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February 5, 1999

990149-TP

VIA OVERNIGHT DELIVERY

Blanca S. Bayo
Director, Division of Public Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Application Letter of Excel Operations, Inc., Telco Holdings, Inc. d/b/a Dial & Save and Long Distance Wholesale Club, Inc. Pro Forma Reorganization and Assignment of License

Dear Ms. Bayo:

Excel Operations, Inc. ("Excel Operations"), Telco Holdings, Inc. d/b/a Dial & Save ("Telco") and Long Distance Wholesale Club, Inc. ("LDWC") (collectively "Applicants"), by their undersigned counsel, and pursuant to Section 364.33 of the Florida Statutes, hereby notify the Commission of the *pro forma* reorganization (the "Reorganization"), and to the extent required, request authority to reorganize their corporate structure and operations and assign their respective certifications to Excel Operations.[1] Telco and LDWC, indirect subsidiaries of Excel Communications, Inc. ("Excel"), are authorized to provide a variety of telecommunications services within Florida.

As part of a *pro forma* corporate reorganization (the "Reorganization"), Telco and LDWC will, among other transactions, transfer their operating authority to Excel Operations. As described in greater detail below, the Reorganization involves no change in the ultimate ownership or control of Telco's and LDWC's licenses and operations. The management team and ultimate ownership of the proposed licensee (Excel Operations) following the Reorganization will be the same as Telco and LDWC.

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[1] For the Commission's convenience, we attach as Exhibit A, pre- and post-Reorganization organizational charts depicting the relatively simple changes contemplated.

Applicants respectfully request expedited treatment of this Application Letter to permit completion of the Reorganization no later than March 31, 1999. The Applicants submit the following information in support of this Application Letter:

I. THE APPLICANTS

A. Excel Operations

Excel Operations, a Delaware corporation, maintains its principal offices at 8750 North Central Expressway, Suite 2000, Dallas, Texas 75231. A copy of Excel Operations's Certificate of Incorporation is attached hereto as Exhibit B. Applicants will provide its Certificate of Authority to Transact Business in Florida under separate cover. Excel Operations is a wholly-owned subsidiary of Excel Telephone, Inc., a Delaware corporation, which in turn is a wholly-owned subsidiary of ExcelCom Inc., a Delaware corporation, which in turn is a wholly-owned subsidiary of Excel Communications, Inc ("Excel").

Pursuant to a recent corporate merger, Excel became an indirect wholly-owned subsidiary of Teleglobe Inc. ("Teleglobe"). Teleglobe is a Canadian corporation, which is publicly traded on the New York Stock Exchange, the Toronto Stock Exchange and the Montreal Exchange under the stock symbol TGO. Excel Operations is not currently authorized to provide telecommunications services in Florida.

Excel Operations will rely upon the substantial financial resources of its parent companies, Excel and Teleglobe to provide telecommunications services in Florida. Excel Operations has attached hereto at Exhibit C: (1) the 1997 Annual Report of Excel; and (2) the 1997 Annual Report for Excel Operations's ultimate parent company, Teleglobe. Excel Operations will have the same management team as Telco and LDWC, and therefore, the same technical and managerial resources.

B. Telco and LDWC

Telco and LDWC are Delaware corporations qualified to do business in the State of Florida. In Florida, Telco[2] and LDWC[3] are authorized to provide telecommunications services throughout the state, including local exchange and interexchange services. Together, Telco and LDWC are authorized to provide resold long distance telecommunications services and/or local exchange telecommunications services in virtually every state, pursuant to certification, registration or tariff requirements, or on an unregulated basis.

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[2] *See* Docket No. 970706-TI.

[3] *See* Order No. PSC-94-1439-FOF-TI.

II. DESIGNATED CONTACTS

Correspondence or communications pertaining to this Application Letter should be directed to:

Pamela Arluk, Esq.
Maria Florencia Maggi, Esq.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
Tel: (202) 424-7500
Fax: (202) 424-7645

With a copy to:

Robbin Johnson
Excel Communications, Inc.
8750 North Central Expressway
Suite 2000
Dallas, Texas 75231

III. REQUEST FOR APPROVAL OF *PRO FORMA* REORGANIZATION AND ASSIGNMENT OF LICENSE

For internal corporate reasons, Teleglobe and Excel have determined that the proposed Reorganization will improve the operational efficiency of the Company. By way of background, on October 14, 1997, Excel purchased Telco Communications Group, Inc., ("TCGI") a long distance service provider. Telco and LDWC were operating subsidiaries of TCGI. In light of this acquisition and the further acquisition of Excel by Teleglobe, both Excel and Teleglobe have determined that consolidation of its technical and managerial resources will significantly improve its operational efficiency. This realization of operational and management efficiencies, and thus cost savings, will ultimately inure to the benefit of the customers of Telco and LDWC in Florida.

This reorganization will occur in two steps. Telco Holdings, L.L.C. has been created as a fourth tier subsidiary of Excel, and Long Distance L.L.C. has been created as a third tier subsidiary of Excel. First, Telco will merge into Telco Holdings L.L.C., and LDWC will merge into Long Distance L.L.C., leaving Telco Holdings L.L.C. and Long Distance L.L.C. as the surviving subsidiaries. To the extent required, the Applicants request approval of this *pro forma* Reorganization. Second, once these mergers are completed, the operating authority (including the certificates to provide telecommunications service) of Telco and LDWC will be transferred to Excel

Operations to allow Excel Operations to provide intrastate interexchange and local exchange telecommunications services to the public in Florida. To the extent required, the Applicants request approval to transfer Telco's and LDWC's operating authority to Excel Operations.

Telco Holdings L.L.C. and Long Distance L.L.C. will never provide telecommunications services to the public. Operating authority will be transferred directly from Telco and LDWC to Excel Operations. Thus, upon completion of the Reorganization, including grant of this Application Letter, Telco and LDWC will cease to exist, and Excel Operations will be certificated to provide telecommunications services throughout the United States, including in the state of Florida . For the Commission's convenience, pre- and post-Reorganization organizational charts are attached as Exhibit A.

The Applicants propose to consummate the proposed Reorganization by March 31, 1999, subject to the approvals of the Federal Communications Commission and various state authorities and other customary conditions. The creation of Excel Operations and the transfer of the operating authority from Telco and LDWC to Excel Operations will be made in a seamless fashion that will be transparent to consumers and will not in any way inconvenience or have a negative effect on the service provided to the customers of Telco and LDWC. Customers will be able to purchase the same high quality services from Excel Operations that they currently purchase from Telco and LDWC. In addition, upon consummation of the Reorganization, Excel Operations will maintain a tariff that duplicates the service offerings, rates, terms and conditions as filed in the current tariffs of Telco and LDWC. Thus, the former customers of Telco and LDWC will continue to receive the same services that they presently receive at the same rates.

The Reorganization will not effect a change in officers and directors, nor will there be a change in management, operations or service quality provided to customers. In short, after regulatory approval for the Reorganization has been obtained and the certificates of Telco and LDWC have been assigned to Excel Operations, there will be no change in the manner in which service is provided to the public. The proposed Reorganization is simply a paper transaction that will be virtually transparent to customers.

IV. PUBLIC INTEREST CONSIDERATIONS

Consummation of the proposed Reorganization will serve the public interest. Consolidation of Telco and LDWC operations will allow the Company to realize maximum efficiency as well as significant cost savings. Enhanced efficiency and improved financial viability will not only ensure the continued provision of high quality and innovative telecommunications services to the existing customers of Telco and LDWC, but also will allow the Company to accelerate its growth as a competitive telecommunications service provider. Consequently, the proposed *pro forma* reorganization is consistent with the public interest in promoting competition among telecommunications carriers in Florida.

V. CONCLUSION

For the reasons stated above, Excel Operations, Inc., Telco Holdings, Inc. d/b/a Dial & Save and Long Distance Wholesale Club, Inc. request grant of this Application Letter to consummate the proposed *pro forma* Reorganization and assign the operating authority from Telco Holdings, Inc. d/b/a Dial & Save and Long Distance Wholesale Club, Inc. to Excel Operations, Inc. no later than March 31, 1999.

An original and twelve (12) copies of this letter are enclosed. Please date-stamp the enclosed extra copy of this filing and return it in the attached self addressed, stamped envelope. Please do not hesitate to contact the undersigned with any questions or comments regarding this filing.

Respectfully submitted,
EXCEL OPERATIONS, INC., TELCO HOLDINGS, INC. D/B/A DIAL & SAVE AND LONG DISTANCE WHOLESALE CLUB, INC.

By:________________________

Pamela S. Arluk, Esq.
Maria Florencia Maggi, Esq.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
Tel: (202) 424-7500
Fax: (202) 424-7645

Their Counsel

cc: Tom Williams
Robbin Johnson

EXHIBITS

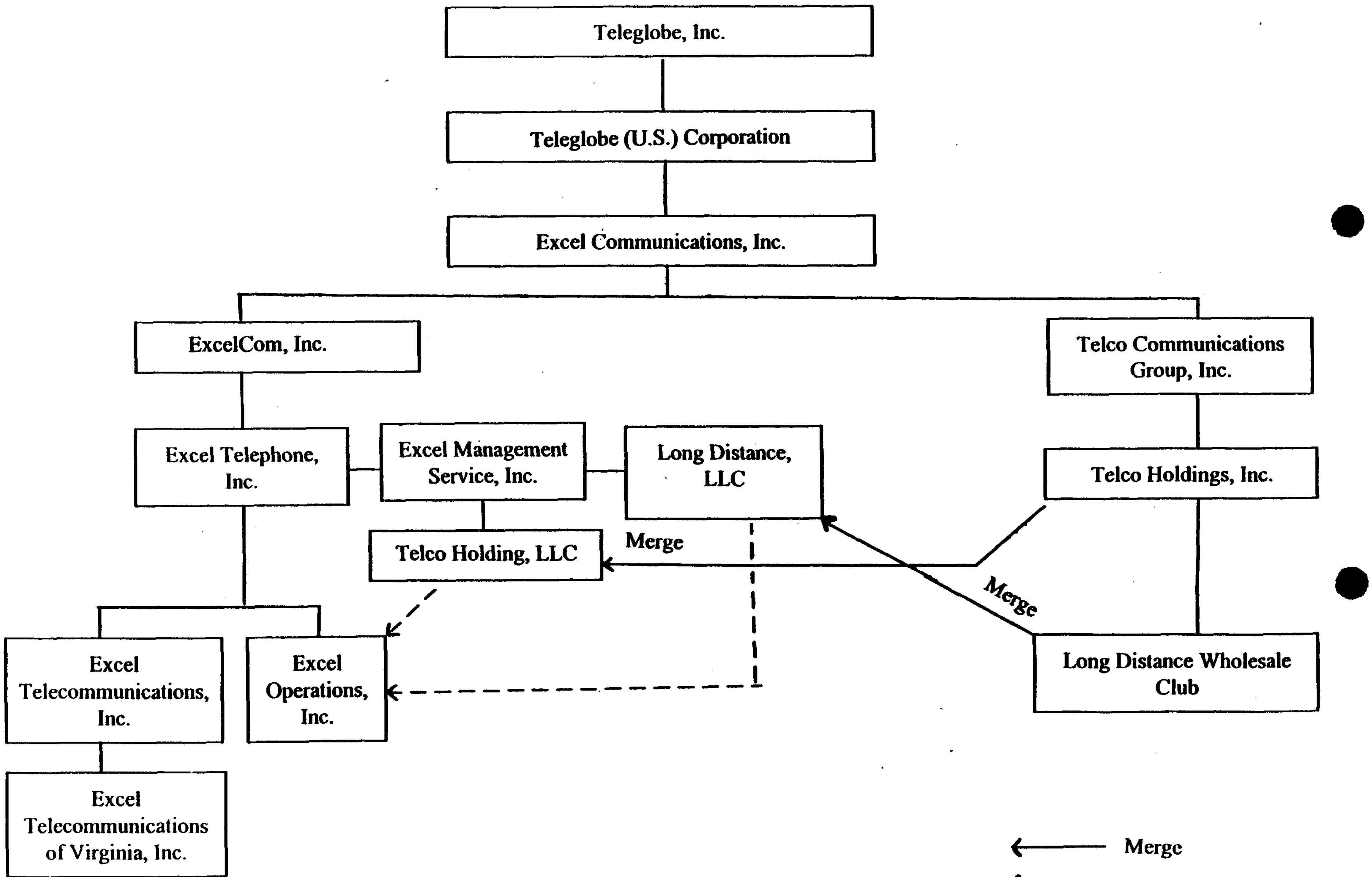
EXHIBIT A	Pre- and Post-Reorganization Corporate Structure
EXHIBIT B	Articles of Incorporation
EXHIBIT C	Financial Qualifications
EXHIBIT D	Verification

Exhibit A

EXHIBIT A

Pre- and Post-Reorganization Corporate Structure

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES
PRE-ORGANIZATION STRUCTURE



EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES
POST-REORGANIZATION STRUCTURE

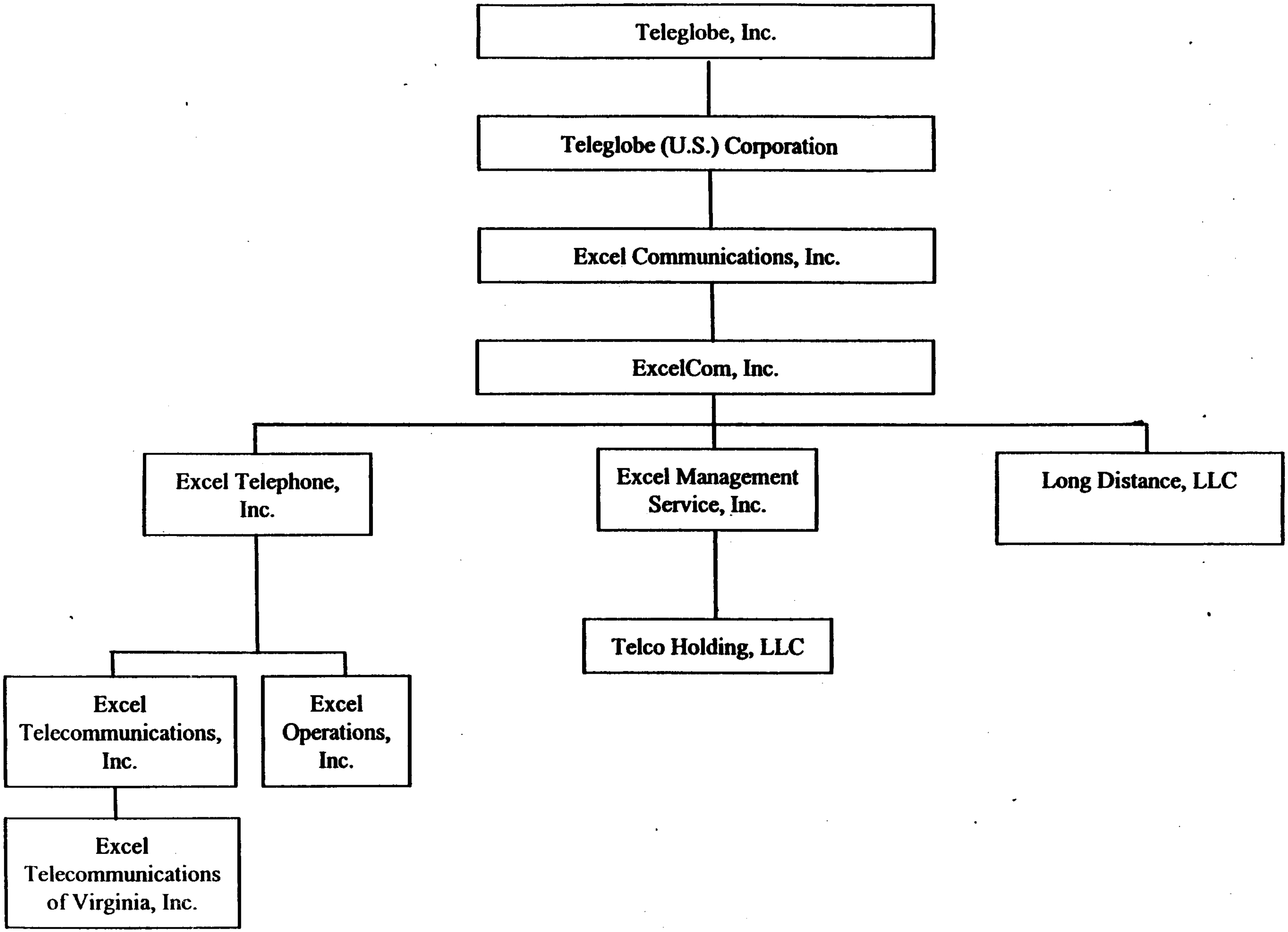


Exhibit B

EXHIBIT B

Articles of Incorporation

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "EXCEL OPERATIONS, INC", FILED IN THIS OFFICE ON THE TWELFTH DAY OF MAY, A.D. 1998, AT 4:30 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

Edward J. Freel

Edward J. Freel, Secretary of State

2895733 8100

981183064

AUTHENTICATION: 9080515

DATE: 05-14-98

CERTIFICATE OF INCORPORATION
OF
EXCEL OPERATIONS, INC.

I, the undersigned natural person acting as an incorporator of a corporation (hereinafter called the "Corporation") under the General Corporation Law of the State of Delaware, do hereby adopt the following Certificate of Incorporation for the Corporation:

FIRST: The name of the Corporation is **EXCEL OPERATIONS, INC.**

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

THIRD: The purpose for which the Corporation is organized is to engage in any and all lawful acts and activity for which corporations may be organized under the General Corporation Law of Delaware. The Corporation will have perpetual existence.

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is Ten Thousand (10,000). The par value of each of such shares is $.001 per share. All such shares are of one (1) class and are shares of common stock.

FIFTH: The name of the incorporator of the Corporation is Denise S. Koelling and the mailing address of such incorporator is 8750 North Central Expressway, Suite 2000, Dallas, Texas 75231.

SIXTH: The number of directors constituting the initial board of directors is one (1), and the name and mailing address of such person who is to serve as director until the first annual meeting of stockholders or until his successor is elected and qualified is:

Name	Mailing Address
Kenny A. Troutt	8750 North Central Expressway Suite 2000 Dallas, Texas 75231

SEVENTH: Directors of the Corporation need not be elected by written ballot unless the by-laws of the Corporation otherwise provide.

EIGHTH: The directors of the Corporation shall have the power to adopt, amend, and repeal the by-laws of the Corporation.

NINTH: No contract or transaction between the Corporation and one or more of its directors or officers or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee which authorizes the contract or transaction, or solely because his, her, or their votes are counted for such purpose, if: (i) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved, or ratified by the board of directors, a committee thereof, or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

TENTH: The Corporation shall indemnify any person who was, is, or is threatened to be made a party to a proceeding (as hereinafter defined) by reason of the fact that he or she (i) is or was a director or officer of the Corporation or (ii) while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise, to the fullest extent permitted under the Delaware General Corporation Law, as the same exists or may hereafter be amended. Such right shall be a contract right and as such shall run to the benefit of any director or officer who is elected and accepts the position of director or officer of the Corporation or elects to continue to serve as a director or officer of the Corporation while this Article Tenth is in effect. Any repeal or amendment of this Article Tenth shall be prospective only and shall not limit the rights of any such director or officer or the obligations of the Corporation with respect to any claim arising from or related to the services of such director or officer in any of the foregoing capacities prior to any such repeal or amendment to this Article Tenth. Such right shall include the right to be paid by the Corporation expenses incurred in defending any such proceeding in advance of its final disposition to the maximum extent permitted under the Delaware General Corporation Law, as the same exists or may hereafter be amended. If a claim for indemnification or advancement of expenses hereunder is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim, and if successful in whole or in part, the claimant shall also be entitled to be paid the expenses of prosecuting such claim. It shall be a defense to any such action that such indemnification or advancement of costs of defense are not permitted under the Delaware General Corporation Law, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its board of directors or any committee thereof, independent legal counsel, or stockholders) to have made its determination prior to the commencement of such action that indemnification of, or advancement of costs of defense to, the claimant is permissible in the circumstances nor an actual determination by the Corporation (including its board of directors or any committee thereof, independent legal counsel, or stockholders) that such indemnification or advancement is not permissible shall be a defense to the action or create a presumption that such indemnification or advancement is not permissible. In the event of the death of any person having a right of indemnification under the foregoing provisions, such right shall inure to the benefit of his or her heirs, executors, administrators, and personal representatives. The rights conferred above shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, by-law, resolution of stockholders or directors, agreement, or otherwise.

