, Texas, and paid $40 million for the position in the fiber. The timing of other payments will depend on the delivery and acceptance of facilities, which is expected to be completed in the first half of 1998.

On September 18, 1997, the Company signed a definitive agreement to acquire USLD Communications Corp. (USLD), in a stock-for-stock transaction that will be accounted for as a pooling of interests. USLD provides long-distance telecommunications services principally to business customers in the Southwest, Southeast, Pacific Northwest and Western regions of the United States. In addition, USLD offers operator services for the hospitality and pay phone industries, and local telephone services in selected markets. The Company expects the acquisition to close by the end of the year. The Company will exchange that fraction of a share of Common Stock having a value of $20 per share (valued pursuant to the formula contained in the agreement) for each outstanding share of USLD common stock resulting in a purchase price between $350 and $370 million. This acquisition is contingent on regulatory approval and on the ability to qualify as a pooling transaction.

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

(7) SHAREOWNERS' EQUITY

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

Common Stock. The Company has stock option plans that grant options to purchase shares of Common Stock to directors and key employees. During the nine months ended September 30, 1997, the Company granted options to purchase 2.7 million shares of Common Stock. The option price for all options granted was the fair market value of the shares on the date of grant. The Company issued 0.8 million shares of Common Stock during the nine months ended September 30, 1997 pursuant to options exercised under all stock option plans.

The Company also has an Employee Stock Purchase Plan and a defined contribution retirement plan for its employees which allow participants to invest in Common Stock of the Company. The Company issued a total of 0.3 million shares of Common Stock under these employee benefit plans for the nine months ended September 30, 1997.

(8) INCOME TAXES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	1997	1996	1997	1996
Current tax expense:				
Federal	$ 0.5	$ 1.7	$ 1.6	$ 2.6
State	1.4	1.3	1.8	1.7
Total current tax expense	1.9	3.0	3.4	4.3
Deferred tax expense:				
(Decrease) increase in deferred tax liabilities	(4.3)	(0.7)	11.4	0.7
Decrease in deferred tax assets	16.8	11.0	27.6	28.5
Decrease in valuation allowance, net	--	(2.5)	--	(5.0)
Total deferred tax expense	12.5	7.8	39.0	24.2
Total income tax expense	$ 14.4	$10.8	$ 42.4	$28.5

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Expected tax at Federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
Effect of:				
State income tax expense	2.5	5.2	3.5	5.2
Non-deductible expenses	1.2	1.5	1.2	1.5
Decrease in valuation allowance, net	--	(5.0)	--	(5.0)
Other, net	0.3	(1.7)	(0.1)	(1.7)
Effective income tax rate	39.0%	35.0%	39.5%	35.0%

The effective tax rate of 39.6% and 35.0% for the nine months ended September 30, 1997 and 1996, respectively, represents the Company's estimated effective tax rate for the period. This effective tax rate is evaluated quarterly based on the Company's estimate of future taxable income.

The Company has generated net operating losses (NOLs) that may be used to offset future taxable income. Each NOL has a 15-year carryforward period. The Company's ability to fully use its NOL carryforwards is dependent upon future taxable income. As of September 30, 1997, the Company had NOL carryforwards for income tax purposes of $66.6 million, subject to various expiration dates from 2000 to 2010. The Company believes the use of its NOLs is likely.

The Company's deferred income tax balances include $34.3 million in current deferred tax assets, net and $74.2 million in other noncurrent liabilities as of September 30, 1997. As of December 31, 1996, deferred income tax balances included $48.9 million in current deferred tax assets, net and $53.4 million in other noncurrent liabilities.

(9) EARNINGS PER SHARE

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

(in millions, except per share amounts)	For the Three Months Ended September 30, 1997		
	Income	Shares	Per Share Amount
Basic Earnings per Share:			
Income available to common shareowners	22.6	78.5	$ 0.29
Effect of Dilutive Securities:			
Stock options	--	3.3	
Warrants	--	4.5	
Diluted Earnings per Share:			
Income available to common shareowners plus assumed conversions	$ 22.6	86.3	$ 0.26

	For the Nine Months Ended September 30, 1997		
	Income	Shares	Per Share Amount
Basic Earnings per Share:			
Income available to common shareowners	64.5	78.1	$ 0.83
Effect of Dilutive Securities:			
Stock options	--	3.0	
Warrants	--	4.5	
Diluted Earnings per Share:			
Income available to common shareowners plus assumed conversions	$ 64.5	85.6	$ 0.75

Options to purchase 0.4 million and 2.1 million shares of Common Stock were outstanding but not included in the computation of diluted earnings per share during the three months and nine months ended September 30, 1997, respectively. The options were excluded because the exercise price of such options was greater than the average market price of the Common Stock for the period.

(9) EARNINGS PER SHARE (continued)

(in millions, except per share amounts)	For the Three Months Ended September 30, 1996 Income	Shares	Per Share Amount
Net income	$20.1		
Less: preferred stock dividends	(0.5)		
Basic Earnings per Share:			
Income available to common shareowners	19.6	74.6	$ 0.26
Effect of Dilutive Securities:			
Stock options	--	5.9	
Warrants	--	4.8	
Convertible Preferred Stock	0.5	2.4	
Diluted Earnings per Share:			
Income available to common shareowners plus assumed conversions	$ 20.1	87.7	$ 0.23

	For the Nine Months Ended September 30, 1996 Income	Shares	Per Share Amount
Net income	$ 53.0		
Less: preferred stock dividends	(2.8)		
Basic Earnings per Share:			
Income available to common shareowners	50.2	70.0	$0.72
Effect of Dilutive Securities:			
Stock options	--	5.3	
Warrants	--	4.7	
Convertible preferred stock	2.8	7.0	
Diluted Earnings per Share:			
Income available to common shareowners plus assumed conversions	$ 53.0	87.0	$ 0.61