The Corporation may additionally indemnify any employee or agent of the Corporation to the fullest extent permitted by law.

As used herein, the term "proceeding" means any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, arbitrative, or investigative, any appeal in such an action, suit, or proceeding, and any inquiry or investigation that could lead to such an action, suit, or proceeding.

ELEVENTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or amendment of this Article Eleventh by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation arising from an act or omission occurring prior to the time of such repeal or amendment. In addition to the circumstances in which a director of the Corporation is not personally liable as set forth in the foregoing provisions of this Article Eleventh, a director shall not be liable to the Corporation or its stockholders to such further extent as permitted by any law hereafter enacted, including without limitation any subsequent amendment to the Delaware General Corporation Law.

TWELFTH: The Corporation expressly elects not to be governed by Section 203 of the General Corporation Law of Delaware.

I, the undersigned, for the purpose of forming the Corporation under the laws of the State of Delaware, do make, file, and record this Certificate of Incorporation and do certify that this is my act and deed and that the facts stated herein are true and, accordingly, I do hereunto set my hand on this 12th day of May, 1998.

Denise S. Koelling

Denise S. Koelling, Incorporator

c:/corporate/ECI/ExcelOps

Exhibit C

EXHIBIT C

Financial Qualifications

TELEGLOBE

TELEGLOBE INC.

ANNUAL INFORMATION FORM

For the year ended December 31, 1997

May 19, 1998

TABLE OF CONTENTS

I. NAME AND INCORPORATION

Teleglobe Inc. (the "Corporation" or "Teleglobe") is a corporation resulting from the amalgamation on December 31, 1985 of the Corporation, then known as Memotec Data Inc., and Real Time Datapro Ltd. pursuant to the Canada Business Corporations Act. Articles of amendment were obtained on May 14, 1987, August 13, 1987, May 22, 1991, August 9, 1991, May 28, 1993 and March 8, 1994, in each case effecting changes to the share capital. Furthermore, articles of amendment were obtained on August 6, 1991, changing the corporate name from "Memotec Data Inc." to "Teleglobe Inc." Finally, the Corporation obtained restated certificate and articles of incorporation consolidating the articles of amalgamation and articles of amendment described above on June 28, 1994, and articles of amendment allowing the directors to appoint a limited number of directors between shareholders' meetings on June 6, 1996. The head office of the Corporation is located at 1000 de La Gauchetière Street West, Montréal, Québec H3B 4X5.

II. GENERAL DEVELOPMENT OF THE BUSINESS

For the purposes of this Annual Information Form, unless otherwise indicated or the context otherwise requires, references to "Teleglobe" or the "Corporation" refer to Teleglobe Inc. and/or any or all of its subsidiaries, as the case may be. Substantially all of the Corporation's operations are conducted through subsidiaries.

The Corporation has been a facilities-based provider of international telecommunications services for over 40 years. Historically, the Corporation's primary market has been Canada, where Teleglobe Canada Inc. ("Teleglobe Canada" or "TCI"), its principal operating subsidiary, is currently the sole authorized operator of Canadian facilities for Canadian-overseas telecommunications services. In conjunction with the deregulation of the international telecommunications markets, the Corporation will no longer have its Canadian exclusive mandate as of October 1, 1998.

Since 1996, the Corporation has expanded its corporate mission to be a global provider of a broad range of international telecommunications services to carriers, businesses and consumers throughout the world. To pursue that objective, the Corporation has sought and successfully obtained operating licenses in various countries including the United States, the United Kingdom and Germany. In the last three financial years, the Corporation has experienced rapid growth in its global traffic, i.e. traffic that neither originates nor terminates in Canada. In 1997, the volume of traffic carried globally was almost as important as Canadian traffic. The Corporation provides its telecommunications services worldwide through its Teleglobe Communications business unit.

The Corporation's other business units are Teleglobe World Mobility, which consists of interests in global mobile satellite data and messaging communications systems such as ORBCOMM; and Teleglobe Enterprises. Teleglobe Enterprises consists of Teleglobe Marine Group, which installs, maintains and repairs undersea cables, and Teleglobe Media Enterprises, which is aimed at exploring new opportunities in multimedia and new technologies, through alliances or participation with others, as appropriate.

Through the years, the Corporation has diversified its activities from its telecommunications core business, thereby creating business units in the field of communications products and insurance systems. During the course of the last five years and in accordance with its strategic objectives, the Corporation divested itself of its Communication Products business unit in early 1994 and of its Insurance System business units in late 1997, both non-core assets.

During the same period, the Corporation launched the CANTAT 3 and CANUS 1 cable systems (now known as Globesystem Atlantic™) as well as the ORBCOMM satellite project. In December 1997, the Corporation signed a memorandum of understanding to become an initial party, and to invest approximately U.S. $ 78 million, in the new proposed China - U.S. cable system. See "Description of the Business — The Corporation — The Teleglobe Network" and "— Other Businesses — Teleglobe World Mobility."

Significant changes have been taking place in the telecommunications industry in the recent years. There is a growing global trend towards privatization, competition and deregulation. Technological developments have also blurred national and international boundaries. This liberalization of global telecommunications markets provides opportunities for carriers to expand their business beyond the regions they traditionally served. Voice telephony service is expected to continue to experience growth and expansion in the foreseeable future. In that regard, increased competition from alternative carriers is expected to contribute to a decrease in accounting rates and a re-evaluation of the accounting rate system. This decrease is generally expected to result in lower prices, which should stimulate demand for international telecommunications services. In addition, the Corporation believes there is significant potential for growth in developing countries for global carriers with extensive existing international network and long-standing relationships with carriers throughout the world. Deregulation has also created an opportunity for the Corporation to broaden its customer base to include businesses and retail consumers. The international telecommunications network is increasingly using digital fiber-optic cables in response to competitive pressure for higher quality and lower cost telecommunications services. Moreover, satellite communications will remain important for specialized applications such as television, broadcast, Internet and mobile services, as well as to serve remote areas of the world not readily accessible by cables.. See "Description of the Business — The International Telecommunications Industry." Teleglobe Canada's regulatory framework has also evolved substantially since 1987, most notably from the rate base rate of return regulation to the 1996 price-cap regulation. See "Description of the Business — Regulation."

The following chart presents each of the direct and indirect company and partnership participations of the Corporation as at December 31, 1997, their respective place of incorporation and the percentage of voting securities beneficially owned or over which control or direction is exercised by the Corporation. The Corporation does not own, either directly or indirectly, any non-voting securities in such companies, except for Optel Telecommunications, Inc. (formerly Optel Communications, Inc.) ("Optel"). The names of certain subsidiaries, each of which represents less than 10% of consolidated assets and less than 10% of consolidated revenues, and all of which, in the aggregate, represent less than 30% of total consolidated assets and total consolidated revenues of the Corporation, have been omitted.

CORPORATE STRUCTURE OF TELEGLOBE INC.

(as at December 31, 1997)

- ͻLOBE INC.*
  - TELEGLOBE CANADA INC. [Canada]
    - Stratos Wireless Inc. (29.12%) [Canada]
  - TELEGLOBE HOLDING CORP. [Delaware]
    - Teleglobe International Holdings (U.S.) Inc. [Delaware]
      - Teleglobe International Corp. [Delaware]
        - Teleglobe USA Inc. (Delaware)
        - Teleglobe France S.A.S. [France]
        - Teleglobe Italia S.p.A. [Italy]
        - Teleglobe Honk Kong Limited [Honk-Kong]
        - K.K. Teleglobe Japan [Japan]
        - Teleglobe International Communications, S.A. [Spain]
        - Teleglobe Denmark A/S [Denmark]
        - Teleglobe Norge AS [Norway]
        - Teleglobe Australia Pty Ltd. [Australia]
        - Teleglobe Columbia S.A. [Columbia]
        - Teleglobe El Savador, S.A. [El Salvador]
        - Telecom Vision Int'l Inc. [Delaware]
      - Teleglobe Mobile Partners (70%) [Delaware]
        - Orbcomm Global L.P. (50%) [Delaware]
    - Teleglobe Marine (U.S.) Inc. [Delaware]
      - C.S. Long Lines L.:P. (25%) [Delaware]
      - C.S. Charles L. Brown L.P. (25%) [Delaware]
      - C.S. Global Sentinel L.P. (45%) [Delaware]
      - C.S. Global Mariner L.P. (45%) [Delaware]
      - C.S. Global Link L.P. (25%) [Delaware]
      - Teleglobe Submarine Inc. [Delaware]
    - Teleglobe Investment Corp. [Delaware]

ote: All entities are 100% owned unless otherwise indicated.

CORPORATE STRUCTURE OF TELEGLOBE INC.

(as at December 31, 1997)

LEGLOBE INC.*

- Teleglobe International UK Limited [U.K.]
- Teleglobe GmbH [Germany]
- Teleglobe Marine Inc. [Canada]
- Cantat 3 Inc. [Barbados]
- Teleglobe Canus 1 holdings Inc. [Canada]
  - Teleglobe Canus 1 (Canada) Inc. [Canada]
  - Teleglobe Canus 1 (U.S.A.) LLC [Delaware]
  - Optel Telecommunications, Inc. (19.9992%) [Delaware]
- Teleglobe International Inc. [Canada]
- Bilmac Inc. [Barbados]
- ORBCOMM Canada Inc. (97.51%) [Canada]
- Look TV (Ontario) Inc. (74.5%) [Canada]
- Jazz Media Network inc. (81.815%) [Canada]

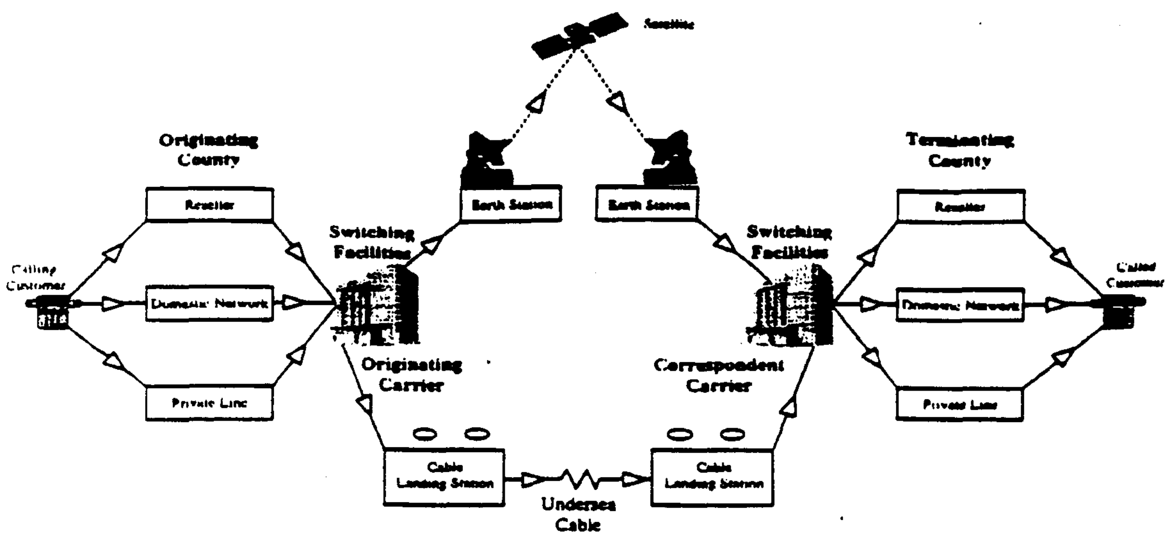
* Note: All entities are 100% owned unless otherwise indicated.

III. DESCRIPTION OF THE BUSINESS

THE INTERNATIONAL TELECOMMUNICATIONS SERVICES INDUSTRY

The international telecommunications services industry is composed of numerous international carriers whose networks directly or indirectly link countries to each other. These networks use satellites, terrestrial and undersea cables to transmit digital or analog information in various forms including voice, data and images for a variety of products or services. The market in any country can be divided into two major segments: "outbound traffic" consisting of calls originating in such country and "inbound traffic" consisting of calls terminating in the country. In addition, international carriers with global connectivity such as the Corporation may also provide "transit" services under arrangements pursuant to which a long distance provider in an intermediate country carries the traffic to a destination country. The provision of traditional transit services requires agreements among the carriers in all countries involved and such services are generally used for overflow traffic or where a direct circuit is unavailable or not volume justified.

Traditional routing of international telephone services



Countries that are not physically contiguous are connected by a network of satellites and undersea cables operated by international carriers such as Teleglobe. These international carriers have networks that are physically interconnected to the domestic networks of each country through switching centers owned and operated by the various international carriers. Bilateral and multilateral operating agreements, which are key components of the international long distance telecommunications market, are negotiated between the respective international carriers to establish the range of services to be provided, the accounting rate to be charged for each service, the routing of the transmissions and the procedures for maintenance. Typically, under a traditional operating agreement, each carrier agrees to terminate traffic in its local market and to provide proportional return traffic to its correspondent carrier. The international satellite networks linking carriers are typically established through international organizations such as INTELSAT and INMARSAT. The Corporation is a member of both of these international organizations. International undersea cables are predominantly jointly owned and operated by consortia of international carriers, each of which has an ownership interest to the theoretical mid-point of the cable and usually has operating agreements with the other countries served by the cable.

Historically, the international telecommunications services industry has been served by government-owned monopolies known as PTTs, which usually provide domestic and international services in a highly regulated framework. Under this traditional model, a PTT enters into a bilateral operating agreement with a carrier in another country in order to connect to such country. These agreements typically require the payment of a negotiated settlement for each minute of traffic sent from one carrier to the other (the "accounting rate system").

There is a growing global trend towards privatization, competition and deregulation. Technological developments have also blurred national and international boundaries. This liberalization of global telecommunications markets provides opportunities for carriers to expand their business beyond the regions they traditionally served. More and more carriers are using routing arrangements other than traditional bilateral arrangements with correspondent carriers. In many cases, traffic is routed via third-country carriers under a practice known as "switched hubbing" ("ISH") or "refile", in which the destination carrier receives a settlement payment from the "hub" carrier, typically at a lower rate than if the traffic were settled directly by the originating carrier.

Voice telephony service currently dominates the international telecommunications business and is expected to continue to experience growth and expansion in the foreseeable future. While the Corporation believes that the accounting rate system will remain a key factor in international telecommunications rates in the near term, increased competition from alternative carriers is expected to contribute to a decrease in accounting rates and a re-evaluation of the accounting rate system. Although this decrease is expected to vary depending on the route, it is generally expected to result in lower prices, which should stimulate demand for international telecommunications services. Other fundamental drivers of international traffic growth include the globalization of trade and the rapid advancement of technology which have made it possible to reduce international telecommunications costs and to develop new and advanced telecommunications services.

According to the International Telecommunications Union ("ITU"), from 1986 to 1995, the number of minutes of international traffic carried worldwide increased at a compound annual growth rate of 15.4% as compared to a compound annual growth rate of 5.4% in the number of new telephone lines. In addition, regional outbound international traffic from 1995 to 1996 in North America achieved a 21.7% growth rate, which outpaced the global average growth rate of 12.5% for the same period. The strong growth in telephone traffic is complemented by an even stronger growth in data traffic, currently being driven by the Internet and evolving data services.

THE CORPORATION

Teleglobe Communications

Teleglobe is a global facilities-based provider of international telecommunications services. Since 1996, the Corporation has expanded its corporate mission to be a leading global provider of a broad range of international telecommunications services to carriers, businesses and consumers throughout the world. The Corporation provides telecommunications services worldwide through its Teleglobe Communications business unit. Global telecommunications strategy, marketing and product development, global development, network, information technology, processing services and support groups are managed from the Corporation's offices in Montreal, Canada and in the Washington D.C. area.

Teleglobe's global traffic, which is traffic that neither originates nor terminates in Canada, has grown at a rapid rate. In addition to its base of 1.8 billion minutes in Canadian-overseas traffic, Teleglobe's global traffic grew nearly 300% in 1996 to reach 447 million minutes. Growth in global traffic has continued, reaching 951 million minutes in 1997, accounting for approximately 34% of Teleglobe's total traffic.

The table below provides the number of paid minutes of international telephone calls handled by the Corporation in the last five years (outbound, inbound and global) :

	For the Year Ended December 31,				
	1997	1996	1995	1994	1993
	(unaudited, millions of minutes)				
Telephone Traffic					
Outbound (Canada)	1,112	915	898	861	762
Inbound (Canada)	737	671	603	544	503
Global	951	447	113	64	39
Total	2.800	2.033	1.614	1.469	1.304

In the period from 1993 to 1997, outgoing traffic from Canada increased by 45.9%, whereas incoming traffic increased by 46.5%. The relative proportion of outgoing traffic to total traffic decreased from 58.4% to 39.7% during the same period due to important increases in the volume of global overseas traffic.

The Corporation has an international network linking approximately 240 countries and territories that it believes is one of the most extensive intercontinental facilities-based networks among North American carriers. The Corporation provides comprehensive telecommunications services including voice, data, Internet and value-added services, primarily on a wholesale basis, to over 275 carriers and Internet service providers in over 140 countries. Teleglobe's network, which connects to virtually every country in the world, includes interests in both the INTELSAT and INMARSAT satellite systems as well as in approximately 100 undersea cables including such systems as Globesystem Atlantic, TAT 12/13, TPC-5 and FLAG. The Corporation also owns or have access to cable landing stations on the Atlantic and Pacific coasts of North America as well as satellite earth stations that provide access to the INTELSAT, INMARSAT, INTERSPUTNIK, PanAmSat and Orion international satellite networks and back-to-back connectivity to U.S. and Canadian domestic satellite networks. These operating facilities are connected by fiber-optic links to the Corporation's international switching centers and Internet gateways.

The Corporation has operating agreements and relationships with nearly every major international telecommunications carriers in the world. The Corporation's foreign correspondents include national PTTs, incumbent carriers and emerging carriers recently established as a result of the deregulation of telecommunications markets.

The following table indicates the relative importance of the revenues from each category of services in the past five years:

	For the Year Ended December 31, 1997				
	1997	1996	1995	1994	1993
			(in thousands of CDN$)		
Consolidated Income Data[1]					
Revenues					
Teleglobe Communications[2]					
Telephony Canada.............	$1,078,390	$1,063,554	$1,110,252	$1,124,636	$1,132,044
Telephony International	776,281	399,241	172,613	134,988	109,724
Transmission and Data services	106 074	52 155	39 929	26 814	23 354
Total Teleglobe Communications..............	1,960,745	1,514,950	1,322,794	1,286,438	1,265,122
Teleglobe World Mobility[3]....	—	19,016	25,220	28,839	26,273
Teleglobe Enterprises	27,203	28,712	50,303	49,574	28,626
Total	1 987 948 $	1 562 678 $	1 398 317 $	1 364 851 $	1 320 021 $

(1) As at January 1, 1997, the Corporation adopted a policy of segregating its telephony revenues on a business unit basis instead of a legal entity basis. Under the business unit basis, telephony revenues are segregated as to Telephony Canada, Telephony International and Transmission and Data Services which together comprise the Teleglobe Communications services. Under the legal entity basis, telephony revenues were distinguished as to Regulated services and Non-regulated services. As at September 30, 1997, the Corporation restated the results of operations of the former Insurance Systems business unit as a "discontinued operation" in the Consolidated Income and the Consolidated Changes in Financial Position. As a result of these changes, it may be difficult to compare individual financial data contained herein with historical financial data.

(2) Telephony services are switched services measured in minutes of traffic whereas Transmission and Data services are non-switched services.

(3) As a result of the sale of the Corporation's 50% interest in IDB Mobile Communications Inc.'s operations to Stratos Wireless Inc. on October 31, 1996, its revenues are no longer accounted for as revenue of Teleglobe World Mobility since that date.

Principal Markets

The Corporation has structured its regional operations to be managed locally, while benefiting from centralized financial, network, information technology and development services, and expects each such operation to be profitable. The Corporation enters new markets primarily by hiring experienced local professionals who understand the relevant markets. Teleglobe continues to enhance its global network by investing in switching facilities and adding access points to its global network backbone where regulatory reform permits and traffic volumes justify such investments.

Canada. The Canadian market is unique because Teleglobe Canada provides exclusively overseas, and not domestic, long distance service in Canada. In addition, because of the close geographic proximity and existing interconnection between the domestic long distance carriers in the United States and Canada, Teleglobe does not provide long distance service between the United States and Canada. In addition, the Canadian market is different from other markets that Teleglobe serves primarily because of Teleglobe Canada's exclusive mandate. This exclusive mandate, which will end as of October 1, 1998, has focused the Corporation on a wholesale role with virtually no direct access to the end-users. This deregulation is expected to create an opportunity for the Corporation to broaden its customer base to include businesses and retail consumers. As a result of Teleglobe Canada's exclusive mandate and the highly regulated Canadian domestic market, the Corporation's termination costs in Canada and certain other costs were higher than those of U.S. international carriers. The Corporation believes that, as the Canadian telecommunications market becomes more competitive, Teleglobe Canada will be able to achieve significant cost reductions principally by negotiating lower termination costs. The Corporation also intends to diversify its products and client base in the Canadian market.

United States. Created in 1994, Teleglobe USA Inc. ("Teleglobe USA") has a full array of operating authorities from the FCC. The licenses granted by the FCC allow the Corporation to penetrate the three market segments of carriers, businesses and consumers. Teleglobe USA has built an international switching center and Internet gateway in New York City and a point of presence in Los Angeles. Through the transaction with Qwest, the Corporation has now an extensive U.S. domestic network. See "Recent Developments". The U.S. market is the single most important telecommunications market in the world and represents for the Corporation a natural extension of its network. Since the U.S. market is approximately seven times larger than the Canadian market, even a small gain in market share represents significant revenue opportunities for the Corporation. In 1997, Teleglobe has entered into agreements with BellSouth, Ameritech, SBC and U.S. West for a Home Country Direct service and signed business clients such as Time Inc., Donna Karan International Inc. and New York University for a portion of their international telecommunications needs. Teleglobe USA has also developed and launched products such as an international 10XXX service tailored to specific ethnic communities in New York City.

United Kingdom. In August 1995, Teleglobe (UK) Limited ("Teleglobe UK") received a resale license and in December 1996 an international facilities-based license that permits it to provide international services in the United Kingdom using its own facilities. These licenses enable Teleglobe UK to address all three market segments. Teleglobe UK has built a switching center in London which may serve as a hub for European destinations in the future. Teleglobe UK has also established access to the CANTAT 3 cable from London and established an interconnection agreement with British Telecom. In 1997, Teleglobe UK was awarded a contract to provide high-speed access to the global Internet for SuperJANET, the academic network of the United Kingdom's Education and Research Networking Associations. Teleglobe UK also offers to U.K. consumers a special access code service similar to the 10XXX service.

Germany. In 1996 and 1997, Teleglobe GmbH received licenses to own and operate transmission facilities and, effective January 1, 1998, to provide public switched telephone services (international direct distance dialing or "IDDD" services). It also received one of a limited number of access codes for use in offering such services. Teleglobe GmbH has installed a switch in Frankfurt. It has also obtained access to the CANTAT 3 cable landing in Sylt through arrangements with Deutsche Telekom.

France. Teleglobe France S.A.S. ("Teleglobe France") operates pursuant to liberalizing legislation which allows it to provide deregulated services and has pending an application to provide end user voice telephony services. Teleglobe France signed, in the course of 1997, agreements with Société française de radio-téléphonie, a French GSM mobile operator, Omnicom, an emerging carrier in the business telecommunications market, and Lyonnaise Cable, a French cable Internet provider. Teleglobe France also filed an application to obtain a license to provide switched voice services, which were deregulated on January 1, 1998.

Hong Kong. Teleglobe Hong-Kong Limited holds a public non-exclusive telecommunications service license for the provision of virtual private network service in Hong Kong.

Japan. The Corporation has established a subsidiary, Teleglobe Services Japan (TSJ), which was granted a Special Type 2 license on March 3, 1998 to provide international voice telephony, Internet, and other services over leased lines. TSJ is in the process of establishing a network center in Japan which it expects to be operational in the second half of 1998. The Corporation also intends to procure a Type 1 license which will permit it to use owned submarine cable capacity to provide services originating and terminating in Japan.

Denmark. Teleglobe Danmark S.A. is authorized to provide voice and Internet services in Denmark subject to a highly liberal telecommunications statute. Teleglobe Danmark and TeleDenmark SA, the incumbent national operator, are presently in mediation before the National Regulatory Authority ("NRA") to establish a leased line rate to link facilities located in Copenhagen with the CANTAT 3 landing at Blaabjerg.

Netherlands. The Corporation through a subsidiary, Teleglobe B.V. (Netherlands), has registered as an Article 23 service provider in the Netherlands, which authorizes it to operate as a facilities-based international carrier for voice, Internet, and other traffic.

Spain. The Corporation through a subsidiary, Teleglobe International Communications S.A., has obtained authorizations to provide Internet and certain other corporate communications services and has pending an application to provide closed user group services. The Corporation is also seeking authority to provide these services using its own submarine cable capacity.

Italy. Teleglobe Italia SpA has obtained authorizations to provide closed user group, Internet and certain other corporate communications services and has pending an application to provide voice telephony services. It also has an office in Milan and is establishing a network operations center.

Marketing and Product Management

The Corporation structures its marketing efforts in the following six regions: Canada, the United States, Latin America and the Caribbean, Europe, Asia-Pacific and ROW (rest of the world). The Corporation's global marketing and product management strategy is to develop and offer a wide range of products targeting three main market segments (carriers, businesses and consumers) in each region. The Corporation markets its products and services through a sales force of more than 135 persons located in more than 25 countries, as well as through agents and resellers.

Carrier Market. Teleglobe's marketing strategy addresses the specific needs of carriers with targeted products. The Corporation has historical bilateral relationships with most PTTs around the world and has been expanding these preferential relationships beyond the traditional exchange of telephone traffic by offering increased network connectivity and service options such as digital transit services, Globesystem Atlantic and GlobeInternet services, among others. To enable other established carriers, such as RBOCs and Canadian carriers, to provide international telecommunications services, the Corporation is marketing its global connectivity combined with platform services such as Home Country Direct, IDDD and operator handled services.

Teleglobe is also addressing the needs of emerging carriers in markets worldwide as they deregulate. Today, Teleglobe provides global connectivity services to more than 300 global carriers, supporting their basic transmission needs as well as providing value-added platform-based services such as collect calling, in-language operator-handled services, calling cards and toll-free services.

Business Market. Teleglobe markets direct access to international telecommunications services to large multinational businesses and institutions in competitive markets, such as the United States, Canada and the United Kingdom. Teleglobe targets primarily multinational corporations with significant requirements for international telecommunications services. The Corporation offers these businesses and institutions competitively-priced high quality voice and data telecommunications services. The Corporation also intends to market to businesses and institutions in other markets where it has the appropriate licenses.

Consumer Market. The Corporation has developed and is selectively marketing various products to ethnic consumer groups and residential and small business customers in competitive markets, such as the United States and Canada. Teleglobe is targeting ethnic consumer groups in particular because they generally have heavy international calling patterns, are receptive to dial around products and can be reached through focused marketing. For example, the Corporation initiated an international dial-around product tailored to specific ethnic groups in the New York metropolitan area. This campaign, which was initiated in May 1997, has successfully created over 2.5 million minutes of traffic as of December 31, 1997. These products are marketed through agents, resellers, direct marketers and telemarketers. In September 1997, the Corporation expanded its consumer marketing efforts to additional locations and groups and added a prepaid calling card program.

Products. Teleglobe's product portfolio has grown from basic voice and data transmission services offered to Canadian carriers and limited transit services offered to correspondent carriers to more than 30 various products currently offered to carriers, businesses and consumers. Data and Internet-related products have been among the fastest growing of Teleglobe's product offerings.

The following is a summary of the Corporation's current products and their target markets:

Product (Teleglobe brand name)	Target Market Consumer	Business	Carrier
ATM Services (*GlobeATM*™)		X	X
Broadcast Services		X	X
Carrier Lease			X
Collect Calling	X		X
Digital Transit Service			X
Frame Relay (*Globeframe*™)		X	X
Global Passage℠ (VHCD)			X
GlobeDirect℠ (UK)		X	
GlobeIndirect℠ (UK)		X	
GlobeLine (EDAL : Expanded Direct Access Line)		X	
GlobePCS™ (Wireless Service)			X
Home Country Direct (*Canada Direct, Home Direct*)	X	X	X
Information Services	X	X	X
INMARSAT Services			X
Int'l Direct Distance Dialing		X	
Int'l Private Line (*Globestream*™, *Globesat*™)		X	X
Int'l Toll-Free Service (*Globeaccess800*™, *Globe800*™)		X	X
Internet Backbone and Access (*Globeinternet*™)		X	X
ISDN Services (*Globeaccess$_{64}$*™)		X	X
Packet Switching (*Globedat*™)		X	X
Paid 800			X
Prepaid Card	X	X	X
Switched Transit			X
Switched Transit ISDN			X
TeleBridge	X	X	X
Telex/Telegraph		X	X
10XXX (*10609*)	X	X	
Transatlantic Cable Service (*Globesystem Atlantic*™)			X
Universal Int'l Freephone Number (*Globe 800 Universal*™)		X	X
Virtual Private Network (*Globeaccess$_{VPN}$*™)		X	X

ATM Services. ATM services, which are sold under the GlobeATM brand, provide virtual private line services to carriers and Internet Service Providers connected to Teleglobe's ATM switches in North America and Europe. ATM permits voice. data, video and multimedia signals to be transmitted simultaneously between network access points.

Broadcast Services. The Corporation provides a wide range of international video transmission services. Teleglobe's INTELSAT signatory status and global network of satellite earth stations and transoceanic cables enables the Corporation to transmit full-time broadcast channels and occasional use news and sporting events around the world. Digital video services are offered both via satellite and over fiber optic cables with new television switching centers in New York, London and Los Angeles for customer interconnects. Teleglobe offers access to a wide range of satellites including INTELSAT, Orion, PanAmSat, INTERSPUTNIK and Telcom 2A.

Carrier Lease. Carrier lease service is the leasing of the Corporation's facilities to PTTs or facilities-based carriers for the purpose of carrying public telephony and business services between two terminal countries.

Collect Calling. Inbound collect service is an easy method for international customers to call collect to the United States. Targeted at carriers around the world, this service allows an overseas caller to use an international toll free number to reach an operator in the U.S., and place a collect call to a U.S. telephone number. Charges will be billed to the called party in the United States at a competitive rate.

Digital Transit Service. Digital transit service is a cost-effective transit service whereby a carrier sends a portion of its international traffic to a final destination via Teleglobe's network.

Frame Relay. Globeframe™ is Teleglobe's frame relay offering. This advanced bandwidth-on-demand service provides high speed, reliable connectivity around the world. It transports WAN-WAN communications at speeds ranging from 4kbps to 2.048 Mbps. Globeframe™ provides a statistical multiplexing capability for cost-efficient bandwidth sharing.

Global Passage℠. Global Passage is an access product designed to allow carriers worldwide to enter the international travel telecommunications market. Global Passage is aimed at all carriers, from established PTTs to new emerging providers, who are unable to offer their traveling customers the ability to use telecommunications services utilizing Home Country Direct/International Toll Free Service based access methods. This service enables the carrier customer to have their own branding and scripts while using Teleglobe's turn key solutions which provide the product, billing and live operator assistance.

GlobeDirect℠. GlobeDirect℠ is Teleglobe's main basic product which offers direct international outbound calling ('Dial - 001') from a United Kingdom (primarily London) - based corporate office to the Rest of the World (ROW). On behalf of the customer, Teleglobe will establish a local loop from the customer's premise demarcation point (Demarc) to Teleglobe International (U.K.) Limited London switch at Telehouse. Local loops will be provided by a U.K. local loop provider. GlobeDirect℠ features include: four - digit accounting codes, one-second rounding per call, competitive pricing for all time periods, free local loop connection from the customer's Demarc to Teleglobe switch and monthly Call Detail Records (CDRs) delivered via paper or diskette.

GlobeIndirect℠. GlobeIndirect℠ is a service which allows business customers, who do not have a direct connection to Teleglobe's facilities, to access Teleglobe's network by dialing an access code, and in some cases, an authorization code, to place national and international calls. GlobeIndirect℠ features include: 1 second billing; 3 digit accounting codes; paper, magnetic tape, disc, or CD ROM billing; monthly volume/call commitments (to reimburse autodialer cost).

GlobeLine℠. GlobeLine℠ provides access to Teleglobe's world-reaching voice and GlobeInternet℠ services for international businesses, agents, resellers, or carriers in countries where Teleglobe does not have a switch facility. More specifically, GlobeLine℠ service combines an international private line (IPL) with Teleglobe's outbound International Direct Distance Dialing (IDDD), inbound international Toll Free Service (ITFS), and GlobeInternet℠ services.

GlobePCS™. Developed for the wireless market, GlobePCS℠ is an international roaming signaling conversion service which allows GSM (Global System for Mobile communications) network operators to offer roaming to and from North America. This service has opened the door to more than 75 wireless network operators worldwide to whom Teleglobe now plans to propose other innovative services.

Home Country Direct. Home Country Direct is a toll-free service marketed to a carrier's customers traveling overseas which allows access to a U.S. based enhanced services platform or operator center for the purpose of placing calls to the traveler's home country using a proprietary toll-free number assigned to Teleglobe. However, Teleglobe is using its own Home Country Direct numbers for access to the Corporation's wholesale and retail card services, and in some cases for inbound collect service. In Canada, *Canada Direct* and *Home Direct* telephone services provide direct access to Canadian or foreign telephone operators, as the case may be, for people traveling outside of their home countries who wish to place collect and credit card calls.

Information Services. Teleglobe makes its network available to information providers who offer live and interactive voice and data information services that allow users to access voice mail, data banks or live operators for entertainment and informational type services via the PSTN.

INMARSAT Services. Teleglobe is a wholesaler of overseas telecommunications services, offering mobile communications on land and at sea. Teleglobe can terminate calls to locations in the most remote parts of the world, as well as ships at sea, via the Corporation's INMARSAT routes.

International Direct Distance Dialing. IDDD is a basic service that allows corporate customers to place direct international outbound calls to approximately 240 countries and territories around the world.

International Private Line. IPL service allows corporate customers with overseas offices to connect their telecommunications networks through a dedicated, digital point-to-point circuit. Users can integrate a number of applications on this single high-speed link, including voice, data, facsimile, messaging and video conferencing. IPL consists of Globestream (cable), Globesat (satellite) and the soon to be introduced Globe IML, which will provide customers with the convenience of a fully managed end-to-end service.

International Toll-Free Service. ITFS is used to enable carriers and resellers to add ITFS to their own product portfolio by branding Teleglobe's ITFS as their own. This allows their customers to receive incoming toll-free calls from selected international locations. In Canada, the Corporation markets this service under two brand names: *Globeaccess800*™ and *Globe800*™. Carriers may also use ITFS to provide card-based services.

Internet Backbone and Access. The GlobeInternet service is uniquely designed to provide Internet service providers and carriers with cost-effective and high performance dedicated access connections to the Internet at multiple speeds (64 Kbps to 45 Mbps) via either international satellite or cable facilities. Teleglobe's status as INTELSAT signatory for Canada allows it to provide extensive coverage, high performance and competitive pricing. This service provides direct access to North American Internet networks and transit to international networks.

Integrated Services Digital Network (ISDN). ISDN service allows domestic carriers and resellers to interconnect with Teleglobe in order to offer end-to-end digital circuits. This service features many advantages such as increased transmission speed, access to multimedia applications and integration of voice, data and image transmission. ISDN services are also marketed to businesses.

Packet Switching. Globedat is a packet switched data service that allows two-way data transmission between Canada and more than 120 overseas destinations. *Globedat* supports many different applications such as documentation searches, software development, data collection, electronic mail and file transfer.

Paid 800. Paid 800 is an inbound carrier service that enables an overseas caller to access a Canadian or U.S. toll-free number for traditional toll-free services, such as customer service inquiries or placing orders. While the caller is not charged for the Canadian or U.S. portion of the 800 call, the caller must pay the foreign carrier the price for making a regular international call. The correspondent carrier then makes a settlement payment to the Corporation.

Prepaid Card. Teleglobe issues a proprietary calling card purchased by consumers. The card is then used by the consumer to place and pay for long distance telephone calls. The cost of these calls are subtracted from the balance of dollars or minutes that are associated with the caller's card number.

Switched Transit. Switched transit is the routing of traffic that does not originate or terminate in Canada via the Corporation's facilities. This is often used for overflow traffic and traffic between two countries with no direct facilities.

Switched Transit ISDN. Switched ISDN Transit service is provided through the Teleglobe network. Switched ISDN Transit is provided to and from any carrier with which Teleglobe has a bilateral interconnection. With ISDN, carriers can recognize: a high-speed method of connecting computers or networks together; a purely digital means of communication that uses the existing telephone network; a way of combining voice, data, video and more over the same communication lines; an opportunity for carriers to leverage their existing investments in digital technologies and make money from their telephone lines; a faster replacement for data communications commonly served by normal telephone lines and modems now.

TeleBridge. TeleBridge service allows callers to dial a toll-free access number to complete a call to an international or domestic U.S. number through Teleglobe without having to change their presubscribed long distance provider. The callers pay for their originating calls on their LEC invoice, thus eliminating the need for separate billing by Teleglobe. This service is targeted primarily at high volume international consumers.

Telex / Telegraph. Telex and telegraph are low-speed corporate messaging services that permit the transmission of telex and telegrams between Canada and approximately 240 overseas countries and territories. These services are useful to reach countries with unreliable telephone networks.

10XXX. Known as "10609", this is a U.S. residential service, by which U.S. customers can "dial around" their presubscribed international carrier to take advantage of the Corporation's lower international rates. Calls are billed to the caller's monthly local phone bill under the Teleglobe brand.

Transatlantic Cable Service. Globesystem Atlantic links North America and Europe through two fiber-optic undersea cables, CANTAT 3 and CANUS 1, enabling voice, image and data to cross the North Atlantic at speeds up to 155 Mbp/s.

Universal International Freephone Number. Teleglobe is in the process of commercializing Global 800 and Universal 800, which are options of the existing International Toll-Free Service that allow a customer to have one toll-free number which may be accessible from multiple countries.

Virtual Private Network. Globeaccess$_{VPN}$™ is a software-defined switched network that provides the features and functionality of a private network without the cost, expertise and manpower requirements normally associated with a private international network managed by an individual customer.

The Teleglobe Network

Teleglobe has built over the past 40 years an extensive global telecommunications network and maintains sophisticated information systems which allow network optimization, least cost routing techniques and centralized processing functions. The Corporation's network combines multiple international submarine cable and earth stations linked to satellites systems using a comprehensive range of modern technologies to link approximately 240 countries and territories. The network is supported by extensive monitoring and technical systems principally located at the international network operating center in Montreal, Canada. Telecommunications systems between Europe and Asia are generally underdeveloped and the availability of modern fiber optic land lines is limited, which could give North American carriers a particular geographical advantage in serving global markets. The Corporation believes that its investment in its basic backbone network is substantially complete. The Corporation also believes that its network capital expenditures in the next several years will be primarily directed towards the strategic augmentation of its network, such as building new switches and adding capacity for fast growing routes. See "Description of the Business — Capital Expenditures."

Because Teleglobe owns its network, it is generally not dependent on other carriers to handle overflow traffic. The capacity of Teleglobe's existing network should enable the Corporation to accommodate growth in its business and make it less vulnerable to short-term fluctuations in pricing. In addition, as a member of INTELSAT and INMARSAT, Teleglobe has access to wholesale pricing for traffic carried in those systems..Further, because Teleglobe's global network is fully developed, its future capital and financing requirements are expected to be proportionately less than those of most emerging carriers.

Switching Facilities. The Corporation's switching facilities include international switching centers (or "gateways") in Montreal, Scarborough (Ontario), Burnaby (British Columbia) and New York City, where outgoing traffic is routed through Teleglobe's cable or satellite earth stations and incoming traffic is collected from such cable and satellite facilities. These switching centers use Northern Telecom DMS-300, DMS 250-300 and DMS-100 telephone switches and other equipment necessary for handling international traffic. Some of the Corporation's switching centers use additional switching systems and facilities, such as enhanced services platforms, telex, message and packet switching. All of these switches are digital and can handle a number of related functions, including maintenance and automatic service restoration. The software in Teleglobe's switches provides continuous and detailed feedback about incoming and outgoing traffic to the Corporation's proprietary network management software and to its billing system. The reporting software provides detailed real-time vendor and customer usage reports, which allows the Corporation to seek the most cost-effective routing of calls and to target customers who might absorb increased levels of traffic. The facilities have multiple redundancies to decrease the risk of a network failure.