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

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

INDUSTRY ENVIRONMENT

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

Legislative Matters

Telecommunications Act of 1996. In February 1996, the Telecommunications Act of 1996 (the Act) was enacted to increase competition in the long-distance and local telecommunications industries. The legislation opens competition in the local services market and, at the same time, contains provisions intended to protect consumers and business from unfair competition by incumbent local exchange carriers (LECs), including the regional Bell operating companies (RBOCs). The Act allows RBOCs to provide long-distance service outside of their local service territories after certain pro-competition conditions, including a list of 14 specific "competitive checklist" requirements for operating in the local market are met.

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

The Act provides a framework for the Company and other long-distance carriers to compete with LECs by reselling local retail telephone service, leasing unbundled elements of the incumbent LEC networks or building new local service facilities. The Company has signed local service agreements with Ameritech, BellSouth, Bell Atlantic and NYNEX (for the state of Massachusetts) and is currently in formal negotiations with several other LECs. LCI intends to vigorously compete in the local service market. Initially, the Company will provide local service to customers on a bundled resale basis. However, the Company is also evaluating providing service through the recombination of unbundled network elements in light of the recent ruling by the Court of Appeals for the Eight Circuit which does not require the LECs to recombine the various network element on behalf of their local competitors. The Company could also decide in the future to build, or otherwise acquire, local service facilities or use a competitive LEC to provide local service. The Company's decision on the timing and method of providing local service is dependent on the economic viability of its options, the resolution of various operational issues, and the outcome of several regulatory proceedings, which may differ state-by-state.

Regulatory Matters

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

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

Several states, companies, associations and other entities appealed the Interconnection Order. On July 18, 1997, the United Stated Court of Appeals for the Eighth Circuit (the Court) overturned many of the rules established in the Interconnection Order governing, among other things, the pricing of interconnection, resale, and unbundled network elements. In addition, the Court overturned the "pick and choose" rule, which would have allowed new entrants to receive the benefit of the most favorable provisions contained in a LEC's interconnection agreements with other carriers. On October 14, 1997, the Court further overturned the FCC's rules pertaining to the unbundled network elements platform. The Court concluded that the FCC's rules prohibiting a LEC from separating network elements that may be currently combined in the incumbent LEC's network, are contrary to the Act. The FCC has announced its intent to appeal the Court's July 18, 1997 and October 14, 1997 rulings to the United States Supreme Courts.

The Court's decisions substantially limit the FCC's jurisdiction and expand the jurisdiction of state regulators to establish and enforce rules governing the development of local competition. As a result, it is more likely that the rules governing local competition will vary substantially from state to state. If a patchwork of state regulations were to develop, it could make competitive entry in some markets more difficult and expensive than in others and could increase the costs of regulatory compliance associated with local entry. Because of the uncertainty regarding the outcome of any forthcoming appeals and how various state commissions will seek to facilitate and regulate local competition, the Company is unable to predict what impact the Court's decisions will have on LCI's ability to offer competitive local service and the cost associated with the local service.

Bell Operating Company (BOC) Applications to Provide In-Region interLATA Long-Distance. In January 1997, Ameritech Michigan became the first BOC to apply for authority to provide in-region interLATA service. It withdrew its application in February 1997, after the FCC struck from the record the interconnection agreement between Ameritech and AT&T which formed the basis for the application. In May 1997, Ameritech Michigan refiled its application for in-region interLATA authority in Michigan, but on August 19, 1997, the FCC released an order rejecting the application. The FCC determined that Ameritech Michigan had not demonstrated compliance with the competitive checklist or the safeguards of the Act. In the August order, the FCC also established conditions and standards for future applications for in-region, interLATA relief, including the requirement that RBOC applications comply with the pricing standards originally adopted in the Interconnection Order. Several RBOCs have asked the Eighth Circuit to declare these pricing requirements a violation of the Court's Interconnection Order decision. Those requests are pending.

In April 1997, SBC applied to the FCC for authority to provide in-region interLATA service in Oklahoma. In June 1997, the FCC released an order rejecting SBC's application on the grounds that SBC had not demonstrated that the prospective facilities-based carriers with which SBC had entered into interconnection agreements were providing local telephone service over their own facilities to residential and business customers in Oklahoma, as required by the Act. In July 1997, SBC filed an appeal of the June 1997 order with United States Court of Appeals for the District of Columbia Circuit, which is currently pending.

On September 30, 1997, BellSouth of South Carolina applied for authority to provide in-region interLATA service. The Commission is currently seeking comments on BellSouth's application. The Commission has 90 days to make a ruling on BellSouth's application. The Company expects other RBOCs to apply for in-region interLATA long-distance authority in the near future.

Access Charge Reform. In May 1997, the FCC issued orders designed to reform the system of interstate access charges levied by LECs on long-distance service carriers. Access charges currently represent approximately one-half of the revenues for the long-distance telecommunications industry. In the May orders, the FCC decided to rely on a combination of prescriptive rate reductions and increased competition in interstate access to bring interstate access charges closer to actual economic cost. The FCC has stated that it will issue a further order designed to permit incumbent LECs to lower interstate access charges in response to competition. The manner in which the FCC implements its approach in lowering access charge levels will have a material effect on the prices the Company and its competitors pay for originating and terminating interstate traffic. Various parties have filed petitions for reconsideration with the FCC and some parties, including LCI, have appealed the FCC's May orders to the appropriate federal court. The ultimate outcome of the FCC and resultant court actions are uncertain and the Company is unable to predict what impact the FCC's revised access charge scheme will have on the Company's access charge cost structure.