Teleglobe also has or is installing switches in London, Frankfurt and Paris primarily to provide access to additional sources of high international traffic volumes. These sites use Northern Telecom DMS-100 or MMCS telephone switches and other equipment necessary for handling international traffic. The Corporation plans to add switches in other sites around the world or to convert certain of these sites into international gateways. Such plans include adding switches in Los Angeles, Miami, Madrid, Tokyo and certain other cities during 1998.

The Corporation has routers in New York City, Los Angeles, Montreal, Scarborough (Ontario), Pennant Point (Nova Scotia), Lake Cowichan (British Columbia), Vancouver, Frankfurt, Paris and London, and ATM switches in New York City, Montreal, Pennant Point (Nova Scotia), London and other equipment necessary for handling Internet and broadband services. The Corporation plans to deploy additional routers and ATM switches in its international network.

Links between the Corporation's switching centers and its cable and satellite stations are provided through fully digital transmission facilities primarily leased, within a given continent, from domestic carriers.

Cable Facilities. The Corporation's cable facilities include cable stations and ownership interests and Indefeasible Right of Use ("IRUs") in undersea cables. The Corporation's cable stations at Pennant Point (Nova Scotia) and Port Alberni (British Columbia) serve as landing points for transatlantic and transpacific cable systems respectively. The Corporation uses the Pennant Point facility as the landing site for the TAT-9, CANTAT 3 and CANUS 1 cable systems, and the Port Alberni facility for the TPC-4 cable system. The Corporation has ownership rights or IRUs in about 100 cable systems and cable segments, for a total of about 51,000 cable and satellite circuits in service as of December 31, 1997.

The Corporation has a significant interest in the GlobeSystem Atlantic™ cable system which comprises the CANTAT 3 and CANUS 1 cables and provides the first highspeed superhighway between North America and Europe based on the Synchronous Digital Hierarchy ("SDA") fiber optic technology. Thirty-eight international telecommunications carriers had entered into the construction and maintenance agreement for the CANTAT 3 cable system. As of December 31, 1997, the carrying value of its ownership interest in the system was $224.8 million. The CANUS 1 cable system is a private fiber-optic undersea cable between Canada and the United States designed and constructed by a joint venture involving the Corporation, TCI and Optel. As of December 31, 1997, the carrying value of the Corporation's ownership interests in the system was $20.1 million. Additionally, the Corporation holds a 20% interest in Optel, which owns capacity in the CANUS 1 cable system having a carry value of U.S. $4.5 million as at December 31, 1997. See "Recent Developments".

The Corporation has ownership interests in two fiber-optic cable systems with branches landing in Canada, a 6.7% interest in the TAT-9 transatlantic system and a 9.2% interest in the TPC-4 transpacific system. The Corporation also has ownership interests in other cable systems in the Atlantic, Indian and Pacific Oceans and the Caribbean, Mediterranean and North Seas. The Corporation also signed as an Initial Party in December 1997 a Construction and Maintenance Agreement and a Supply Agreement to build the China - U.S. cable system, the first direct fiber optic cable link between the U.S. and China, with an initial capacity of 80Gbps, to be completed by December 1999. The Corporation will invest approximately U.S.$78 million in this cable system.

Satellite Facilities. The Corporation's satellite facilities include satellite earth stations as well as the Corporation's participation in INTELSAT and INMARSAT. The Corporation currently operates satellite earth station in Canada at Lake Cowichan (British Columbia), Weir (Quebec) and Pennant Point (Nova Scotia). These stations transmit and receive messages via INTELSAT, INMARSAT, INTERSPUTNIK, PanAmSat and Orion satellites over the Pacific and Atlantic oceans and also provide back-to-back connectivity to North American domestic satellites.

As a signatory to the INTELSAT and INMARSAT, TCI has the right to use the satellite facilities and the obligation to pay appropriate utilization charges according to the satellite organizations' tariffs. The INTELSAT and INMARSAT facilities are allocated to TCI according to its requirements. As a signatory, TCI contributes to each organizations' capital expenditures and is entitled to a share of the revenues, based upon its proportionate investment shares in each organization. The investment share, or proportionate interest, of each signatory is established on the basis of the expected utilization by the signatory. As utilization increases or decreases, the investment share is adjusted upwards or downwards in proportion. TCI's interest in each of INTELSAT and INMARSAT is approximately 2% and allows TCI to hold a seat on the Board of Governors of each organization. At this time, TCI is the only North American based international carrier to have access to INTELSAT and INMARSAT wholesale prices and the sole Canadian signatory to such organization.

Information Technology. The Corporation has built an information technology infrastructure to support its national and international operations. The Corporation's systems allow its various operating units to carry a high volume of traffic and to bill customers. The Corporation maintains a staff of programming and management information personnel, as well as contract programmers dedicated to the maintenance, operation and continued development of the Corporation's management information system.

The Corporation implemented an information technology program in early 1997 to evolve its present infrastructure and to enhance it to better support global operations, fast growing volumes of traffic and the introduction of many new services. Previously, Teleglobe relied heavily on outsourcing for its management information systems. All information technology activities in Teleglobe have been centralized in one single information technology department headed by a Chief Information Officer.

In 1997, the Corporation established a working committee to address all aspects of the Year 2000 computer problem. Committee members represent the following four sectors: information system conduct, telecommunications, computer operations/office systems, and building systems. The Committee reports to the audit committee of the Board of Directors of the Corporation. The Committee has drawn up and implemented a strategy aimed at using the year 2000 bug as a catalyst to reposition and rapidly enhance its present Information Technology infrastructure. Most of the applications will be migrated to a new environment tailored to support the Corporation's rapid global expansion. The Corporation expects this migration and conversion to be completed by year-end 1998. The impact of the year 2000 on computer systems will be felt largely by equipment vendors with whom the Corporation deals. The Corporation ensures on an on-going basis that its suppliers have taken appropriate action so that the transition will not have any significant impact on its business activities, internal operations or financial situation. Suppliers are assuming all costs associated with the required modifications to their hardware and operating systems.

Carrier Relations and Distribution Arrangements

Carrier relations are an essential aspect of Teleglobe's business. In order to provide end-to-end international telecommunications services, the Corporation typically connects with correspondent carriers by satellite or undersea cable circuits and enters into interconnection agreements with domestic service providers and correspondent carriers.

Traditionally, the arrangements for the delivery of traffic were made with domestic service providers and correspondent carriers on a bilateral basis. Bilateral agreements with correspondent carriers are generally based on international practices reflected in ITU recommandations. The regulatory framework in each country determines which service providers may provide local, long distance and international telecommunications services. In addition to the traditional bilateral arrangements, various other forms of traffic delivery have evolved, including traditional transit arrangements, non-traditional resale and transit arrangements (notably ISH) and alternative termination arrangements such as International Simple Resale ("ISR"), ownership of switching facilities in foreign countries and voice over data networks. The regulatory framework in some of the countries in which the Corporation carries on business, however, may prohibit the use of such arrangements.

Interconnection Agreements. Teleglobe has interconnection arrangements with domestic carriers and some resellers with large volumes for the routing of their overseas switched telephone traffic in several countries. the most important of which is Canada which is still providing approximately 50% of the Corporation total outbound traffic. More specifically, Teleglobe has interconnection agreements with major carriers in Europe, South America and Asia Pacific region including United Kingdom, Italy, Argentina, Australia and New Zealand and is in the process of finalizing several additional agreements with other major international carriers.

In Canada, the interconnection agreements also provide for the delivery in Canada of incoming international telephone traffic. These Canadian interconnection arrangements essentially provide for gateway access rates set by TCI based on a tariff approved by the CRTC. This tariff, known as the *Globeaccess$_{TEL}$* Service Tariff, is offered to all carriers and resellers with an annual overseas traffic volume of two million minutes or more, and applies to traffic delivered by carriers or resellers to TCI's switching centers for delivery to foreign destinations. In some cases, the carrier or reseller agrees to supply TCI with outgoing traffic and TCI in turn contractually agrees to provide an allocation of incoming traffic proportionate to the outgoing traffic volume supplied by the carrier or reseller to TCI.

As part of these arrangements, TCI signed interconnection and operating agreements with Stentor, AT&T Canada Long Distance Services Company ("AT&T Canada"), *f*onorola Inc. ("*f*onorola"), Sprint Canada Inc. ("Sprint") and ACC Long Distance Ltd. ("ACC").

TCI and its largest customer, Stentor entered into an interconnection agreement effective December 1, 1993, which specified the arrangements governing the interconnection of their respective networks for the supply and development of international services. In July 1997, in connection with the WTO Agreement and the Canadian government's decision to terminate the mandate of TCI on October 1, 1998, which materially changed the duration of the agreement the Corporation notified Stentor that it considered the agreement to be no longer appropriate nor legally binding. On February 5, 1998, Teleglobe Canada and the shareholders of Stentor reached agreement on the principal terms of new arrangements for the continuing supply of services between TCI and the Stentor shareholders. See "Recent Developments".

The interconnection agreements with AT&T Canada, Sprint, *f*onorola and ACC contains provisions dealing with proportionate return traffic. Each service provider has the obligation to route its outgoing overseas traffic over the Corporation's network. The Corporation has separate interconnection agreements with AT&T Canada covering the telex and telegraph services. The AT&T Canada agreement will be in force until September 30, 1998, the Sprint agreement will be in force until terminated by either party upon a three-month written notice to the other party, the agreement with *f*onorola will be in force until November 30, 1998 and the agreement with ACC until January 9, 1999. The interconnection agreements with AT&T Canada, Sprint, *f*onorola and ACC are renewable in accordance with the terms and conditions specified therein.

Stentor, AT&T Canada, Sprint, *f*onorola, ACC and Canadian International Telecom Corporation ("CITC") have also subscribed to the *Globeaccess$_{TEL}$* service. AT&T Canada and Sprint have committed to 15 million minutes of traffic annually, *f*onorola to five million minutes, CICT and ACC to two million minutes. North American Gateway Inc. is a reseller who subscribed to the *Globeaccess$_{TEL}$* service and who has committed to two million minutes annually for a period of two years.

Bilateral Agreements. Bilateral operating agreements between carriers typically provide for the exchange of international long distance traffic between international long distance providers in two countries, with each carrier agreeing to terminate traffic in its country and to provide return traffic. Bilateral operating agreements are negotiated with each correspondent carrier to establish the range of services to be provided, the per-minute accounting rates to be paid by each of the carriers for each service and other technical and routing matters. The accounting rates in each bilateral operating agreement, which may not reflect the cost of providing services, are periodically renegotiated during the term of the agreement.

To settle the fees payable under a bilateral agreement, Teleglobe either makes a payment to the correspondent carrier or receives a payment from the correspondent carrier based on the net volume of inbound and outbound traffic. For other services, such as international leased services, similar revenue arrangements typically do not exist because each carrier generally charges its own rates directly to its customer for the portion of the network that it provides, although one carrier could, under a one-stop shopping arrangement, agree to be responsible for the billing and collection of the rates on behalf of all the involved carriers.

Teleglobe operating companies currently have over 180 direct operating agreements with correspondent carriers in approximately 140 countries. The operating agreements typically provide for an initial term, which in practice is frequently renewed or extended, and may be terminated by either party usually on notice ranging from three to twelve months.

In order to collect and distribute traffic in countries where it has a facilities-based license, the Corporation enters into switched interconnection agreements with the domestic service providers for each service. Other agreements with these service providers cover services such as private networks and data services, as well as backbone to cable landing points.

Traditional Transit Arrangements. In addition to utilizing an operating agreement to terminate traffic delivered from one country directly to another, an international long distance provider may enter into transit arrangements pursuant to which a long distance provider in an intermediate country carries the traffic to a third country destination. The provision of transit services requires agreements among carriers in all the countries involved and is generally used for overflow traffic or where a direct circuit is unavailable or not cost justified.

Non-Traditional Resale and Transit Arrangements. Resale arrangements typically involve the wholesale purchase and sale of transmission and termination services between two long distance providers on a variable, per minute basis. The resale of capacity enabled the emergence of new international long distance providers that rely at least in part on capacity acquired on a wholesale basis from other long distance providers. International long distance calls may be routed through a facilities-based carrier with excess capacity, or through multiple long distance resellers between the originating long distance provider and the facilities-based carrier that ultimately terminates the traffic. Resale arrangements establish per-minute prices for different routes, which may be guaranteed for a set time period or subject to fluctuation following notice. The resale market for international capacity is constantly changing, as new long distance resellers emerge and existing providers respond to fluctuating costs and competitive pressures. In order to manage costs effectively when utilizing resale arrangements, long distance providers need timely access to changing market data and must quickly react to changes in costs through pricing adjustments or routing decisions.

Non-traditional transit arrangements include refiling of traffic also known as ISH. This arrangement takes advantage of disparities in settlement rates between different countries. The FCC has progressively moved toward a policy in favor of non-traditional international traffic routing, including ISH via ISR routes. In November 1997, the FCC codified its ISH policy permitting third country routing between the United States and destinations where ISR is prohibited provided such traffic is routed through an ISR route, such as US-Canada. ISH is permitted either inbound to or outbound from the US.

Alternative Termination Arrangements. Long distance providers have developed alternative termination arrangements in an effort to decrease their costs of terminating international traffic in response to deregulation. Some of the more significant arrangements include ISR, ownership of switching facilities in foreign countries and voice over data networks.

With ISR, a long distance provider avoids the international settlement system by connecting an international leased private line to the PSTN of a foreign country or directly to the premises of a domestic carrier in the overseas destination. ISR is sanctioned on a growing number of routes, including most of the United States, Canada, the European Union, Japan, South Korea, Australia and New Zealand. The Corporation expects the number of ISR destinations to increase in the coming years.

Deregulation and ISR has also made it possible for global telecommunications service providers such as the Corporation to establish their own switching facilities in certain foreign countries, enabling them to directly terminate traffic and to use these switches to aggregate and to hub traffic to other destinations around the world. thereby permitting such service providers to potentially bypass the traditional accounting rate system.

Other methods of alternative termination such as voice over data networks are being explored. Data networks tend to have different settlement and routing arrangements than voice networks. Technologies. such as Frame Relay, Asynchronous Transfer Mode ("ATM") or the Internet, allows the sending of voice communications over data networks. Routing voice over data networks may permit bypass of the accounting rate system which can result in cost savings. In addition, some carriers may be using voice over data internally within their networks as a way of providing access to markets where data communications are liberalized but voice communications are not.

Deregulation has created a significant opportunity for carriers that can offer high quality, low cost international telecommunications services. Deregulation, privatization, the expansion of the resale market and other trends influencing the international telecommunications market are leading to lower termination costs, a proliferation of routing options and increased competition. The Corporation believes that it can aggregate a substantial amount of traffic, permitting it to offer competitive pricing for both facilities-based and resale customers. The Corporation maintains systems which enable analysis of multiple routing options, and it is investing in facilities and switches which will assist Teleglobe to locate and route traffic in the most cost-effective manner.

Other Businesses

Teleglobe World Mobility

The ORBCOMM System. The Corporation, through Teleglobe Mobile Partners ("Teleglobe Mobile"), and Orbital Sciences Corporation ("Orbital"), through Orbital Communications Corporation ("OCC"), each hold 50% of ORBCOMM Global, L.P. ("ORBCOMM"), a joint venture formed to finance and operate the ORBCOMM global satellite-based data communications system. Teleglobe Mobile is 70% indirectly owned by the Corporation with the remaining 30% interest held by TR (U.S.A.) Ltd., a wholly owned subsidiary of Technology Resources Industries Bhd., a publicly held Malaysian company. OCC and Teleglobe Mobile's total equity capital contributions to ORBCOMM are approximately $85 million and $95 million, respectively.

On April 21, 1998, ORBCOMM Corporation, a company organized for the sole purpose of investing in and acting as a general partner of ORBCOMM, filed a registration statement with the Securities and Exchange Commission for a proposed offering of its common stock. The proceeds of the offering will be used to purchase partnerships units in ORBCOMM.

ORBCOMM provides two-way monitoring, tracking and messaging services through the world's first commercial low-earth orbit satellite-based system. ORBCOMM has launched 12 satellites to date and expects to launch 16 additional data communications satellites by mid-1998, which will complete its planned 28-satellite constellation. An additional eight satellites that will create a planned 36-satellite enhanced constellation with increased capacity and improved service in equatorial regions are expected to be launched in the third quarter of 1999. Since early 1996, ORBCOMM has been providing limited commercial service in the United States through two satellites. ORBCOMM has begun to place in commercial service satellites that were launched in late 1997 and early 1998 and, as a result, ORBCOMM expects to offer commercial service on a broader basis in the near future.

ORBCOMM's current primary target markets include: (i) fixed asset monitoring services for electric utility meters, oil and gas storage tanks, wells and pipelines and environmental projects; (ii) mobile asset tracking services for commercial trucks, trailers, containers, rail cars, heavy equipment, fishing vessels, barges and government assets; and (iii) messaging services for consumers and commercial and government entities. Future target markets are expected to include: (i) tracking, messaging and security services for automobiles; (ii) monitoring applications for home security systems; and (iii) additional U.S. and foreign government applications.

ORBCOMM has entered into agreements with over 40 value-added resellers, each of which is authorized to market and distribute ORBCOMM services within specific regions and to targeted industries or markets. ORBCOMM has also established two internal value-added resellers to market and distribute monitoring and tracking services to the oil and gas and transportation industries. In addition, ORBCOMM has entered into agreements with 13 international licensees that are expected to market and distribute ORBCOMM services in over 95 countries within North and South America. Europe. Asia. the Middle East and Africa following completion of the necessary ground infrastructure and receipt of the necessary regulatory and other approvals. ORBCOMM has also entered into agreements with six subscriber unit manufacturers and has type approved ten subscriber unit models for commercial use with the ORBCOMM system.

ORBCOMM expects that the aggregate cost to design. construct. launch and place in commercial service the planned 36-satellite enhanced constellation and design and construct the associated ground infrastructure in the United States will be approximately $332 million through the third quarter of 1999. when the final eight satellites of such enhanced constellation are expected to be launched. of which approximately $242 million had been spent through December 31. 1997. excluding capitalized interest.

The necessary FCC licenses for authority to construct. launch and operate the ORBCOMM system were granted on October 20. 1994 and March 31. 1998. These licenses are subject to certain milestones.

In 1996. ORBCOMM and its wholly owned subsidiary. ORBCOMM Global Capital Corporation. had issued U.S.$170 million of senior [unsecured] notes (the "Notes") to institutional investors. The Notes are fully and unconditionally guaranteed on a joint and several basis by OCC and Teleglobe Mobile. Orbcomm USA. L.P. and Orbcomm International Partners. L.P. The guarantees and the Notes are non-recourse to the Corporation. bear interest at a fixed rate of 14% and provide for noteholder participation in future ORBCOMM revenues, payment of which may be deferred by ORBCOMM to the extent certain fixed charge ratios are not met.

In April 1994. the Corporation formed ORBCOMM Canada Inc. ("ORBCOMM Canada"). a company controlled by the Corporation. which will be responsible for the wholesale distribution of ORBCOMM services in Canada. The company provides ORBCOMM services in Canada under a spectrum license issued by Industry Canada. The license was first issued on March 19, 1997, and is renewed on an annual basis. ORBCOMM Canada has also negotiated a number of agreements with resellers for the retail distribution of ORBCOMM services in Canada.

Stratos Wireless Inc. Stratos Wireless Inc. is a reseller that provides two-way global mobile satellite communications services to ships, aircraft and landbased mobile terminals. TCI holds approximately a 29% interest in Stratos Wireless Inc. and has rights to acquire approximately an additional 45% interest. TCI has agreed to outsource most of TCI's responsibilities for the management and coordination of the remainder of the INMARSAT business to Stratos Wireless Inc. See "Recent Developments".

The Odyssey System. On December 17, 1997, TRW Inc., Teleglobe's partner in the Odyssey system project, indicated that it would return its FCC license to construct and operate the Odyssey system in the United States. thereby effectively terminating the Odyssey system project. Following such decision by TRW Inc., the Corporation came to the conclusion that TRW Inc. had breached several contractual and other obligations and on April 22. 1998. Teleglobe filed a complaint in the United States District Court for the Northern District of Ohio in Cleveland.