Universal Service. In May 1997, the FCC released an order establishing a significantly expanded federal telecommunications subsidy regime. Providers of interstate telecommunications services, such as the Company, as well as certain other entities, must pay to subsidize services for schools, libraries and rural health care providers. The Company's share of the federal subsidy will be based on its market share of defined telecommunications services and certain defined telecommunications end user revenues. Several parties have appealed the May 1997 order, and those appeals have been transferred and consolidated in the United States Court of Appeals for the Fifth Circuit.

Payphone Compensation. In September 1996, the FCC adopted rules to implement the Act's requirement to fairly compensate payphone service providers. This order included a specific fee to be paid to each payphone service provider by long-distance carriers and interLATA toll providers (including LECs) on all "dial around" calls, including debit card and calling card calls. In orders released July 1, and September 16, 1997, the United States Court of Appeals for the D.C. Circuit vacated and remanded some of the FCC rules. On October 9, 1997, the FCC issued an order addressing the default per-call compensation rate in light of the Court's decision vacating and remanding portions of the FCC's payphone orders. In response to the Court's actions the FCC has established a default per-call rate of $0.284 for a two-year period, which will increase the Company's costs to carry "dial-around" calls that originate from payphones. This decision is expected to appeal. In light of potential appeals and any court's ultimate actions in these proceedings, the Company is unable to predict what impact, if any, this decision will have on the Company.

Petition For Expedited Rulemaking. In May 1997, LCI and the Competitive Telecommunications Association (CompTel) jointly filed a Petition For Expedited Rulemaking requesting the FCC to establish performance standards for LECs to meet the operations support systems (OSS) requirements of the Act and applicable FCC regulations. The OSS requirements are in ensuring that access to the LECs' internal systems are provided at a level of quality consistent with LEC provided services. In its comments, LCI proposed that an industry group consisting of local and long-distance carriers, trade associations and regulators be given approximately nine weeks to establish measurement categories, measurement formulas and default performance intervals for several OSS categories. In June 1997, the FCC issued a public notice requesting comments on LCI's petition. Numerous parties, including the California Public Service Commission, Wisconsin Public Service Commission, and the National Association of Regulatory Utilities Commissioners, have filed comments in support of LCI's petition. This petition is currently pending.

Local Service. The Company is involved in regulatory proceedings in various states to secure approval to resell local service, which would enable the Company to provide combined local and long-distance services to existing and prospective customers. As of September 30, 1997, the Company has received approval to resell local service in 35 states and the District of Columbia, and has applications for local service authority pending in another 13 states. The Company is currently reselling local telecommunications service in 31 markets.

Impact of Regulatory Issues. The regulatory actions discussed above could impact the Company's cost structure by changing access, per-line and pay phone charges. The Company is unable to predict whether these changes will impact its pricing, revenue growth or gross margin.

Competition

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

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

Industry Mergers. Several very large mergers are currently being contemplated in the telecommunications industry. Among these proposed mergers are MCI and WorldCom, Inc.; MCI and British Telecommunications; and GTE and MCI. At this time the Company is unable to predict the impact, if any, on the Company or competition within the industry as a whole.

GENERAL - RESULTS OF OPERATIONS

The Company's revenues primarily consist of switched and private line revenues. Switched revenues are a function of switched minutes of use (MOUs) and rate structure (rates charged per MOU), which are based on the Company's customer and service mix. Private line revenues are a function of fixed rates that do not vary with usage. The Company's cost of services consists primarily of expenses incurred for origination, termination and transmission of calls through LECs and over the Company's Network.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1997 AS COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1996

Revenues. Revenues increased 26% to $364.8 million and 26% to $1,017.9 million for the three and nine months ended September 30, 1997, respectively, over the comparable periods in 1996. MOUs increased 33% to 2.8 billion minutes for the three months and 37% to 8.1 billion minutes for the nine month periods in 1997 over 1996. The following table provides further information regarding the Company's revenues:

(in millions, except switched revenue per MOU)	Three Months Ended September 30,			Nine Months Ended September 30,		
	1997	1996	Change	1997	1996	Change
Total Revenues	$ 364.8	$ 289.2	26%	$ 1,017.9	$ 809.1	26%
MOUs	2,837	2,131	33%	8,067	5,896	37%
Switched Revenue per MOU (1)	$ 0.119	$ 0.125	(5)%	$0.117	$0.126	(7)%

(1)Switched revenue divided by MOUs

Revenues from business customers increased in excess of 25% for the three and nine months ended September 30, 1997 over the comparable periods in 1996, and represented approximately two-thirds of the Company's total revenues. Residential/small business revenues represented approximately one-third of total revenues and increased in excess of 20% and 30% for the three and nine months ended September 30, 1997, respectively, over the comparable periods in the prior year. Growth in international service revenues across all revenue service lines was approximately 100% and 70% for the three and nine months ended September 30, 1997, respectively compared to the same periods in 1996.

The Company experienced a decrease in average revenue per MOU for both the three and nine months ended September 30, 1997, as compared to the same periods in 1996. Revenue per MOU reflects changing cost of services, changes in the mix of services by market segments and competitive pricing. The growth in business and international service volumes, as measured in MOUs, exceeded the growth in revenue due to competitive pricing pressures and changes in the mix of international country traffic. In addition, the Company has experienced MOU growth from high volume business customers who primarily use dedicated access services rather than switched services, which have a lower revenue per MOU. The Company's growth in various segments, which have different rate structures and generate different gross margins, has changed its revenue mix and consequently impacted the average revenue per MOU.