Teleglobe Enterprises

Teleglobe Media Enterprises. In 1996. the Corporation formed its Teleglobe Media Enterprises division ("TME") to explore opportunities in the new media sector by catering to the needs of content providers. application developers and distributors who make up the digital media industry. TME seeks to identify, develop and market, through alliances or participation with others as appropriate, new digital technologies, broadband applications and innovative solutions for the hosting and distribution of various digital contents.

In August 1997, Look TV (Ontario) Inc., a corporation Teleglobe formed with Baton Broadcasting Incorporated, C.I. Covington Fund Inc. and Novanet Communications Limited, was granted a license by the CRTC to provide broadcasting distribution services in Southern Ontario using a new digital wireless technology. In February 1998, Look Télé (Québec) Inc., another entity formed by Teleglobe with Transcontinental e.media, Société Financière Bourgie, Covington Wireless Communications (Ontario) Limited, Québec-Téléphone, 9046-7200 Québec Inc., Groupe Laurem Inc. and Microtec Enterprises Inc., was granted a similar license to service Quebec and Eastern Ontario. On April 30, 1998, Look TV (Ontario) Inc. and Look Télé (Québec) Inc. were amalgamated into a new corporation, Look Communications Inc., to operate both licenses for the Ontario and Quebec region where the operations are expected to start in the fall of 1998 and in the spring of 1999 respectively. Teleglobe owns 58% of Look Communications Inc.

TME is currently involved in a few initiatives with a number of strategic partners. In 1996, TME formed Jazz Media Network Inc. ("Jazz"), a joint venture in which each Teleglobe and Bell Canada through its division Emergis currently own 45%. Jazz has developed a suite of network enabled applications that allows different players in the media production industry to work collaboratively, at a distance, via their desktop computers. A test network is presently in operation linking Montreal, Toronto and Los Angeles.

The Teleglobe Marine Group. The Teleglobe Marine Group installs, maintains and repairs undersea cables. The Teleglobe Marine Group provides and operates five cableships and three submersible vehicles in the Atlantic and Pacific oceans pursuant to an agreement with Transoceanic Cable Ship Company, Inc. ("TCSC"), a subsidiary of Tyco International Ltd. Each of the five cableships is owned by a limited partnership formed under a separate partnership agreement with TCSC for the useful life of the ship (10 to 21 years). Services are provided pursuant to maintenance agreements entered into with the world's cable-owning community. Teleglobe Marine Group derives its revenues primarily from services provided pursuant to the Atlantic Cable Maintenance Agreement, the North American Zone Agreement and the Hawaii Zone Agreement.

The Teleglobe Marine Group's maintenance fees are shared by a large number of carriers under long-established agreements dating to the early 1970s covering portions of the Atlantic and Pacific Ocean regions. The cable owners in each of the regions have joined together to assign to maintenance authorities the maintenance and repair of their cable systems. These agreements are renewed periodically or continue in effect unless terminated by prior notice.

The following table identifies the vessels (cableships and submersible vehicles) in which the Teleglobe Marine Group had an interest as at December 31, 1997.

Vessel	Teleglobe Marine Group % Share	Co-owner or Partner
C.S. Global Sentinel	45	TCSC
C.S. Charles L. Brown	25	TCSC
C.S. Global Mariner	45	TCSC
C.S. Global Link	25	TCSC
C.S. Long Lines	25	TCSC
Scarab III	20	Various
Scarab IV	20	Various
Pacific Scarab I	30	TCSC

Competition

General. The international telecommunications industry is highly competitive and subject to the introduction of new services facilitated by rapid technological change. International telecommunications providers compete on the basis of price, customer service, transmission quality, breadth of service offerings and value-added services. As the Corporation's network expands to serve a broader range of customers, the Corporation expects to encounter increasing competition from a variety of major local and international communications companies. Many of the Corporation's competitors, such as AT&T, British Telecom and Sprint, and potential competitors upon deregulation or expansion, have significantly greater financial, technological and other resources than the Corporation. However, such competitors are sometimes each other's customers for certain specific routes and for certain categories of products. Moreover, the Corporation may face additional competition from existing and future global alliances and mergers among the largest telecommunications carriers. The Corporation also faces competition from companies offering resold international telecommunications services. The Corporation expects that competition from such resellers will increase in the future in tandem with increasing deregulation of telecommunications markets worldwide. The RBOCs may enter into the international telecommunications market. Management believes that the RBOCs' expansion into the international telecommunications market will create significant new opportunities for the Corporation as well as the potential for competition.

In February 1997, 69 countries, representing over 90% of global telecommunications services revenues, signed the multilateral agreement on trade in basic telecommunication services made under the auspices of the World Trade Organization (WTO Agreement), which took effect on February 5, 1998. The WTO Agreement seeks to open markets to competition in telecommunications services, improve foreign investment opportunities in the telecommunications industry and to adopt pro-competitive regulatory principles. While the WTO Agreement will open the Canadian market to competition as of October 1, 1998, the Corporation believes that it will provide Teleglobe with lower access costs and an expanded market potential, especially in new markets. The WTO Agreement may also increase competition for the Corporation in these markets.

Routing Practices. The transit market is highly competitive, in terms of price and quality of service, for both switched and hardpatched services. The majority of traffic between Asia and Europe transits through the U.S. telecommunications carriers, the Corporation's major competitors for the provision of transit services. Most U.S. competitors have their own transcontinental networks while the Corporation must obtain transcontinental facilities from domestic carriers. Despite this fact, the Corporation believes that it maintains competitive prices compared with those charged by U.S. carriers.

Competition in the Canadian market is rapidly evolving with added pressure on the traditional routing arrangements for traffic between Canada and overseas destinations. The expansion of international resale has created considerable competitive pressures on Teleglobe's markets as it provides alternative means for exchanging overseas traffic with Canada outside the traditional bilateral international accounting rate settlement regime. The highly interconnected nature of the North American telecommunications networks creates the opportunity for Canada-overseas traffic to bypass the Corporation's network, primarily through the United States, to foreign destinations. Traffic may be routed over private lines which are leased by large end-users or resellers and interconnected with the facilities of U.S. or foreign carriers for onward routing to overseas destinations. The cost of delivering traffic in this manner, commonly referred to as switched hubbing, is much lower than the average costs of routing traffic on the switched network of established international facilities-based carriers.

In December 1997, the Commission removed the restrictions to use the Corporation's IPLs for the purpose of ISH for all Canadian service providers. However, ISH via the United States remains prohibited as Canada-U.S. restrictions contained in the tariffs of domestic carriers are still in force. All parties in Public Notice CRTC 97-34, including Teleglobe, advocated for complete removal of routing restrictions, effective no later than October 1, 1998. Such added flexibility will increase competitive pressure on the Corporation while, at the same time, offering opportunities for lower terminating costs in destination countries. See "Regulation - Licensing Regime".

There also exists the potential for foreign carriers to bypass Teleglobe Canada's direct traditional routing and settlement arrangements for inward traffic by diverting this traffic through intermediate countries such as the

United States. Lower accounting rates between certain countries, including in particular those between the United States and countries other than Canada, could enhance the attractiveness of routing traffic bound for Canada through the United States or those other intermediate countries.

Technological Change. The telecommunications industry is marked by the introduction of new product and service offerings and rapid technological evolution. In addition, increasingly liberal regulatory environments may allow further competition for international telecommunications services. Technological changes, tied with competitive forces, may affect all aspects of telecommunications, including network selection and access. High-capacity fiber-optic cables, mobile telecommunications, compression technologies, LEO and MEO satellites will allow greater flexibility for consumers in their selection of a telecommunications provider, without committing them to a particular network. As high-capacity fiber-optic network technology is developed, international carriers may promote new cable systems, which will compete with the CANTAT 3 and CANUS 1 cable systems. Other planned systems could complement the new transatlantic cable systems by extending their reach. For instance, the FLAG system, which is expected to be the longest undersea cable system of this type (30,000 km), will link Europe with Asia via the Mediterranean, the Red Sea and the Indian Ocean.

Satellite Services. With respect to satellite transmission capacity, INTELSAT is facing competition from other satellite systems and undersea cables. Private cables that are not owned by the traditional international service providers nor by INTELSAT signatories may provide effective competition to INTELSAT service for markets including the Canada-overseas market served by TCI. Liberalized regulation of domestic and international telecommunications markets is also resulting in the emergence of competitors to INTELSAT for the provision of international service in the form of alternative satellite systems and services as well as satellite resale operations. In many countries, including the United States, separate satellite systems, such as PanAmSat, are allowed to provide service to the end-user directly by bypassing the traditional service providers. To meet these competitive threats, INTELSAT member-countries have set up a task force to study the possible establishment of a subsidiary or an affiliate.

INMARSAT is also facing potential competition from a number of domestic and international mobile satellite projects and competition will become more intense with the introduction of new systems, such as Iridium and Globalstar. A task force established by the INMARSAT member-countries for the restructuring of the INMARSAT organization is expected to submit its report in 1998.

Both organizations have announced plans for this privatization in 1999 and 2000.

Capital Expenditures

Given the capital-intensive nature of its business, the Corporation now plans its capital investment program on a three-year rolling basis. Capital expenditures for 1998 will be approximately $300 million. Most of this amount is to be allocated to strategic investments and projects for international telecommunications facilities which are required to meet the growth in demand for both existing and new services. The balance will be used to improve the operating efficiency of the network, as well as for operations, maintenance and upgrading and for administrative support.

Human Resources

As at December 31, 1997, the Corporation had 1,243 permanent employees, 383 of which were included in two collective agreements. These employees were divided as follows:

	Non-Unionized	Unionized
Canada	493	383
United States	281	—
Europe	59	—
Asia	19	—
Rest of the World	8	—
Total	860	383

Properties

As of December 31,1997, the Corporation owned the following properties:

	Building Area (square feet)	Land Area (acres)
International Switching Centres		
Scarborough, Ontario	58,400	6.9
Montréal, Quebec	89,270	4.6
Burnaby, British Columbia	41,321	3.0
Satellite Earth Stations		
Mill Village, Nova Scotia (1)	49,000	350.0
Weir, Quebec	33,000	86.0
Lake Cowichan, British Columbia	19,250	79.7
Cable Landing Stations		
Port Alberni, British Columbia	19,996	3.8
Pennant Point, Nova Scotia	23,900	17.5

(1) The Mill Village Satellite Earth Station ceased its operations in 1995 and was sold in April 1998.

In 1989, the Corporation purchased a 30% interest in a joint venture with Brookfield Development Corporation ("Brookfield"), which owns a major office building in downtown Montréal. The Corporation has entered into a lease with the joint venture for 225,109 square feet of space, for an initial term of 15 years. The Corporation moved its head office to this location in early 1992. On June 17, 1994, Brookfield sold its 70% ownership in the building to BCE Inc. ("BCE"). The Corporation has a revolving term credit facility which is secured by the Corporation's share in the joint venture that owns the Building.

The Corporation also leases offices in Toronto, Montreal and Ottawa, through TCI. In addition, the Corporation leases offices in Honk Kong, Frankfurt, Vienna, Singapore, Milan, Noordwijk (Holland), Bogota, Cairo, Milton Keynes (England), Madrid, Moscow, London, Paris, Abu Dhabi (United Arab Emirat), Bangkok, Sydney, Sandvika (Norway), Petach Tikva (Israël) and Tokyo through its subsidiary Teleglobe International Inc. The Corporation also leases offices in New York, Los Angeles and McLean, V.A. (U.S.A) through its subsidiary Teleglobe USA Inc.

Trade-marks and service marks

The Corporation is principally known by its corporate symbol (design of a face in a globe), its corporate signature (TELEGLOBE and Design) and the word mark TELEGLOBE. In 1993, it adopted a word mark to be used in association with its services: A LITTLE INGENUITY THAT GOES A LONG WAY. These marks are the most important as they identify the Corporation and most of its subsidiaries in the marketplace.

In addition, the Corporation owns most of the numerous marks that its divisions or subsidiaries use in relation to specific or specialized services or wares. The most important and commonly used are: GLOBEACCESS, GLOBEACCESS$_{64}$, GLOBEACCESS$_{TEL}$, GLOBEACCESS$_{VPN}$, GLOBEFRAME, GLOBEIML, GLOBEINTERNET, GLOBEACCESS800, GLOBE ATM, GLOBEBAND, GLOBECALL, GLOBECARD, GLOBECONNECT, GLOBEDAT, GLOBEDIRECT, GLOBENET, GLOBETEL, GLOBE800, GLOBE800 UNIVERSAL, GLOBEPCS - BORDERLESS ROAMING, GLOBESAT, GLOBESTREAM, GLOBESYSTEM, GLOBESYSTEM ATLANTIC, GLOBESYSTEM PACIFIC, GLOBEVISION, PACIFIC VISION, CANUS 1, CANUS 1 and Design, ATLANTIC VISION, TELEGLOBE MARINE, TELEGLOBE CANADA, TELEGLOBE INTERNATIONAL, TELEGLOBE MEDIA ENTERPRISES, LOOK TV, LOOK TÉLÉ, JAZZ MEDIA NETWORK and TELEGLOBE WORLD MOBILITY. The Corporation is an authorized user of the trade-mark ORBCOMM.

Teleglobe Canada is the owner of the following most commonly used trade-marks: CANADA DIRECT, CANADA DIRECT and Design, HOME DIRECT, CANTAT 3, and CANTAT 3 and Design. Teleglobe Canada is also the recognized owner of the logo representing a stylised "A" in Canada and in the U.S., and is an authorized/licensed user of the trade-marks AIRCOM, SATELLITE AIRCOM and INTERNATIONAL 800 SERVICE.

Teleglobe International Corporation is the owner of the trade-marks TII and RTDAS.

The importance of the individual specific trade-marks for the Corporation is relative to the revenues derived from the various services respectively associated with each of the marks.

All of these marks are registered or pending registration in Canada and are also registered or pending registration in the United States and other foreign jurisdictions, when warranted by local usage. All the foregoing marks are used on a regular and consistent basis in relation to the services and/or wares associated with them. Registrations are renewable at various dates in accordance with the applicable legislation of the various jurisdictions involved.

REGULATION

The following summary of regulatory developments and legislation does not purport to describe all present and proposed laws and regulations affecting the telecommunications industry. Other existing laws and regulations are currently (or may become) the subject of judicial proceedings, legislative hearings and administrative proposals which could change, in varying degrees, the manner in which the telecommunications industry operates.

Canada

Review of the Corporation's Exclusive Mandate. The Government of Canada, in a *Gazette Notice* dated July 22, 1995, initiated a public consultation process to review TCI's exclusive mandate to provide Canadian overseas facilities-based services. This exclusive mandate was initially granted by the Government for a five-year period at the time of the Corporation's acquisition of TCI in 1987. In 1992, the Government extended the exclusive mandate for an additional five years and stated that a review would be conducted in 1995.

The WTO Agreement on basic telecommunications services defines the framework for opening the overseas telecommunications market in Canada. As part of this Agreement, the Government of Canada has agreed to:

- end TCI's monopoly on overseas traffic as of October 1, 1998;
- end TCI's special ownership restrictions which limit foreign investment and limit the investment by designated Canadian telecommunications common carriers;
- allow 100% foreign ownership and control of submarine cable landings in Canada as of October 1, 1998;
- remove all restrictions on the use of foreign owned and controlled global mobile satellites providing service to Canadians as of October 1, 1998;
- remove international traffic routing restrictions by December 31, 1999; and
- maintain its open, competitive market and existing transparent regulatory regime.

The Government of Canada also announced the creation of a new licensing regime whereby the CRTC would establish the conditions of operation applicable to all companies offering international services.

The Telecommunications Act. The Telecommunications Act as amended in May 1998 to implement Canada's commitments under the WTO Agreement, applies to all defined Canadian telecommunications common carriers, and telecommunications service providers. The Telecommunications Act defines the broad objectives of the Canadian telecommunications policy and empowers the Government of Canada to issue to the CRTC directions of general application with respect to any of these objectives. The Telecommunications Act gives the CRTC discretion to establish a licensing regime for telecommunications service providers. The CRTC also has discretion to specify classes of telecommunications service providers required to obtain a license before providing telecommunications services as well as to specify a class of telecommunications services which licensed telecommunications service providers are permitted to provide. In addition, the CRTC has the power to establish the form, manner and information required in a license application and to set the fees which must accompany such license application. The Telecommunications Act provides that the term of a license may not exceed ten years on its issuance or renewal and that a license is not transferable except with the consent of the CRTC. The Government of Canada has the power to vary, rescind or refer back CRTC decisions. The CRTC may itself review and rescind or vary any decision made by it. An appeal of a CRTC decision on a question of law or jurisdiction may be brought with leave before the Federal Court of Appeal. The CRTC has the power to exempt any class of carriers from the application of the Telecommunications Act, and to refrain from regulating classes of services where this would be consistent with the objectives of the Telecommunications Act. The latter concept is generally known as the power of forbearance.

The Telecommunications Act limits eligibility to operate as a telecommunications common carrier (a "Canadian carrier") to corporations incorporated in Canada that are Canadian-owned and controlled. These ownership restrictions do not apply in respect of the ownership or operation of international submarine cables or earth stations that provide telecommunications services by means of satellites. International submarine cable licenses are issued on application, by the Minister, to persons that are eligible under the regulations to hold such license. The Telecommunications Act defines Canadian ownership and control as follows: (a) not less than 80% of the Canadian carrier's directors are individual Canadians; (b) Canadians beneficially own not less than 80% of the Canadian carrier's voting shares, including securities convertible into common shares or vested rights or options to acquire common shares; and (c) the Canadian carrier is not otherwise controlled by non-Canadians. The Canadian Telecommunications Common Carrier Ownership and Control Regulations (the "Regulations") define "Canadian" as including a corporation (a "qualified corporation") where Canadians own not less than 66.67% of the voting shares and which is not otherwise controlled by non-Canadians. As interpreted by the CRTC, the Telecommunications Act and the Regulations prohibit Canadian carriers from being controlled by non-Canadians and set a maximum foreign ownership level at 46.7% of the voting shares (20% of the voting shares of the Canadian carrier and 33.33% of the voting shares of its holding company). The Regulations provide certain powers to a qualified corporation (a "carrier holding corporation"), such as the Corporation, which owns and controls not less than 66.67% of the voting shares of a Canadian carrier, to monitor and control the level of foreign ownership of its voting shares to maintain its status as a qualified corporation. The Regulations give a carrier holding corporation the power to obtain information from its voting shareholders as to their identity and whether they are Canadian. In addition, the Regulations provide that a carrier holding corporation can refuse to register a transfer of its voting shares to a non-Canadian, force a non-Canadian to sell his voting shares and suspend the voting rights attached to that person's shares, if that person's holding would jeopardize the carrier holding corporation's status as a qualified corporation. To the best of the Corporation's knowledge, the level of non-Canadian ownership of the Corporation's voting shares calculated in the manner prescribed by the Regulations was approximately 1.6% as at December 31, 1997. As defined, voting shares include the common shares, the First Series Preferred Shares as well as vested stock options.

The Teleglobe Act. The Corporation was established under the Teleglobe Act in 1987, as the successor corporation to the rights and obligations of the Canadian Crown corporation responsible for the provision of overseas telecommunications services. The Teleglobe Act was amended in May 1998 in order to implement Canada's commitments under the WTO Agreement and to repeal provisions that were inconsistent with the end of the Corporation's exclusive mandate. As a result of these modifications, the Corporation will be subject to rules similar to those applicable to other telecommunications service providers under the Telecommunications Act.

Licensing Regime. On October 2, 1997, further to the Government of Canada announcement its intention to create a new licensing regime whereby the CRTC would establish the conditions of operation applicable to Canadian carriers and telecommunications service providers offering international telecommunications services, the CRTC initiated CRTC Public Notice 97-34 requesting proposals and comments, inter alia, on the regulatory regime that should apply to the provision of international telecommunications services after October 1, 1998. Since then, the Corporation continued to support liberalization of the international and overseas telecommunications services industry on the basis that the policies adopted by the CRTC must maintain parity of treatment for all international carriers in both the wholesale and retail market and on the creation of a common base of fair and equitable operating conditions. In that perspective, the Corporation has specifically advocated that: (i) all routing restrictions should be removed (including ISH via the United States); (ii) the CRTC should forbear from regulating the Corporation's international services and should not impose special license conditions on the Corporation; (iii) a retail access mechanism to facilitate retail market entry for new service providers should be established; and (iv) the elimination of all routing restrictions, combined with regulatory forbearance regarding all carrier's international services obviates the need for a uniform system of published accounting rates. The Corporation expects a decision on the new licensing regime by mid-1998.