The Company has experienced an increase in sales allowance in 1997, reflected as a charge to gross revenue, as a result of the growth in revenue and a shift in the customer mix towards the residential/small business service segment. A significant portion of the residential/small business accounts receivable balance is billed and collected through LECs. The Company continues to evaluate and monitor performance of the LECs, as these costs of uncollectible accounts have exceeded historical expectations. The Company's experience with a higher level of uncollectible accounts in the residential/small business segment is consistent with industry trends.

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

Gross Margin. The Company's gross margin increased 23% to $151.3 million and 25% to $421.3 million for the three and nine months ended September 30, 1997, respectively, as compared to the same periods in 1996. During the three and nine months ended September 30, 1997, gross margin as a percentage of revenue decreased to 41.5% and 41.4%, respectively, from 42.4% and 41.6% for the same periods in 1996, respectively. The decrease as a percentage of revenue reflects a shift in revenue mix to high volume customers with lower gross margins per MOU as well as continued competitive pricing pressures.

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

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 23% to $83.0 million and 24% to $230.8 million for the three and nine months ended September 30, 1997, respectively, as compared to the same periods in 1996. As a percentage of revenues, selling, general and administrative expenses were 22.8% and 22.7% for the three and nine months ended September 30, 1997, respectively, as compared to 23.4% and 23.0% for the same periods in 1996, respectively. Annualized revenue per employee has remained at approximately $500,000 per employee through the nine months ended September 30, 1997.

The Company's selling, general and administrative expense increases year-over-year were substantially impacted by payroll and commissions. Payroll expenses increased 23% and 26% for the three and nine months ended September 30, 1997, respectively. Payroll expenses increased at a slower rate than the revenue increase which resulted from business segments which do not require concurrent increases in selling, general and administrative expenses.

The increase in selling, general and administrative expenses includes a $5.2 million and $13.7 million increase in commission expense for the three and nine months ended September 30, 1997, respectively, over the comparable prior periods. The growth in residential/small business revenue sold by third party sales agents with upfront and ongoing commissions impacted commission expense. The costs incurred for third party sales agents' commissions primarily replace other variable marketing and selling expenses for this revenue segment.

The Company anticipates an incremental increase in selling, general and administrative expenses due to the expansion of its geographic sales presence, entrance into the local service market, and temporarily, due to acquisition activity. During the nine months ended September 30, 1997, the growth in selling, general, and administration expenses has been less than revenue growth, which reflects productivity and operating efficiencies.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three and nine months ended September 30, 1997 was $22.8 million and $61.4 million, respectively. The increase reflects the investments made in infrastructure for sales, customer service and other service delivery systems in support of the Company's growth in revenues and MOUs. The Company anticipates that depreciation and amortization will continue to increase due to investments in new technology, as well as the expansion of the owned portion of the Network. The increase in depreciation and amortization for the additional Network facilities is expected in first quarter of 1998. Depreciation and amortization expense as a percentage of revenues was 6.3% and 6.0% for the three and nine months ended September 30, 1997, respectively, as compared to 5.6% and 5.7% for the same periods in 1996, respectively.

Operating Income. Operating income increased 18% to $45.5 million and 24% to $129.1 million for the three and nine months ended September 30, 1997, respectively, over the same periods in 1996. As a percentage of revenues, operating income was 12.5% and 12.7% for the three and nine months ended September 30, 1997, respectively, compared to 13.4% and 12.9% for the same periods in 1996. The decline in operating income as a percentage of revenue reflects the competitive pressures on gross margin, and the increased depreciation for the Company's capital expenditures prior to the full benefit of these investments being reflected in the results of operations.

Interest and Other Expense, Net. Interest and other expense, net of capitalized interest, increased to $8.5 million and decreased to $22.2 million for the three and nine months ended September 30, 1997, respectively, compared to $7.7 million and $22.9 million for the same periods in 1996, respectively. Interest expense included a full quarter of interest from the newly issued Senior Notes, which resulted in the increase for the third quarter 1997 over 1996. The Company was able to reduce the level of outstanding debt during the first half 1997 compared to 1996, through the Securitization Program, which provided a lower cost of capital, as well as a lower interest expense on the Credit Facility. Although interest expense decreased year-over-year, interest expense is expected to increase due to a higher rate of the interest associated with the Senior Notes compared to the short-term rates currently available under existing facilities. The Company also expects a higher average borrowing as a result of the Senior Notes during the second half of 1997, compared to the same period in 1996. However, the fixed interest rate on the Senior Notes provides interest rate stability and frees capacity under the Company's other short-term facilities.

Income Tax Expense. Income tax expense was $14.4 million and $42.4 million for the three and nine months ended September 30, 1997, respectively, as compared to $10.8 million and $28.5 million for the same periods in 1996, respectively. The Company's net operating loss (NOL) carryforwards for financial statement purposes were fully utilized in 1996, resulting in an increase in the estimated effective tax rate to 39.5% in 1997 from 35% in 1996. The increase in income tax expense resulted from the increase in the estimated effective tax rate and the growth in earnings before taxes. The Company analyzes and adjusts its effective tax rate, if necessary, on a quarterly basis.

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

LIQUIDITY AND CAPITAL RESOURCES

LCI International, Inc. (LCII) is a holding company and conducts its operations through its direct and indirect wholly-owned subsidiaries. The Company's discussion of its liquidity is based on the consolidated group.