CRTC. In its role as Canadian regulator, the CRTC approves tariffs for TCI's regulated telecommunications services and periodically issues directives which affect the accounting treatment of specific items in TCI's accounts. In addition, the CRTC, in its Telecom Decision CRTC 96-2 dated February 21, 1996, approved a new regulatory framework based on price regulation instead of the rate-of-return regulation to which TCI was subject prior thereto.

Licenses. The Telecommunications Act and the Radiocommunication Act require that a carrier must have a license for each of its satellite earth station sites and international undersea cable landing sites in Canada in order to operate such facilities and to carry traffic between Canada and any foreign country, or between countries through Canada. TCI holds such licenses as are required by its business. The radio transmission licenses are renewable annually. The undersea cable landing licenses are granted for periods of ten or 20 years and expire at various dates between 2001 and 2013. The holding of such licenses is subject to certain terms and conditions, with which TCI is in compliance.

United States

Overview. The FCC exercises authority over all interstate and international facilities-based and resale services offered by Teleglobe USA, the Corporation's U.S. affiliated carrier. Services that originate and terminate within the same state, also known as intrastate services, are regulated by state regulatory commissions.

General Federal Requirements. The FCC has established different levels of regulation for dominant and non-dominant carriers. Teleglobe USA is classified as a non-dominant carrier for both domestic and international service on all routes, including to Canada. Under the Communications Act of 1934, as amended (the "Communications Act") and the FCC's rules, all international carriers are required to obtain authority under Section 214 of the Communications Act prior to initiating international common carrier services, and must file and maintain tariffs containing the rates, terms, and conditions applicable to their services. Domestic interstate common carriers are not required to obtain Section 214 or other authority from the FCC for the provision of domestic interstate telecommunications services.

International Services. With respect to international services, Teleglobe USA has obtained facilities-based and resale Section 214 authorization from the FCC to acquire, own and operate international transmission facilities, to resell the services of other U.S. carriers for the provision of international switched services and international private line services, and to use the interconnection arrangements and network assets of TCI. Teleglobe USA has filed international tariffs with the FCC.

The FCC permits the resale of international switched services and private lines for the provision of services interconnected to the public switched network, generally referred to as ISR U.S. carriers may provide ISR on routes where half the U.S. traffic is settled at or below the FCC's benchmark accounting rate, or if the destination country permits equivalent resale opportunities. The FCC has expressly declared only a few routes to qualify under this standard, but the Corporation expects that additional ISR routes, including Japan and most of the European Union, will be permitted from the United States during 1998.

The FCC also took steps to reduce regulatory requirements of international telecommunications service providers such as Teleglobe USA. In addition to reducing the filing period for non-dominant carriers' international tariffed rates from 14 days to one day, the FCC streamlined other international service rules. In particular, the FCC now permits resellers to resell services of any authorized facilities-based carrier except U.S. facilities-based affiliates that are regulated as dominant carriers on routes the reseller seeks to serve. Additionally, facilities-based providers may acquire capacity in any U.S. licensed satellite or cable facility as well as in certain specified foreign-licensed facilities, including CANTAT 3, without separate approvals. The FCC's resolution of some of these issues in other proceedings may either facilitate Teleglobe USA's international business (by, for example, streamlining the regulatory requirement to acquire additional international facilities capacity), or adversely affect Teleglobe USA's international business (by, for example, permitting larger carriers to take advantage of accounting rate discounts for high traffic volumes).

Teleglobe USA must also conduct its international business in compliance with the FCC's international settlements policy ("ISP"). The ISP establishes the permissible boundaries for U.S.-based carriers and their foreign correspondents to settle the cost of terminating each other's traffic over their respective networks. The precise terms of settlement are established in a correspondent agreement, also referred to as an operating agreement. Among other terms, the operating agreement establishes the types of service covered by the agreement, the division of revenues between the carrier that bills for the call and the carrier that terminates the call at the other end, the frequency of settlements (i.e., monthly or quarterly), the currency in which payments will be made, the formula for calculating traffic flows between countries, technical standards, procedures for the settlement of disputes, the effective date of the agreement and the term of the agreement.

The amount of payments (the "settlement rate") is determined by the negotiated accounting rate specified in the operating agreement. Under the ISP, unless prior approval is obtained, the settlement rate generally must be one-half of the accounting rate. Carriers must obtain waivers of the FCC's rules if they wish to use an accounting rate that differs from the prevailing U.S. rate to a particular foreign carrier or vary the settlement rate from one-half of the accounting rate.

The FCC issued an international accounting rate Order aimed at reducing accounting rates by adopting a three-tiered system of benchmarks. Under this policy, U.S. carriers negotiating with overseas correspondents to exchange traffic will be required to use the specified benchmarks as the target for the negotiated settlement rate between the two carriers. The Order establishes a three-tiered system of benchmarks, with different rates to be applied based on each country's level of development (calculated from World Bank and ITU data). If successful, the effect of this Order could significantly reduce Teleglobe USA's costs. At the same time, these accounting rates could strengthen the ability of Teleglobe USA's competitors to reduce their own costs and more effectively compete with Teleglobe USA and other Teleglobe affiliates. The FCC's Order is being challenged in federal court by numerous foreign carriers which have operating agreements with U.S. carriers.

To promote competition in the international telecommunications market, the FCC modified its international settlement policy in 1996 in order to provide international carriers more flexibility in negotiating operating agreements. Under the revised policy, U.S. carriers can apply for waivers to establish alternative settlement arrangements which depart from the ISP. Before granting a waiver to its ISP, the FCC generally requires that the relevant foreign country has a competitive telecommunications market. Several markets currently appear to qualify as such. The FCC may also consider waivers for arrangements with non-dominant carriers from countries in the process of becoming competitive. International settlement costs represent a significant component of Teleglobe USA's total costs. Although Teleglobe USA is unable to predict exactly how this new FCC order will effect its international business, the new ISP may reduce international access costs and facilitate Teleglobe USA's international business.

Foreign Participation. In November 1997 the FCC adopted rules implementing the WTO Agreement. The rules adopt a presumption in favor of grant of Section 214 authorizations filed by foreign owned and affiliated applicants from WTO countries seeking to provide international services, as well as for requests by foreign persons to own greater than 25% interests in common carrier radio licensees. Foreign-affiliated applicants who seek to provide international voice services from WTO countries must, as a condition of entry, reduce their accounting rates to the FCC's benchmark levels.

Inasmuch as Teleglobe USA has already obtained a full array of Section 214 authorizations, the elements of the Foreign Participation Order do not directly affect its operations. The policies may, however, result in the entry of additional facilities based carriers into the U.S. market who may compete with Teleglobe USA.

Federal Legislation. The Telecommunications Act of 1996, as amended, (the "U.S. Telecom Act") is intended to, among other things, establish competition with local exchange carriers ("LECs") as a national policy by expressly prohibiting any legal barriers to competition in the intrastate or interstate communications services under state and local laws. The U.S. Telecom Act further empowers the FCC, after notice and an opportunity for comment, to preempt the enforcement of any statute, regulation or legal requirement that prohibits, or has the effect of prohibiting, the ability of any entity to provide any intrastate or interstate communications service. The U.S. Telecom Act also establishes certain requirements, including interconnection requirements, the offering of local network elements on an unbundled basis and other LEC requirements with respect to resale, number portability, dialing parity, access to rights-of-way and mutual compensation.

Certain provisions of the U.S. Telecom Act could materially affect the growth and operation of the telecommunications industry and the services provided by Teleglobe USA. There are currently numerous rulemakings being undertaken by the FCC which interpret and implement the U.S. Telecom Act's provisions. Certain sections of the U.S. Telecom Act and the FCC's rules have been, and likely will continue to be, judicially challenged. Teleglobe USA is unable to predict the outcome of such rulemakings or litigation or the substantive effect (financial or otherwise) of the new legislation and the rulemakings on the operations of Teleglobe USA.

Effect of Foreign Laws on Certain Carrier Activities. Teleglobe USA engages in certain lawful activities in the United States which would be restricted were they performed in other countries. Teleglobe USA is engaged in the provision of "callback" services, as a minor element of its business mix, which permits callers in a foreign country to place international long distance calls using Teleglobe USA's U.S. network. Callback services have been explicitly authorized by the FCC for several years except with respect to countries that prohibit the activity. In the course of its activities, Teleglobe USA enters into marketing and resale arrangements with different service providers. Teleglobe USA has no control or knowledge whatsoever, on such service providers or agents who may decide to market callback services in a country that prohibits such services. Teleglobe USA is not presently involved in any proceeding or inquiry regarding its callback services, nor is it aware of any country in which its callback activities have been called into question.

Arrangements with U.S. Carriers. On February 3, 1998, Teleglobe USA received authority from the FCC to interconnect the switched networks of Teleglobe USA and Teleglobe Canada. U.S. carriers unaffiliated with Teleglobe USA may purchase from and sell to TCI from the United States, and may use these services to support end user requirements or for resale to other carriers. Teleglobe USA may also purchase services from these and other unaffiliated U.S. carriers. Teleglobe USA believes such activity is fully in accord with applicable FCC policies, although some U.S. carriers have expressed informal disagreement.

Outside North America

The Corporation is also subject to regulation in the United Kingdom, Germany, France, Hong Kong, Japan and other countries in connection with the Corporation's carrier services in such countries.

United Kingdom. The United Kingdom is among the most openly competitive telecommunications markets in the world. All forms of domestic and international telecommunications services have been liberalized and many service providers may operate without individual licenses. In the international sector, carriers may provide all manner of voice and data services over owned or resold capacity using either submarine cable or satellite capacity. Since December 1996, the United Kingdomhas issued without numerical limitation licenses to carriers permitting operation as international facilities-based operators ("International Facilities Licensees" or "IFLs"). Certain IFLs, including Teleglobe U.K., are permitted to construct new international telecommunications systems subject to obtaining any necessary environmental and other clearances.

Telecommunications regulation in the United Kingdomis conducted by the Office of Telecommunications ("OFTEL"). Facilities-based licenses ("Public Telecommunications Operators" or "PTOs"), including IFLs, are issued by a separate agency, the Department of Trade and Industry ("DTI"). The foundation of carriers' regulatory responsibilities is described in the conditions agreed to between the applicant/licensee and DTI and set forth in the license. Neither DTI nor OFTEL may change the conditions of a carrier's license without the licensee's consent, although it may adopt interpretive statements and establish policy of general applicability consistent with the license conditions.

OFTEL has established a Fair Trading Condition in the license of British Telecom ("BT"), the dominant domestic and international telecommunications operator, which empowers OFTEL to take steps against BT to curtail anticompetitive conduct which BT may be found to have engaged in. This condition is in addition to other powers to prevent discrimination. OFTEL is presently in negotiations with all other PTO's to incorporate the same Fair Trading Condition in their licenses as well.

Included in the IFLs is a provision intended to regulate international settlements among U.K. carriers and their correspondents in other countries, particularly where there is an affiliation between the U.K. IFL and a dominant carrier in a closed market abroad. The license conditions: (i) permit OFTEL to redirect traffic flows where an IFL's share of traffic on a route is disproportionately greater than the national average on the same route; (ii) require carriers to notify OFTEL and competitors on a country route of new accounting rates for traffic between the United Kingdomand the destination country; (iii) permit competitors to challenge new settlement agreements as anticompetitive; and (iv) permit OFTEL to block settlement agreements it finds would tend to increase prices to end users (but not to pre-approve these rates).

The United Kingdom also permits operators to engage in ISR to all other countries, subject to the settlements process. Carriers may operate outside of the settlement process to countries which permit ISR competition, including Canada, the United States, Australia, New Zealand and Sweden, among other countries. The United Kingdom also permits non-settled ISR to other European Union countries. In September 1997, OFTEL proposed to modify its reporting requirements applicable to IFLs in a manner that could require greater disclosure of accounting rate and interconnection terms between U.K. carriers and their overseas correspondents. If adopted, the reporting requirement could compel the Corporation and all other U.K. IFLs to disclose the terms of agreements which are presently confidential.

Germany. German telecommunications is governed by the Telecommunications Act of 1996, which established a policy of open competition for domestic and international network facilities effective August 1996, and competition in all sectors, including public switched voice, on January 1, 1998. Terrestrial facilities operators may obtain Type 3 licenses on a regional or national basis. Telecommunications services providers, whether or not using their own networks, may obtain regional or national Type 4 licenses, permitting provision of public switched voice services. Teleglobe GmbH has received both Type 3 and Type 4 licenses. Licensees are subject to license fees of DM 10,600,000 for a national Type 3 license and DM 4,000,000 for Type 4 licenses. License fees for regional licenses are based on population figures and/or the number of dedicated circuit links used. Licensing and regulation are presently conducted by the NRA.

Inasmuch as Deutsche Telekom AG ("DT AG") will remain the dominant domestic and international carrier in Germany for the foreseeable future, interconnection by emerging carriers into the DT AG network will remain a critical element of success in the market place. The Telecommunications Act of 1996 empowers the Ministry and NRA to regulate DT AG domestic and international charges for originating and terminating calls on the DT AG network. Carriers may seek expedited government arbitration in the event of a dispute with DT AG over interconnection rates. In 1997, the Ministry has been active in ordering DT AG to reduce its domestic switched interconnection charges.

DT AG is in the process of establishing carrier-to-carrier rates and terms for domestic leased lines, which will allow network operators to use DT AG's facilities to link their network centers. This tariff will also govern the rates DT AG will charge for carriers to connect to international submarine cable landing stations. The Ministry or NRA must approve these rates, and the rates may be challenged by operators.

In 1997, Teleglobe GmbH established an interconnection agreement with DT AG which the Corporation believes is comparable to those obtained by other operators. It has not yet been approved by the NRA but the Corporation does not expect there to be a material change in rates until no earlier than 1999.

France. Telecommunications facilities and services are governed by the 1996 Telecommunications Act, which established a Telecommunications Regulatory Authority ("ART"). Licenses are issued to facilities-based operators under Art. 33-1, and to voice telephony service providers (non-facilities-based operators) under Art. 34-1. International carriers which build new international capacity outside of France may not be entitled to Art. 33-1 licensing.

ART has approved domestic interconnection rates by which France Telecom offers switched services to Art. 33-1 and Art. 34-1 licensees since January 1, 1998. These rates generally favor Art. 33-1 licensees by adopting lower per minute charges then available to resellers, and by permitting carriers to obtain nationwide call terminations from a single point of interconnection. Art. 34-1 licensees must establish points of presence in each of 18 transit zones in order to obtain nationwide termination, or else pay retail long distance charges to France Telecom. Increasing competition among French carriers has lead to the development of increased choice for routing of France terminating traffic.

Hong Kong. Regulatory authority is held by the Office of the Telecommunications Authority ("OFTA") which was established by the Telecommunications Ordinance adopted during British colonial rule. This structure is retained pursuant to the Basic Law, which governs the status of Hong Kong as a Special Administrative Region subject to the People's Republic of China. OFTA has licensed four domestic facilities-based carriers, but international communications remain an exclusive monopoly held by Hong Kong Telecom ("HKT") until 2006. It is possible that HKT may agree to abbreviate its exclusivity, and it is widely reported that HKT is in negotiation with Chinese authorities with respect to this issue.

Resale of HKT international voice services for the provision of public switched voice services is prohibited. The HKT exclusivity does not restrict resale of services for private use, and OFTA has licensed 14 carriers, including Teleglobe Hong Kong, to provide virtual private network services, which permit limited resale of HKT international private line circuits. End users may also obtain direct access to international satellite systems using very small aperture terminals.

Japan. In 1997, Japan adopted an open market policy in conjunction with its offer in the context of the WTO Agreement. Japan is licensing an unlimited number of facilities-based and resale international voice operators and has removed foreign ownership restrictions for all carriers other than NTT, the dominant local exchange carrier, and KDD, the largest international carrier. The Corporation has interest in neither of these two companies. The result of Japan's liberalization has been to immediately increase the number of international carriers operating in Japan, several of which have substantial external telecommunications networks, including the Corporation. Japan has also adopted a permissive policy respecting hubbing of third country traffic through these external networks.

IV. SELECTED CONSOLIDATED FINANCIAL INFORMATION

FIVE YEAR DATA

The following table sets forth, for the periods and the dates indicated, selected consolidated financial information for the Corporation and is presented in accordance with Canadian GAAP. The selected consolidated financial data for each of the five years in the five-year period ended December 31, 1997 are derived from the consolidated financial statements of the Corporation audited by Raymond Chabot Grant Thornton.

	As at and For the Year Ended December 31				
	1997	1996	1995	1994	1993
	(in millions of CDN$, except per share amounts)				
Revenues	$ 1,987.9	$1,562.7	$1,398.3	$1,364.8	$ 1,320.0
Gross Margin	718.2	606.0	566.9	501.8	431.7
Income from continuing operations	118.4	107.6	66.1	68.8	58.1
Net income	140.5	112.5	89.4	84.6	69.1
Net income to common shareholders	133.7	105.7	82.6	79.3	69.1
Earnings per share —					
Basic	$ 2.12	$ 1.81	$ 1.41	$ 1.36	$ 1.24
Fully diluted	$ 2.04	$ 1.68	$ 1.31	$ 1.25	$ 1.20
Total assets	2,584.0	2,310.4	2,080.3	1,934.4	1,768.2
Long-term debt(1)	605.5	717.3	675.4	631.9	669.5
Shareholders' equity	1,114.5	939.2	873.5	811.7	630.9
Cash dividends declared per share					
Common and First Series Preferred Shares	$ 0.57	$ 0.46	$ 0.39	$ 0.35	$ 0.31
Second Series Preferred Shares(2)	$ 0.67	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Third Series Preferred Shares	$ 1.35	$ 1.35	$ 1.35	$ 1.08	$ —
Number of Common Shares outstanding (in millions)(2)	63.7	56.7	57.0	56.8	56.8

(1) Excludes current portion of Long-term debt.

(2) The Second Series Preferred Shares were either converted into Common Shares by May 1, 1997 (2,998,868 shares) or redeemed by the Corporation on May 2, 1997 (1,132 shares).

QUARTERLY FINANCIAL DATA

	Quarters Ended			
	Dec. 31, 1997	Sept. 30, 1997	June 30, 1997	March 31, 1997
	(in millions of CDNS, except amounts per share)			
Revenues	$576.5	$514.1	$474.7	$422.6
Gross margin	203.9	188.1	172.2	154.0
Income from continuing operations	23.4	38.5	30.1	26.4
Net income	41.8	38.5	33.8	26.4
Net income to common shareholders	40.0	36.8	32.1	24.8
Earnings per share				
Basic	0.62	0.57	0.50	0.43
Fully diluted	0.60	0.56	0.49	0.40

	Quarters Ended			
	Dec. 31, 1996	Sept. 30, 1996	June 30, 1996	March 31, 1996
	(in millions of CDNS, except amounts per share)			
Revenues	$439.4	$391.5	$375.2	$356.6
Gross margin	165.5	160.5	142.6	137.4
Income from continuing operations	34.9	32.6	24.8	15.3
Net income	32.3	35.7	27.4	17.1
Net income to common shareholders	30.6	34.1	25.6	15.5
Earnings per share				
Basic	0.53	0.58	0.44	0.26
Fully diluted	0.48	0.53	0.40	0.26

DIVIDENDS

The Corporation's policy is to pay quarterly dividends of $0.15 per share on its common shares and First Series Preferred shares. In addition, the Third Series Preferred shares pay fixed cumulative dividends at the rate of 5.4% per annum, also payable on a quarterly basis. The Corporation has paid cash dividends during the last five financial years preceding this annual information form on its common shares, First Series Preferred shares and Second Series Preferred shares (until May 1997 when such shares were either converted into common shares or redeemed by the Corporation) and during the last three quarters of 1995 and the last three financial years on its Third Series Preferred shares (see "Selected Consolidated Financial Information" above with respect to the dividends paid by the Corporation during the last five fiscal years). On May 14, 1998, the Corporation's Board authorized an increase from $0.15 to $0.17 in the quarterly dividend on the common shares and First Series Preferred shares of the Corporation, payable as of the second quarter of 1998. The Board also authorized a 2 for 1 stock split by way of stock dividend, effective June 15, 1998.

V. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Reference is made to the section entitled "Management's Discussion and Analysis" on pages 24 to 31 of the Corporation's 1997 Annual Report, which is incorporated herein by reference.

VI. MARKET FOR SECURITIES OF THE CORPORATION

On June 12, 1997, the common shares of the Corporation were listed on the New York Stock Exchange. In February 1998, the common shares were delisted from the Vancouver Stock Exchange. As a result, the common shares of the Corporation are now listed on the New York Stock Exchange, the Montreal Exchange and The Toronto Stock Exchange. The Third Series Preferred shares are listed on the Montreal Exchange and The Toronto Stock Exchange.

VII. DIRECTORS AND OFFICERS

The name, municipality of residence, office held with the Corporation and principal occupation of the directors and officers of the Corporation are set out below. In addition, the date on which each director commenced to serve in that capacity is indicated. The term of office of each director will expire at the next annual meeting of the Corporation.

Name and Municipality of Residence	Office with the Corporation	Principal Occupation	Director Since
J. Brian Aune(2)(3) Westmount, Quebec	Director	Chairman, St. James Financial Corporation Inc.	May 1992
Derek H. Burney(3) Montreal, Quebec	Director	Chairman and Chief Executive Officer, Bell Canada International Inc.	February 1993
J.V. Raymond Cyr, O.C.(4) Montreal, Quebec	Director	Chairman, Telesat Canada Inc. SSIG Group Inc. and Vistar Telecommunications Inc. Director, Bell Canada and BCE Mobile Communications Inc.	May 1992
Bruno Ducharme(4) Westmount, Quebec	Director	President and Chief Executive Officer, Telesystem International Wireless Inc. Executive Vice-President, Telesystem Ltd.	May 1998
George A. Fierheller(3) Toronto, Ontario	Director	President, Four Halls Inc.	May 1991
Pierre MacDonald(2)(4) Verdun, Quebec	Director	Corporate Director	May 1992
C. Edward Medland(1)(2) Toronto, Ontario	Director	President, Beauwood Investments Inc.	May 1992

Name and Municipality of Residence	Office with the Corporation	Principal Occupation	Director Since
Jean C. Monty[4] Montreal, Quebec	Director	Chairman, Chief Executive Officer and Director, Bell Canada President, Chief Executive Officer and Director BCE Inc.	November 1997
Carmand Normand[3] Ste Catherine-de-Hatley, Quebec	Director	President, ADDENDA Capital Inc.	August 1997
Charles Sirois Montreal, Quebec	Chairman and Chief Executive Officer,	Chairman and Chief Executive Officer, Teleglobe Inc.	May 1992
H. Arnold Steinberg[1][2] Montreal, Quebec	Director	Associate, Cleman Ludmer Steinberg Inc.	February 1989
Peter G. White[1] Banff, Alberta	Director	Executive Vice-President, The Ravelston Corporation Limited and Argus Corporation Limited	December 1995
Lynton Ronald Wilson[1] Montreal, Quebec	Director	Chairman, Chief Executive Officer and Director, BCE Inc. Director, Bell Canada	December 1994
Paolo Guidi McLean, Virginia	President and Chief Executive Officer, Teleglobe Communications Corporation	President and Chief Executive Officer, Teleglobe Communications Corporation Chairman, President and Chief Executive Officer, Teleglobe International Corporation Chairman, Teleglobe USA Inc. President and Chief Executive Officer, Teleglobe Canada Inc.	—
Claude Séguin Mount-Royal, Quebec	Executive Vice-President, Finance and Chief Financial Officer, Chief Executive Officer, Teleglobe World Mobility	Executive Vice-President, Finance and Chief Financial Officer, Teleglobe Inc. and Teleglobe Canada Inc.	—
Guthrie J. Stewart Westmount, Quebec	Executive Vice-President, Corporate Development Chairman and Chief Executive Officer, Teleglobe Media Enterprises	Executive Vice-President, Corporate Development, Teleglobe Inc. and Teleglobe Canada Inc. Chairman and Chief Executive Officer, Teleglobe Media Enterprises	—
André Bourbonnais St. Lambert, Quebec	Vice-President, Legal Affairs and Corporate Secretary	Vice-President, Legal Affairs and Corporate Secretary, Teleglobe Inc. Vice-President, Legal and Regulatory Affairs and Corporate Secretary, Teleglobe Canada Inc.	—

Name and Municipality of Residence	Office with the Corporation	Principal Occupation	Director Since
Meriel V.M. Bradford Old Chelsea, Quebec	Vice-President, Governmental and External Relations	Vice-President, Governmental and External Relations, Teleglobe Inc. and Teleglobe Canada Inc.	—
Jacques Deforges Verdun, Quebec	Treasurer	Treasurer, Teleglobe Inc. and Teleglobe Canada Inc.	—
François Laurin Pointe-Claire, Quebec	Vice-President, Finance and Corporate Controller	Vice-President, Finance and Corporate Controller, Teleglobe Inc. Vice-President, Finance and Controller Teleglobe Canada Inc.	—
Marc Leroux Outremont, Quebec	Vice-President, Technology, President and Chief Operating Officer, Teleglobe World Mobility	Vice-President, Technology, Teleglobe Inc. President and Chief Operating Officer, Teleglobe World Mobility	—

(1) Member of the Audit Committee.
(2) Member of the Corporate Governance and Related Party Transactions Review Committee.
(3) Member of the Finance Committee.
(4) Member of the Human Resources Committee.

During the last five years, each of the foregoing has held the principal occupation shown opposite his name, except as follows:

- prior to February 1998, Derek H. Burney was also President of Bell Canada International Inc., prior to May 1996, he was also Executive Vice-President, International of BCE and prior to January 1993, he was Canada's Ambassador to the United States.

- prior to December 1997, J.V. Raymond Cyr was also Chairman of TMI Communications Inc., prior to March 1996, he was Chairman of Bell Canada, prior to January 1995, he was Chairman of BCE Ventures, prior to January 1994, he was Chairman of BCE Canadian Telecom Group and prior to April 1993, he was Chairman of BCE.

- prior to May 1997, Bruno Ducharme was President and Chief Executive Officer of Telesystem International Wireless Services Inc., prior to February 1994, he was President and Chief Executive Officer of Canada Popfone Corporation, the predecessor of Microcell Telecommunications Inc. and prior to December 1993, he was Executive Vice-President, Strategy and Development of the Corporation.

- prior to January 1997, George A. Fierheller was Vice-Chairman, Rogers Communications Inc. and prior to April 1993, he was Chairman and Chief Executive Officer of Rogers Cantel Mobile Communications Inc.

- prior to September 1994, Pierre MacDonald was Vice-President, TGV Projects, Transportation Equipment Group of Bombardier Inc.

- prior to May 1998, Jean C. Monty was Chairman, Chief Executive Officer and Director of Bell Canada and President, Chief Operating Officer and Director of BCE Inc., prior to October 1997, he was Vice-Chairman and Chief Executive Officer of Northern Telecom Limited ("Nortel"), prior to February 1997, he was President and Chief Executive Officer of Nortel and prior to March 1993, he was President and Chief Operating Officer of Nortel.

- prior to September 1996, Carmand Normand was President of Les Conseillers Financiers du St-Laurent Inc.

- between September 1995 and August 1996, Charles Sirois was also President and Chief Executive Officer of Teleglobe Canada Inc. and he is also Chairman and Chief Executive Officer of Telesystem Ltd.

- prior to April 1997, Peter G. White was also Chairman of UniMedia Division, Hollinger Inc.

- prior to March 1998, Lynton Ronald Wilson was Chairman of Bell Canada, prior to May 1996, he was Chairman, President and Chief Executive Officer of BCE and prior to April 1993, he was President and Chief Executive Officer of BCE.

- Prior to January 1998, Paolo Guidi was President and Chief Executive Officer of Teleglobe USA Inc., prior to August 1997, he was Executive Vice-President, International Market of the Corporation and Teleglobe Canada, prior to August 1996, he was President and Chief Executive Officer of Teleglobe USA Inc. and Teleglobe International Corporation and Executive Vice-President, International Market of TCI, prior to March 1996, he was President and Chief Executive Officer of Teleglobe USA Inc. and Executive Vice-President, International Market of TCI, prior to October 1995, he was President and Chief Executive Officer of Teleglobe USA Inc. and prior to February 1995, he was President of Sprint International.

- Prior to August 1997, Claude Séguin was Executive Vice-President, Finance and Corporate Development and Chief Financial Officer of the Corporation and of Teleglobe Canada and prior to August 1996, he was Executive Vice-President, Finance and Chief Financial Officer of the Corporation and Chief Financial Officer of Teleglobe Canada.

- Prior to February 1998, Guthrie J. Stewart was President and Chief Executive Officer of Teleglobe Canada, prior to May 1997, he was Executive Vice-President, Canadian Market and Network Operations of the Corporation, prior to August 1996, he was Executive Vice-President, Corporate Development and Corporate Secretary of the Corporation, prior to February 1994, he was Executive Vice- President, Government and International Affairs and Corporate Secretary of the Corporation and prior to August 1993, he was Vice-President, Legal Matters and Corporate Secretary of the Corporation.

- Prior to August 1996, André Bourbonnais was General Counsel of the Corporation; prior to June 1996, he was Director, Legal Affairs of the Corporation and Director, Corporate Affairs and General Counsel of Teleglobe World Mobility, a division of the Corporation, prior to February 1995, he was Senior Legal Counsel of the Corporation and Director, Corporate and Legal Affairs of Teleglobe World Mobility and prior to January 1993, he was a partner with Transact International, a merger and acquisition consulting group.

- Prior to August 1997, Meriel V.M. Bradford was Vice President, Government and Regulatory Affairs of Teleglobe Canada, prior to June 1995, she was Associate Vice-President, Government Affairs of Teleglobe Canada and prior to January 1994, she was Director General, Latin America/Caribbean Branch, Foreign Affairs and International Trade, Government of Canada.

- Prior to April 1996, Jacques Deforges was Senior Manager, North American Corporate Banking of National Bank of Canada.

- Prior to October 1995, François Laurin was Corporate Controller of the Corporation.

VIII. STATEMENT OF REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

Reference is made to the section entitled "Remuneration of Directors and Executive Officers", including the Report on Executive Compensation by the Human Resources Committee, on pages 8 to 15 of the Corporation's 1998 Management Proxy Circular, which is incorporated herein by reference.

IX. RECENT DEVELOPMENTS

In January 1998, the Corporation reached agreement with Qwest Communications International Inc. ("Qwest"), a multimedia communications company building a domestic network that will serve over 125 U.S. cities upon its completion in 1999, to swap capacity on their respective telecommunications networks. The initial arrangement allows the Corporation to swap up to four 155 megabit-per-second transatlantic circuits in its global fiber optic network for up to four 155 megabit-per-second circuits in certain segments of Qwest's U.S. fiber network, to be specified at a later date.

On February 5, 1998, TCI and Stentor, TCI's largest customer, announced that they had reached agreement on the principal terms of new arrangements for the continuing supply of services between TCI and Stentor. See "Description of the Business — The Corporation — Carrier Relations and Distributions Arrangements." The agreed-upon terms include commitments by Stentor for the routing of certain proportions of Stentor's international traffic over TCI's switched network for the years 1998 through 2000. These commitments are subject to competitive pricing conditions. As part of these arrangements, the parties have negotiated terms for the termination by Stentor in Canada of certain proportions of TCI's inbound international traffic for the years 1998 to 2000, subject to minimum price reductions by Stentor in 1998 and other competitive pricing conditions. The companies have also renegotiated the terms of the Stentor's supply to TCI of leased Canadian fiber ring facilities which form part of TCI's network for a seven year term, ending in 2005. In addition, Stentor and Teleglobe Canada have agreed to the terms of a five year commitment, ending in 2002, for the marketing of the Canada Direct™ service.

In March 1998, the Corporation acquired through TCI transmission capacity on AC-1 submarine cable network and Teleglobe USA Inc. and Teleglobe (U.K.) Limited acquired corresponding inland backhaul capacity. The AC-1 cable will provide restoration capacity for the entire Teleglobe Globesystem Atlantic cables and additional capacity to handle growth in traffic. The Corporation will invest approximately U.S.$49 million in this cable system.

On March 26, 1998, the Corporation, TCI, and Stratos Global Corporation entered into a Term Sheet pursuant to which the parties agreed to negotiate final terms and conditions for the sale of the remainder of the INMARSAT business of TCI and of the 29% interest of the Corporation in Stratos Wireless to Stratos Global Corporation, the whole in consideration of not less than $ 75 million. The closing of such transaction will involve the termination of the management contract entered into between TCI and Stratos Wireless Inc.

In May 1998, the Corporation, which previously held a 20% interest in Optel, acquired the remaining 80% from the shareholders of Optel for an amount of approximately U.S. $3.7 million.

Also in May 1998, the Corporation incorporated Teleglobe Communications Corporation (formerly known as Teleglobe Communications business unit) to regroup its telecommunications subsidiaries under the same entity.

X. UNAUDITED RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA AND WITH UNITED STATES GAAP

	December 31,				
	1997	1996	1995	1994	1993
	(in millions of CDN$, except amounts per share)				
Net income — as reported	$ 140.5	$ 112.5	$ 89.4	$ 84.6	$ 69.1
Adjustments					
Foreign exchange (a)	3.3	0.6	6.1	(7.7)	(5.7)
Employee share purchase plan (b)	(0.3)	(0.2)	(0.2)	(0.2)	(0.4)
Purchase accounting (c)	(0.2)	(0.3)	0.2	1.1	1.0
Rent escalation (f)	(0.3)	(1.0)	(1.7)	1.2	(2.0)
Real estate joint venture (g)	0.8	1.0	1.7	(4.9)	—
Development stage enterprises (h)	5.5	(22.2)	(16.1)	(3.8)	—
Post-retirement benefits (i)	(0.2)	—	0.2	—	—
Income taxes (j)	1.8	29.8	—	1.4	0.8
Extraordinary item (k)	—	(30.1)	—	—	—
	10.4	(22.4)	(9.8)	(12.9)	(6.3)
Net income — U.S. GAAP	$ 150.9	$ 90.1	$ 79.6	$ 71.7	$ 62.8
Pro forma net income — U.S. GAAP (including SFAS 123 effect) (l)	$ 147.5	$ 88.9	$ 79.4	N/A	N/A
Earnings per share — U.S. GAAP					
Basic					
Before discontinued operations and extraordinary item	$ 1.94	$ 1.83	$ 0.85	$ 0.87	$ 0.93
Discontinued operations	$ 0.35	$ 0.08	$ 0.40	$ 0.27	$ 0.20
Extraordinary item	$ —	$ (0.48)	$ —	$ —	$ —
Net income	$ 2.29	$ 1.43	$ 1.25	$ 1.14	$ 1.13
SFAS 123 (l)	$ 2.23	$ 1.40	$ 1.24	N/A	N/A
Diluted					
Before discontinued operations and extraordinary item	$ 1.88	$ 1.72	$ 0.85	$ 0.86	$ 0.93
Discontinued operations	$ 0.34	$ 0.07	$ 0.32	$ 0.22	$ 0.17
Extraordinary item	$ —	$ (0.43)	$ —	$ —	$ —
Net income	$ 2.22	$ 1.36	$ 1.18	$ 1.08	$ 1.10
SFAS 123 (l)	$ 2.17	$ 1.35	$ 1.18	N/A	N/A

Shareholders' equity — as reported	$1,114.5	$ 939.1	$ 873.5	$ 811.7	$ 630.9
Cumulative adjustments					
Foreign exchange (a)	(10.0)	(13.3)	(13.9)	(20.0)	(12.3)
Employee share purchase plan (b)	7.4	7.7	7.9	8.1	8.3
Purchase accounting (c)	7.8	8.0	8.3	8.1	7.0
Income taxes (d)	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)
Share issue expenses (e)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Rent escalation (f)	(5.9)	(5.6)	(4.6)	(2.9)	(4.1)
Real estate joint venture (g)	(1.4)	(2.2)	(3.2)	(4.9)	—
Development stage enterprises (h)	(36.6)	(42.1)	(19.9)	(3.8)	—
Post-retirement benefits (i)	—	0.2	0.2	—	—
Income taxes (j)	33.8	32.0	2.2	2.2	0.8
Extraordinary item (k)	(30.1)	(30.1)	—	—	—
Cumulative translations adjustment(m)	(5.4)	(2.2)	(0.3)	—	—
Shareholder's equity — U.S. GAAP	$1,066.7	$ 884.1	$ 842.8	$ 791.1	$ 623.2

(a) Differences arising from the method of accounting for foreign currency translation and transaction gains and losses.

(b) To account for the compensation element of shares issued under the employee share purchase plan, to amortize the discount from face value of loans to employees and to reduce shareholders' equity for loans to employees to purchase shares.

(c) Reflects reduction of depreciation expense, net of incremental goodwill amortization resulting from non-deductible differences between the recorded costs of acquired fixed assets of Teleglobe Canada and the tax bases of such assets.

(d) To reverse income tax benefits recognized from net operating losses and investment tax credits and to reverse benefits from utilization of pre-acquisition net operating losses carried forward and other net operating losses carried forward.

(e) Reflects the recognition (reversal) of income tax benefits on share issue expenses.

(f) To reflect the straight-line amortization of total rental payments over the terms of operating leases.

(g) To reflect the commencement of real estate activities.

(h) To expense deferred development costs.

(i) Differences arising from the method of accounting for the post-retirement benefits.

(j) Differences arising from the method of accounting for income taxes.

(k) Extraordinary item arising from the fact that Teleglobe Canada, a subsidiary of the Corporation, in 1996, became subject to a regulation based on price ceiling instead of the previous rate of return on equity regulation. This event triggered the write off of the Probable revenue asset.

(l) To disclose under the SFAS 123, the impact of accounting for stock-based employee compensation plans. The pro forma informations reflect the compensation cost of options issued after December 31, 1994.

(m) To present the Cumulative translations adjustment net of taxes.

XI. ADDITIONAL INFORMATION

The Corporation shall provide to any person or company, upon request to the Secretary of the Corporation at the head office thereof:

(a) when the securities of the Corporation are in the course of a distribution pursuant to a short-form prospectus or when a preliminary short-form prospectus has been filed in respect of a distribution of its securities:

  (i) one copy of the annual information form of the Corporation, together with one copy of any document, or the pertinent pages thereof, incorporated by reference to the annual information form;

  (ii) one copy of the current annual report of the Corporation which contains the comparative financial statements of the Corporation for its most recently completed financial year together with the accompanying report of the auditors and one copy of any interim financial statements of the Corporation subsequent to the financial statements for its most recently completed financial year;

  (iii) one copy of the information circular of the Corporation in respect of its most recent annual and special meeting of shareholders that involved the election of directors; and

  (iv) one copy of any other documents that are incorporated by reference into the preliminary short-form prospectus or the short-form prospectus and are not required to be provided under (i), (ii) or (iii) above; or

(b) at any other time, one copy of any other documents referred to in (i), (ii) or (iii) above, provided the Corporation may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Corporation.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Corporation's information circular for its most recent annual and special meeting of shareholders that involved the election of directors, and additional financial information is provided in the Corporation's current annual report which contains the comparative financial statements for its most recently completed financial year.

XII. GLOSSARY

"Accounting rate" means the per-minute rate negotiated by international carriers for each service.

"Analog" means a continuous signal whose amplitude and/or frequency changes in time and is represented as a sine wave.

"ATM" means asynchronous transfer mode, a cell relay protocol for transmitting data, also known as fast packet. The speed at which ATM transmits is restricted only by the capacity of the wire used for the transmission.

"Bandwidth" means the frequency range required for transmission of a signal to make it intelligible. The wider the bandwidth of a transmission facility, the greater the amount of information it can carry per unit of time.

"Carrier" means a company which offers telecommunications services using its own telecommunications facilities.

"Circuit" means a voice-grade analog channel or a 64 kbps digital channel.

"CRTC" means the Canadian Radio-television and Telecommunications Commission, the Canadian regulatory authority having jurisdiction over telecommunications matters.

"Digital" means a series of discrete pulses, or "on" and "off" signals, that are grouped in particular sequences in order to convey information intelligible to the recipient.

"Earth station" means the ground installation that transmits signals to or receives signals from satellites.

"End-user" means any person or organization which obtains a telecommunications service for its own use and not for resale.

"FCC" means the U.S. Federal Communications Commission.

"FLAG" means an acronym for "Fiber Link Around the Globe", a system promoted by Bell Atlantic Corporation.

"Fiber-optic cable" means a cable that makes use of special glass fibers to transmit digital information in the form of laser light pulses.