Cash Flows - Operating Activities. The Company provided $80.6 million of cash from operations for the nine months ended September 30, 1997, compared to $238.9 million for the same period in 1996. Excluding the net securitization activity, cash from operations was $122.8 million for the nine month period ended September 30, 1997, compared to $130.9 million for the same period in 1996. The Company's growth in revenues and net income has provided consistent operating cash flows.

Cash Flows - Investing Activities. The Company has supported its growth strategy with capital expenditures and acquisitions, resulting in $232.3 million in cash used for investing activities during nine months ended September 30, 1997, compared to $224.0 million in 1996. During the nine months ended September 30, 1997, the Company spent $224.5 million in capital expenditures to acquire additional switching, transmission and distribution capacity, as well as to develop and license information systems support, representing an increase of $118.7 million from the same period in 1996. This increase includes the $40 million payment for the Chicago-Dallas fiber purchase in September 1997.

Cash Flows - Financing Activities. Financing activities provided a net $151.7 million for the nine months ended September 30, 1997, compared with $14.9 million used in financing activities during the same period in 1996. In June 1997, the Company received proceeds of $350 million from the issuance of long-term debt (see Capital Resources below) and the proceeds were used, in part, to repay other then outstanding indebtedness.

Capital Resources. The net proceeds from the issuance of the Notes were used to repay outstanding indebtedness and for working capital and general corporate purposes.

The Company has a $750 million Credit Facility with a syndicate of banks, which allows the Company to borrow funds on a daily basis. As a result, the Company uses its available cash to reduce the balance of its borrowings and usually maintains no cash on hand. As of September 30, 1997, there was no outstanding balance on the Credit Facility. The interest rate on the debt outstanding is variable based on several indices (See Note 5 to the Condensed Consolidated Financial Statements).

The Credit Facility contains certain financial and negative covenant requirements. As of September 30, 1997, the Company was in compliance with all covenants.

The Company has three separate Discretionary Line of Credit Agreements (Lines of Credit) with commercial banks for a total of $75 million. The Lines of Credit provide flexible short-term borrowing facilities at competitive rates dependent upon a market indicator. Any outstanding balance is reflected in long-term debt in the accompanying consolidated balance sheets due to borrowing availability under the Credit Facility to repay such balances. As of September 30, 1997, there was a $17.9 million outstanding balance on the Lines of Credit.

The Company maintains a Securitization Program to sell a percentage ownership interest in a defined pool of the Company's trade accounts receivable. The Company can transfer an undivided interest in a designated pool of accounts receivable on an ongoing basis to maintain the participation interest up to $150 million. At September 30, 1997, the pool of trade accounts receivable which was available for sale was approximately $141 million and the amount of receivables sold was approximately $70 million.

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

In addition to its ongoing capital requirements, the Company has entered into several agreements to extend its owned fiber-optic network throughout several geographic areas of the United States. The Company has binding commitments to purchase will make payments of approximately $270 million of fiber-optic capacity and related equipment. In September 1997, the company accepted approximately 1,500 route-miles from Chicago, Illinois to Dallas, Texas and paid approximately $40 million for the position in the fiber. The timing of other payments will depend on the delivery and acceptance of facilities, which is expected to occur in the first half of 1998. The Company believes it has adequate cash flow and borrowing capacity to fund planned capital expenditures.

On September 18, 1997, the Company signed a definitive agreement to acquire USLD Communications Corp. (USLD), in a stock-for-stock transaction that will be accounted for as a pooling of interests. USLD provides long-distance telecommunications services primarily to business customers in the Southwest, Southeast, Pacific Northwest and Western regions of the United States. In addition, USLD offers operator services for the hospitality and pay phone industries, and local telephone services in selected markets. The Company expects the acquisition to close by the end of the year. The Company will exchange the fraction of a share of Common Stock having a value of $20 per share (valued pursuant to the formula contained in the agreement), for each outstanding share of USLD common stock resulting in a purchase price of between $350 -$370 million. This acquisition is contingent on regulatory approval and on the ability to qualify as a pooling transaction.

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

Commitments and Contingencies. The Company has agreements with certain interexchange carriers, LECs and third party vendors to lease facilities for originating, terminating and transport services. The third party carriers include WorldCom Network Services, Inc. d/b/a WilTel, Frontier Corporation, AT&T, Sprint and MCI. In addition, the Company uses services provided by each RBOC, GTE and other smaller LECs. Some agreements require the Company to maintain minimum monthly and/or annual billings based on usage. The Company has met and expects to continue to meet such minimum usage requirements.

In October 1997, the Company amended a contract with a significant carrier. Under the original contract, the Company had an obligation to use that carrier for a significant percentage of domestic and international services that the Company provides through its leased facilities. Under the terms of the amended contract, the Company received a reduction in usage commitments and a usage credit, in exchange for agreeing to increases in certain rates. The Company expects to mitigate the impact of these increased rates by applying the usage credit against future activity over the life of the amended contract and by migrating traffic to other lower priced vendors. In addition, under the amended contract the Company will swap fiber along routes with excess capacity in exchange for fiber along strategic routes beneficial to the Company. If the Company is unable to identify lower cost traffic routes, it may incur increased facility costs when the available usage credit is exhausted. The Company does not expect that the amended contract will have a material adverse impact on the results of operations.

The Company has engineered its Network to minimize the impact on its customers of a service failure by any third party carrier and has established contingency plans to reroute traffic as quickly as possible if a service failure by a third party carrier should occur. Although most service failures that the Company has experienced have been corrected in a relatively short time period, a catastrophic service failure could interrupt the provision of service by both the Company and its competitors for a lengthy time period. The restoration period for a catastrophic service failure cannot be reasonably determined; however, the Company has not experienced a catastrophic service failure in its history.

The Company has an agreement with American Communications Network, Inc. (ACN), a third party sales agent, through April 2011. The agreement contains a provision whereby ACN will receive a payment if there is a change in the control of the Company. In consideration for this change in control payment, the acquiring company would receive a 31% reduction in the ongoing commission rates paid to ACN. The change in control payment is calculated based on a multiple of three times the average monthly collected revenue generated by customers signed up by ACN to use the Company's long-distance services. The monthly collected revenue average is calculated over a 24-month performance period subsequent to the change in control. The amount of this payment, if any, is therefore dependent upon ACN's level of performance during the entire performance period, and cannot be reasonably estimated at this time.

The Company has been named as a defendant in various litigation matters. Management intends to vigorously defend these outstanding claims. The Company believes it has adequate accrued loss contingencies and that current pending or threatened litigation matters will not have a material adverse impact on the Company's results of operations or financial condition. (See Note 6 to the Condensed Consolidated Financial Statements.)

Federal Income Taxes. The Company has generated significant NOLs in prior years that are available to reduce cash requirements for income taxes. See Note 8 of the Condensed

Consolidated Financial Statements for a discussion of the availability and expected utilization of the existing NOLs.

Impact of Seasonality. The Company's revenue is subject to seasonal variations based on each business segment. Use of long-distance services by commercial customers is typically lower in the fourth quarter due to holidays. An increase in residential/small business revenue as a proportion of the Company's total revenues would cause the seasonal impact due to changes in commercial calling patterns to be reduced. The Company is unable to predict the revenue impact of a shift to a larger residential customer base.

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

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: The exhibits filed as part of this report are set forth in the Index of Exhibits on page 30 of this report.

(b) Reports on Form 8-K: On September 23, 1997, the Company filed a report on Form 8-K to report the signing of a definitive Agreement and Plan of Merger between the Company and USLD Communications Corp.

SIGNATURE

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

LCI INTERNATIONAL, INC.

DATE: October , 1997

BY: /s/ Joseph A. Lawrence

Chief Financial Officer,
Executive Vice President and
Chief Financial Officer

(as duly authorized officer and
principal financial officer)

The following l

Exhibit Number
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APPENDIX C
PRESS RELEASE SHOWING 4TH Q PERFORMANCE

LCI International®
Worldwide Telecommunications

FOR IMMEDIATE RELEASE

LCI INTERNATIONAL REPORTS 1997 AND FOURTH QUARTER RESULTS
Company Delivers 25th Consecutive Quarter of Growth in Revenue and Network Traffic

The following full year and fourth quarter amounts reflect the merger with USLD Communications Corp., which was completed in December, 1997 as a pooling of interests with all previous periods restated to reflect combined operations. The amounts below for the combined company are presented on a recurring basis – except for the reported earnings per share amounts. The recurring results exclude the after tax impact of $0.65 per common share for charges associated with merger, restructuring and other one-time items.

1997 HIGHLIGHTS

Revenue of $1.6 billion – up 26 percent
Recurring Operating Income of $190 million – up 30 percent
Recurring Net Income of $97 million – up 29 percent
Recurring, Fully Taxed Diluted Earnings Per Share of $0.97– versus $0.71
Reported Diluted Earnings Per Share of $0.32 – versus $0.75
Network telecommunications traffic of 12.9 billion minutes – up 35 percent

FOURTH QUARTER HIGHLIGHTS

Revenue of $446 million -- up 30 percent
Recurring Operating Income of $51 million -- up 24 percent
Recurring Net Income of $26 million -- up 18 percent
Recurring, Fully Taxed Diluted Earnings Per Share of $0.26 – versus $0.21
Reported Diluted Loss Per Share of $0.39 – versus earnings of $0.23
Network telecommunications traffic of 3.4 billion minutes – up 31 percent

McLEAN, VA, February 17, 1998 – Sustaining a revenue growth rate at several times the telecommunications industry average, LCI International (NYSE:LCI) today reported a 26 percent increase in 1997 revenue to $1.6 billion, versus revenue of $1.3 billion in 1996. All amounts are presented on a pro forma combined basis, reflecting the merger with USLD Communications Corp., completed on December 22, 1997, which was accounted for as a pooling of interests.

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Net income for the year, excluding non recurring charges described below, was up 29 percent to $97 million versus $75 million in 1996. On a recurring fully taxed basis, earnings per common share were $0.97 for the year versus $0.71 per share in 1996. Operating income for the year, excluding charges, rose to $190 million, up 30 percent from $146 million in 1996.

For the fourth quarter of 1997, revenue was up 30 percent to $446 million from $344 million in the fourth quarter of 1996 -- marking LCI's 25th consecutive quarter of revenue growth. Excluding charges, recurring net income for the quarter was $26 million, up 18 percent from $22 million in the fourth quarter of 1996 -- or $0.26, up from $0.21 per share, on a recurring fully taxed basis, for the same periods.

Charges & Other Non Recurring Items

Results for the year included non recurring charges of $54 million for merger related and restructuring costs. Also included were non recurring charges of $42 million for costs associated with the strengthening of LCI's accounts receivable reserves, grooming of the network, the write-off of unamortized financing charges, and other items.

Including these charges, LCI's reported operating income for the year was $98 million versus $130 million in 1996; net income was $31 million, versus $74 million in 1996, and diluted earnings per share were $0.32 versus $0.75. In the fourth quarter, including charges, the company reported an operating loss of $38 million, versus operating income of $41 million for the comparable 1996 quarter; a net loss of $37 million, versus net income of $23 million in the fourth quarter of 1996; and a diluted loss per share of $0.39, versus earnings of $0.23 in the fourth quarter of 1996.

LCI Stand Alone Results

On a stand alone basis, without USLD results, LCI would have reported quarterly revenue of $382 million, up 30 percent, and $1.4 billion for the year, up 27 percent. Excluding one-time charges, LCI would have reported recurring diluted earnings per share of $0.27 in the quarter and $1.02 for the year.

Fourth Quarter 1997 Highlights

Continuing the performance of past quarters, LCI said that the 31 percent increase in minutes of use on its telecommunications network came from all segments of the company's business.

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Significant strategic highlights in the fourth quarter include:

USLD – With the merger of USLD, which closed in December, LCI expanded its direct presence and market coverage into the Southwest and Northwest for the first time, and added to LCI's existing customer base in the West and Southeast. This addition brings new core competencies in the areas of operator services, services to the hospitality and pay phone markets, pre-paid card offerings, and facilities-based local telephone services.

- New Services: During the quarter, LCI – the company that revolutionized the consumer long-distance market in 1992 with six-second billing -- became the first major long-distance carrier in the industry to offer Exact Billing(sm) to the second with its introduction of LCI Difference(sm). Exact Billing was first introduced for residential customers and LCI is now rolling it out to new and existing commercial customers.

- Network Growth: During the quarter, the company agreed to purchase a position in 1,925 miles of fiber optic cable between Washington, D.C. and Dallas from VYVX, a wholly-owned subsidiary of Williams Communications Group, Inc. During the quarter, LCI began to move traffic on to its owned Chicago to Dallas fiber route -- announced early in 1997.

- International Growth: International traffic continues to be a major factor in LCI's growth. Quarterly international revenues, which more than doubled year-over-year, now make up more than 20 percent of LCI's total revenue base.

- Local Telephone Service: LCI now offers local service in a total of 41 markets in 18 states, both on a resale basis, and more recently through a local network facility added with the USLD merger. On a comparative basis, the company said that the total annualized revenues generated from LCI's local customers at year end were equivalent in size to those of a $30 million competitive local exchange carrier (CLEC). Consistent with its previously stated local telephone services strategy, the company said that it would continue its aggressive, but measured, growth through 1998, while staying at the forefront of industry efforts to speed local competition.

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Business Outlook

Commenting on the year and quarter, Chairman and CEO Brian Thompson said, "We closed the year with fundamental strength and real momentum. We made profound gains during the year in size, reach and performance. We have in place a new-generation technology platform that is already enabling us to accelerate our advanced service offerings – like LCI Difference, enhanced 800 calling, virtual private network and international frame relay services, and a full range of IP services.

"In LCI's international business, we are making real strides to position our company to take advantage of the tremendous opportunities as pricing structures change and barriers to competition fall," Thompson added.

"We are moving fast to expand our owned fiber network, which will be more than 8,500 route miles by the end of 1998. We have also greatly expanded our market presence, adding several new sales offices during the year, including 15 with the USLD acquisition."

On the local competitive front, Thompson said that, "Even though it resembles trench warfare at times, we are making progress in growing our local business. LCI has also been one of the industry's loudest and most insistent voices in working to bring competition to local markets. We took a bold step recently to break the stalemate that now exists by filing a petition with the Federal Communications Commission that proposes a voluntary plan whereby the Regional Bell Operating Companies would separate their wholesale operations from their retail operations.

"Under the proposal, the split would put the participating RBOC on a "fast track" to entering the long-distance market by ending an inherent conflict of interest – one side of the Bell Operating Company's house being asked under the law to provide network services to competitors, while the other side has a vested interest in keeping them out.

"When you look back at our performance and strategic progress through the year," said Thompson, "and when you combine that with the immense opportunity in U.S. and international markets for voice, data and many other services, it's clear that LCI's future is looking very bright. True, we're in an industry that is becoming increasingly competitive. But we are a company that is built to handle that competition. We have created an organization with the requisite scale and reach to take on the world's large players, but with the flexibility to move in ways and with speed that those companies often find difficult to match."

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Company Description

LCI International, Inc. (NYSE:LCI), one of the nation's fastest-growing long-distance telecommunications carriers, provides a full array of worldwide voice and data transmission services to businesses, residential customers and other carriers through its fiber-optic network. LCI International, Inc. is headquartered in McLean, Va., with offices in more than 60 locations, including national network control and customer service centers, and regional operations in various locations throughout the United States.

To obtain copies of other recent LCI announcements, please visit LCI International's website (http://www.lci.com), which also provides additional corporate information.

NOTE: Statements made in this press release, other than historical financial results, may be forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These statements express the current beliefs and expectations of LCI management regarding LCI's future results and performance but are subject to a number of known and unknown risks that could cause actual results to differ materially from those projected or implied in forward-looking statements. These risks and uncertainties, including that of increased level of competition and pricing pressures in the telecommunications industry, are described in detail from time to time in LCI's filings with the Securities and Exchange Commission, including LCI's Form 10-Q for the quarter ended September 30, 1997. LCI accepts no obligation to update these forward-looking statements.

The pro forma/recurring results, identifying certain charges the company does not expect to be recurring, are presented to assist in understanding the results of operations and the per share impact such charges had on reported results.

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Attachment A

LCI International, Inc.
Condensed Consolidated Statements of Operations
(Amounts in millions except earnings per share)
(Unaudited)

	For the three months ended December 31, 1997			For the three months ended December 31, 1996		
	Reported	Non Recurring (A)	Recurring	Reported	Non Recurring (A)	Recurring
REVENUES	$ 446	--	$ 446	$ 344	--	$ 344
Cost of services	271	(1)	270	203	--	203
GROSS MARGIN	175	1	176	141	--	141
Selling, general and Administrative expenses	136	(35)	101	80	--	80
Merger charge	44	(44)	--	--	--	--
Restructuring charge	8	(8)	--	--	--	--
Depreciation and amortization	25	(1)	24	20	--	20
OPERATING INCOME (LOSS)	(38)	89	51	41	--	41
Interest and other expense, net	13	(5)	8	6	1	7
INCOME (LOSS) BEFORE INCOME TAXES	(51)	94	43	35	(1)	34
Income tax (benefit) expense	(14)	31	17	12	--	12
NET INCOME (LOSS)	$ (37)	$ 63	$ 26	$ 23	$ (1)	$ 22

PER SHARE DATA

Earnings Per Common Share						
Basic	$ (0.39)		$ 0.27	$ 0.26		$ 0.25
Diluted	$ (0.39)		$ 0.26	$ 0.23		$ 0.22
Recurring fully taxed diluted (B)			$ 0.26			$ 0.21
Weighted Average Number of Common Shares (C)						
Basic	95		95	89		89
Diluted	95		101	100		100

(A) Adjustment items include $44 million for merger charges and $8 million for restructuring charges, as well as $42 million in non-recurring costs including networking grooming, accounts receivable reserve strengthening, write-off of unamortized financing fees and other charges in 1997; and a $1.5 million gain from the sale of one of the Company's subsidiaries in 1996. The adjustments also include the income tax impact of these charges.

(B) Recurring fully taxed earnings per common share calculated using a 39% effective income tax rate.

(C) Recurring earnings per share was calculated based on a diluted weighted average shares of 101 million for the three months ended December 31, 1997, due to common stock equivalents that were antidilutive to the reported calculation.

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Operating Statistics	Fo En 19
Revenues	1
Gross margin	
Selling, general & administrative expenses	
Earnings before interest, taxes, depreciation and amortization	
Operating income	
Effective income tax rate*	
Net income	

* Rate applied against earnings before income taxes

Note: The information presented above excludes the impac
attachments. See Attachment A and Attachment B.

Attachment D

LCI International, Inc.

Condensed Consolidated Statements of Operations

(Amounts in millions except earnings per share)

(Unaudited)

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	1997	1996	1997	1996
REVENUES	$446	$344	$1,642	$1,304
Cost of services	271	203	986	778
GROSS MARGIN	175	141	656	526
Selling, general and administrative expenses	136	80	408	305
Merger charges	44	--	45	--
Restructuring charges	8	--	9	16
Depreciation and amortization	25	20	96	75
OPERATING INCOME (LOSS)	(38)	41	98	130
Interest and other expense, net	13	6	36	29
INCOME (LOSS) BEFORE INCOME TAXES	(51)	35	62	101
Income tax expense (benefit)	(14)	12	31	38
INCOME (LOSS) FROM CONTINUING OPERATIONS	(37)	23	31	63
Discontinued operations	--	--	--	11
NET INCOME (LOSS)	(37)	23	31	74
Preferred dividends	---	--	--	3
INCOME (LOSS) ON COMMON STOCK	$(37)	$23	$31	$71
PER SHARE DATA				
Earnings per Common Share				
Basic	$(0.39)	$ 0.26	$ 0.34	$ 0.86
Diluted	$(0.39)	$ 0.23	$ 0.32	$ 0.75
Recurring Per Share Data (A)				
Basic	$ 0.27	$ 0.25	$ 1.06	$ 0.87
Diluted	$ 0.26	$ 0.22	$ 0.97	$ 0.75
Fully Taxed (39% tax rate) (B)	$ 0.26	$ 0.21	$ 0.97	$ 0.71
Weighted Average Number of Shares				
Basic	95	89	91	83
Diluted (C)	95	100	99	99

(A) Recurring earnings per share exclude a $45 million merger charge, $9 million restructuring charge as well as $42 million in non-recurring costs in 1997; and a $16 million restructuring charge, a $2 million gain on the sale of a non-strategic wholly owned subsidiary, and $11 million in discontinued operations in 1996. Based on a recurring effective income tax rate of 39% in 1997 and 35% in 1996.

(B) Fully taxed earnings per share calculated using a 39% effective income tax rate.

(C) Recurring earnings per share were calculated based on a diluted weighted average shares of 101 million for the three months ended December 31, 1997 due to [illegible]

Attachment E

LCI International, Inc.
Condensed Consolidated Balance Sheets
(Amounts in millions)
(Unaudited)

(Amounts in millions)	December 31, 1997	December 31, 1996
Assets		
Current Assets		
Cash and cash equivalents	$ --	$ 12
Trade accounts receivable, net of allowance for doubtful accounts of $52 and $30, respectively[(A)]	190	121
Current deferred tax assets, net	59	51
Prepaids and other	22	22
Total current assets	271	206
Property and Equipment, net	671	432
Other Assets, net	412	415
Total Assets	$ 1,354	$ 1,053
Liabilities & Shareowners' Equity		
Current Liabilities		
Accounts payable	$ 43	$ 40
Facility costs accrued and payable	154	135
Accrued expenses and other	91	63
Total current liabilities	288	238
Long-Term Debt and Leases	413	252
Other Liabilities and Deferred Credits	101	73
Total Shareowners' Equity	552	490
Total Liabilities and Shareowners' Equity	$ 1,354	$ 1,053

(A) Excludes amounts sold under the accounts receivable securitization program of $59 million in 1997 and $112 million in 1996.