"Global traffic" means traffic that neither originates nor terminates in Canada.

"GSM" means Global System for Mobile Communications, a set of European Telecommunications Satellite Institute digital cellular telephone service standards based on digital transmission and cellular network architecture with roaming in use throughout Europe, in Japan and in various other countries.

"IDDD" means International Direct Distance Dialing.

"INMARSAT" means the International Maritime Satellite Organization, a 80-member-country organization that owns and operates a system of satellites providing global mobile communications on land, at sea and in the air.

"INTELSAT" means the International Telecommunication Satellite Organization, a 142-member-country organization whose main purpose is to develop and operate the space segment of the global commercial telecommunications satellite system.

"IRU" means an indefeasible right of use, which provides the rights to use a telecommunications system, usually an undersea cable, with most of the rights and duties of ownership but without the right to control or manage the facility and, depending upon the particular IRU contract, with or without any right to salvage or duty to dispose of the cable at the end of its useful life.

"ISDN" means Integrated Services Digital Network, a telecommunications network that uses internationally recognized standards to transmit data, voice and images over digital lines.

"ISR" means international simple resale which is resale of international private line services that are interconnected at both ends to the public switched telephone network.

"ITU" means the International Telecommunications Union.

"Kbps" means thousands of bits (kilobits) of digital information per second. Bits per second measure the digital capacity of telecommunications facilities.

"LEC" means Local Exchange Carrier.

"LEO" means the low earth orbit, situated approximately 900 km above the earth.

"Multimedia" means the property of a system or document in which information is represented using at least two different media, such as text, graphics, data, audio, video, etc.

"NRA" means national regulatory authority.

"PSTN" means Public Switched Telephone Network.

"PTT" means Government owned or controlled monopolies known as Post Telegraph & Telephone Companies which usually provide domestic as well as international services.

"RBOC" means U.S. Regional Bell Operating Company.

"Reseller" means a person engaged in the subsequent sale or lease on a commercial basis, with or without adding value, of a telecommunications service using the facilities of a carrier.

"SDH" means synchronous digital hierarchy, a multiplexing technique for transmitting digital signals that is used mainly in high-speed fiber-optic systems.

"Service provider" means a company which offers telecommunications services; includes a company using its own telecommunications facilities or engaged in the subsequent sale or lease on a commercial basis, with or without adding value of a telecommunications service using the facilities of a carrier.

"Settlement rate" means the rate that is negotiated by Teleglobe with a domestic carrier to reflect the amount owed by Teleglobe to the domestic carrier per paid minute of traffic for delivering incoming telecommunications traffic to its final destination.

"Stentor" means the Canadian Alliance of providers of telecommunications services the members of which are BC TEL, Bell Canada, The Island Telephone Company Limited, MTS NetCom Inc., Maritime Tel & Tel Limited, The New Brunswick Telephone Company, Limited, NewTel Communications Inc., NorthwesTel, QuébecTel, Saskatchewan Telecommunications and TELUS Communications Inc.

"Switching" means the establishment of connections between users of a telecommunications network, which involves the collection and distribution of traffic from various origins to various destinations following predetermined routing schemes.

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

FORM 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 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 1-13433

EXCEL COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**75-2720091**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

8750 North Central Expressway, Suite 2000, Dallas, Texas 75231
(Address of principal executive offices) (Zip Code)

(214) 863-8000
(Registrant's telephone number, including area code)

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

Title of Class	Name of each exchange on which registered
Common Stock, $.001 par value	New York Stock Exchange

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

None

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 adjustment to this Form 10-K. [x]

The aggregate market value of the voting stock (which consists solely of shares of Common Stock) held by non-affiliates of the registrant as of March 23, 1998, computed by reference to the closing sales price of the registrant's Common Stock on the New York Stock Exchange on such date, was approximately $1,170,430,530.

As of March 23, 1998, the registrant had outstanding 131,946,080 shares of $.001 par value common stock.

The following documents are incorporated by reference into the part of this annual report on Form 10-K as indicated:

Portions of the registrant's definitive Proxy Statement for the 1998 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

PART I

Item 1. Business

EXCEL Communications, Inc. is a Delaware corporation and the parent company of Excelcom, Inc. ("Excelcom"), previously EXCEL Communications, Inc., which was formed in 1988 and commenced operations in 1989. On October 14, 1997, EXCEL Communications, Inc. succeeded to the businesses of Excelcom and Telco Communications Group, Inc. ("Telco"), a facilities-based provider of long distance telecommunications services, pursuant to the Agreement and Plan of Merger dated as of June 5, 1997 (the "Merger"). The Merger creates the fifth largest long distance company in the United States based on the number of presubscribed lines, with pro forma consolidated annualized revenues of approximately $2 billion, 11 billion annualized long distance minutes of usage, 6.0 million customers, and approximately 100,000 network miles of DS-3 capacity. All references to the "Company" or "EXCEL" refer to EXCEL Communications, Inc. and include its subsidiaries and predecessors.

EXCEL provides long distance telecommunications and paging services to both residential and commercial customers in the United States. The Company has developed several marketing channels which include direct sales to residential, commercial and wholesale customers through independent representatives ("IRs"), dealers and direct sales personnel in addition to direct mail marketing of several dial around products. These multiple distribution channels which target both residential and commercial customers are a key element of the Company's business strategy as they allow the Company to balance its network traffic capacity and provide multiple avenues for growth.

The Company's presubscribed residential services are marketed primarily through a network marketing system of IRs, whereby the IRs are encouraged to recruit subscribers with whom they have an ongoing relationship. This network marketing system has been selected by the Company because the Company believes it reduces net marketing costs, subscriber acquisition costs, and subscriber attrition. Historically, IRs have predominantly sold residential and small business products, although the Company has recently introduced enhanced commercial products to be sold by the IRs. The Company believes that its commercial revenues as a percentage of total revenues will increase during 1998. EXCEL markets its residential dial around products and services through Dial & Save℠, Long Distance Wholesale Club℠, and Telco Choice℠ programs. Dial around customers access the network by dialing a unique five-digit Carrier Identification Code ("CIC Code") before dialing the number they are calling. Dial around customers can use EXCEL's services at any time without changing their existing presubscribed long distance carrier. EXCEL also sells presubscribed telecommunications services to wholesale and commercial customers using a direct sales force and an independent dealer organization through its Commercial Sales Division ("CSD"). As of December 31, 1997, CSD had opened 27 sales offices and employed or contracted with approximately 311 direct sales personnel, 117 sales management personnel, 275 active dealers and 19 telesales agents. For the fourth quarter of 1997, CSD's revenues were $56.4 million.

EXCEL has approximately 3,000 employees who support the corporate, network management, billing, teleservices and marketing functions of the Company. The Company's revenues were $506.7 million for 1995, $1.4 billion for 1996, and $1.5 billion for the year ended December 31, 1997. The Company's pricing structure is regularly reviewed so that subscribers of the Company's long distance service generally pay less than they would for long distance service from other major carriers.

The Company bills the majority of its presubscribed residential customers and its dial around customers primarily through local exchange carrier ("LEC") billing and collection agreements which enable the Company to place its charges on the monthly local phone bills of its customers. The Company has agreements with LECs, including all of the Regional Bell Operating Companies ("RBOCs"), that cover substantially all of the switched access lines in the United States. Commercial customers are billed directly by the Company. The Company plans to directly bill a larger percentage of its residential customers in future periods.

The Company's Telco subsidiary operates a nationwide telecommunications network consisting of seven switches, leased transmission lines and sophisticated network management systems designed to optimize traffic routing. This switch-based network currently consists of DSC DEX 600S, 600 and 600E switches located in Washington, D.C.; Fort Lauderdale, Florida; Davenport, Iowa; Chattanooga, Tennessee; Austin, Texas; Las Vegas, Nevada and New York, New York. An additional two switches in Los Angeles, California and Cleveland, Ohio are being deployed in the first half of 1998. During 1998, the Company intends to migrate onto this network a substantial portion of its traffic currently being carried by third parties.

In February 1998, the Company received its charter for a federal savings bank to be located in Dallas, Texas ("FirstEXCEL, F.S.B." or "FirstEXCEL"). FirstEXCEL will offer banking services to EXCEL's IRs and employees, as well as the community at large. The Company expects FirstEXCEL to be fully operational and open to the public in the second half of 1998.

Industry Background

The present long distance telecommunications marketplace was principally shaped by the 1984 divestiture by AT&T Corp. ("AT&T") of its 22 Bell Operating Companies ("BOCs"). As part of the AT&T Divestiture Decree ("the AT&T Decree"), the United States was divided into geographic areas known as Local Access Transport Areas ("LATAs"). The LECs, which include the Bell Operating Companies and independent LECs, 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 long distance service between LATAs (interLATA traffic) and within LATAs. The current structure of the industry is subject to change as the impacts of the recently enacted Telecommunications Act of 1996 are realized. See "—Regulation," and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of New Telecommunications Legislation."

According to a recent Federal Communications Commission ("FCC") report, revenues of the U.S. long distance telecommunications industry were approximately $82 billion in 1996. The industry is highly competitive and is dominated by four carriers, AT&T, MCI Telecommunications Corp. ("MCI"), Sprint Corporation ("Sprint"), and WorldCom, Inc. ("WorldCom") which together in 1996 accounted for approximately 83% of the overall market according to a recent FCC report. The remainder of the market share is held by several large regional long distance companies, some with national capabilities such as the Company, Frontier Communications Services, Inc. ("Frontier"), Cable & Wireless Communications, Inc., and LCI International, Inc., and by several hundred smaller companies. According to this FCC report, while industry revenues grew at a compound annual rate of over 7% during the period from 1989 through 1996, the revenues of all carriers other than AT&T, MCI, Sprint, and WorldCom grew in the aggregate at an annual compound rate of over 20% during the same period.

Products and Services

Presubscribed Residential Services

The Company currently offers several discounted residential products to its presubscribed residential customers. Its primary "1-plus" product offers residential customers a flat rate service which the Company believes competes favorably against flat rate programs offered by other major long distance service providers. In addition, the Company offers several residential products which provide discounts based on time-of-day. The Company also offers an 800/888 service product to its residential subscribers, which allows subscribers to call home on an 800/888 number or provide a toll-free number for family members to call home, in addition to calling card services, international service and directory assistance.

Dial Around Residential Service

In addition to presubscribed residential service, the Company also offers residential dial around services. Customers access the Company's network by dialing a five-digit code before the number they are calling, and, therefore, are not required to permanently change or cancel their existing long distance carrier in order to use the Company's service. The Company's dial around rates offer customers savings off of the basic direct dialed "1-plus" rates and the competitive flat rates charged by AT&T, MCI, and Sprint.

Commercial Services

Current products include long distance, calling card, call accounting, enhanced billing services, and 800/888 services. In addition to competitive rates and a wide variety of products, the Company is able to offer business customers a highly specialized direct bill summary package that includes call summaries by service type, call type, originating number, account code, area code, country code, time-of-day and most frequently called numbers.

CSD also sells dedicated circuits to commercial customers and wholesale transmission capacity and services to other long distance carriers. The Company believes that the combination of a nationwide network and data processing resources provides an opportunity for continuing growth through the wholesaling of one-stop telecommunications services to long distance resellers. The Company offers a complete package of networking, billing and customer service, eliminating the need for resellers to coordinate with multiple vendors and giving them the ability to obtain all of their long distance services from a single source. Additionally, the Company provides reseller clients with a customized version of its customer account database software, the TelePhone Maintenance system. While revenue per minute from wholesale service sales is generally lower than the Company's average sales to end users, the cost of sales and overhead involved in servicing carrier customers is also lower. Moreover, the Company has used the wholesale market to more fully utilize its network during the daytime hours, the busiest time of day for many of the Company's carrier and reseller customers.

Paging

In March 1996, the Company entered into a Reseller Agreement (the "Reseller Agreement") with PageMart, Inc. ("PageMart"), which is in the business of providing paging and wireless communications products and services. Under the Reseller Agreement, PageMart is required to provide, on a non-exclusive basis, paging products and services to the Company, including Narrowband PCS products when they become available to PageMart's customers, which may be resold nationwide by the Company to its paging subscribers under the common law service mark "EXCELPaging."

In October 1996, the Company began offering both alphanumeric and numeric pagers to its subscribers through the IRs. The paging services range from local to national, and the Company offers a range of value-added paging services, including voice mail, universal 800, and personal assistant greetings.

Billing and Data Processing

Since its inception, the Company has billed a majority of its residential traffic through LECs. The Company has entered into billing and collection agreements with LECs, including all of the RBOCs, that cover substantially all of the switched access lines in the U.S. These agreements permit the Company to place its customers' call detail records on the customers' regular monthly local phone bill. The Company also provides billing clearinghouse services to other unaffiliated long distance carriers.

Tel Labs, Inc. ("Tel Labs"), a wholly-owned subsidiary offering billing services, processes raw switch data into a format that can be used to produce end-user billing invoices. This data processing is executed on specially designed personal computers operating a proprietary software program. Tel Labs receives certain raw call records directly from the switches, and prepares them for rating by determining the answer status, originating location, terminating location and mileage. The calls are then rated according to standard rates or according to customer specific rates, if applicable. Rated calls are then sorted depending on which LEC will actually bill the end-user and placed in an industry standard format ("EMI"). Tel Labs then prepares management reports which provide the Company with the total number of calls, minutes and dollars billed during that billing cycle.

Marketing

Presubscribed Residential Products and Services

The Company markets presubscribed residential services through a nationwide network of IRs. The Company encourages IRs to enroll subscribers with whom the IRs have an ongoing relationship as a result of being a family member, friend, business associate, neighbor, or other acquaintance. The Company also encourages, but does not require, the IRs to use the Company's products and services and to communicate the results of their use of such products and services to their subscribers. This network marketing system has been selected by the Company because the Company believes it reduces net marketing costs, subscriber acquisition costs, and subscriber attrition. The Company believes that subscribers will be more likely to remain with the Company because they have been enrolled with the Company by someone with whom they have an ongoing relationship. The Company also believes that its network marketing system will continue to build a base of potential subscribers for additional services and products. The Company does not require a person to be an IR in order to be a subscriber. The Company's network marketing system is particularly attractive to prospective IRs because of the potential for supplemental income and because the IRs are not required to purchase any inventory, have no monthly sales quotas or account collection issues, have minimal paperwork, and have a flexible work schedule. The sales efforts of IRs are supported through various means, including Company-sponsored training held periodically throughout the year and motivational satellite broadcast television shows broadcast four times a week.

IRs are compensated based on the acquisition of subscribers and their long distance usage and paging air time usage. IRs receive subscriber acquisition commissions only after, among other things, subscribers sign up for the Company's long distance service or paging service. IRs receive commissions on the long distance usage and paging air time usage of subscribers who they have personally signed up. In addition, while the Company does not pay a commission to IRs for introducing new IRs to the Company, IRs do receive subscriber acquisition commissions and long distance and paging air time usage commissions for subscribers signed up by certain other IRs they have recruited directly themselves or indirectly, as in the case of subscribers recruited by other IRs in their downline. Certain performance criteria must be maintained in order to qualify to receive all such commissions.

The Company provides training to all IRs who have purchased the optional management services program. The training includes a detailed explanation of the Company's products, the IR compensation plan, and the use of the various marketing tools available to the IR. The Company publishes a monthly newsletter for the IRs providing informative and motivational articles (the "Communicator"), as well as recognizing IR achievements. The Communicator allows the Company to keep the IRs up to date on new promotions, products, developments, and changes to the Company's policies and procedures. The Company also offers for sale through its catalogs a wide variety of marketing tools, audio and videotapes, visual aids, desk accessories, and clothing and novelty items designed to assist IRs in their marketing efforts and to promote name recognition of the Company. The Company regularly updates its marketing materials to reflect the Company's available services and products and timely information about the Company. The Company holds an annual convention, known as "Excelebration™," for IRs each year. This event provides recognition to the top performers, direct access to senior management, and a chance for IRs to share experiences and develop support systems. The Company also participates throughout the country in rallies that current IRs and potential new IRs attend to learn more about the Company.

To service its IR base, the Company is currently operating a service center staffed by service agents who have automated systems to answer IR questions and provide IR support. This system includes a current database of all IRs, their downlines, and their subscribers. The Company also maintains an interactive voice recognition system that allows IRs 24-hour access to information through their touch-tone phones. In addition, the Company has developed a proprietary commission processing system to process the high volumes of data necessary to calculate commissions on long distance and paging usage, commissions on the acquisition of long distance and paging subscribers, and commissions on IR training. This system incorporates the provisions of the Company's marketing program to prepare monthly downline reports and commission payment details to IRs.

Residential Dial Around Products and Services

The Company's residential dial around products are marketed through marketing subsidiaries under the Dial & Save℠, Telco Choice℠, and Long Distance Wholesale Club℠ brand names. The brands are differentiated by rate structure and marketing approach, and the Company believes that its multi-brand strategy heightens market penetration by broadening customer exposure to dial around and appealing to different segments of the population.

The Company markets these products and services primarily through direct mail pieces that seek to educate potential customers regarding dial around and its benefits. Direct mail is targeted towards residential customers within a specified geographic region and includes a service explanation and dialing instructions, a general pricing comparison and a set of reminder stickers highlighting the Company's CIC Codes for customers to keep near their telephone.

Prospective customers do not need to sign-up or call the Company to take advantage of its discounted service offerings upon receiving a Company mail solicitation. The Company works with various outside advertising agencies to design the copy and creative components of the direct mail marketing pieces and contracts with various vendors of mail shop and printing services in an effort to ensure that mail is sent out in a timely and cost-effective manner. The Company's data processing resources allow for prompt monitoring of customer long distance usage and permit the Company to carefully measure response rates to its direct mail campaigns. The Company constantly strives to improve response rates by varying the design and components of its direct mail marketing packages, and seeks to engineer the timing of its initial and follow-on direct mail campaigns to maximize response rate and grow overall market penetration. In addition, the Company also utilizes other media to supplement direct mail.

Commercial Products and Services

The Company markets its commercial products and services through a direct commercial sales force of approximately 311 sales representatives, 117 sales management personnel and an independent dealer organization consisting of approximately 275 active dealers. These sales representatives and dealers office out of regional sales offices which are located in major metropolitan areas throughout the United States. In addition, IRs who have historically sold residential and small business products, recently began marketing the Company's commercial products and services with the help of trained commercial sales representatives. The Company's sales representatives and IRs target a full range of small and large business owners and market the Company's services through personal contacts which emphasize customer service, term plans, network quality, value-added services, reporting, rating and promotional discounts. Sales representatives are compensated in the form of salary plus commission while IRs are paid commissions based upon the acquisition of customers and the customers' long distance usage.

Subscriber Care

The Company strives to provide high quality subscriber care and support and believes that personal contact with its subscribers through IRs, sales representatives, and customer service representatives is a significant factor in subscriber acquisition and retention. The Company encourages IRs and sales representatives to contact each of their subscribers on a monthly basis to keep the subscriber satisfied with the Company's long distance and paging service.

The Company operates four customer service centers staffed by the Company's customer service employees, who have completed a certification and training program provided by the Company. To enhance the effectiveness of the customer service representatives, the Company, in addition to the initial training program, provides ongoing training to all customer service representatives. The Company's customer service department uses on-line, real-time automated systems that provide notes from all prior contacts with the subscriber, and provide a complete account and payment history for subscribers directly billed by the Company. Through this proprietary contact management software, the Company is able to provide a high level of subscriber care. The Company also provides subscriber support on a multilingual basis.

Network and Operations

The Company's Telco subsidiary operates a nationwide telecommunications network consisting of seven switches, leased transmission lines and sophisticated network management systems designed to optimize traffic routing. This network currently originates traffic in all or some part of 48 states and the District of Columbia and operates as an "open network", meaning that any individual within the Company's originating service area whose LEC provides equal access can access the Company's long distance network by dialing either of the Company's CIC codes, or by presubscribing to the Company as their long distance service provider.

The network provides high quality, reliable transmission and switching. The Company's network surveillance capabilities, including self-diagnostic software, generally enable the Company to anticipate and correct problems before they result in service interruption. The Company's technicians remotely monitor the Company's entire network 24 hours a day, 7 days a week, from its Network Control Centers. To reduce the potential impact of any equipment or transmission failure, the Company can reroute or restore transmissions through the Company's standby transmission facilities or reroute traffic over the networks of other carriers. The Company's technicians also monitor the network for fraud on a real-time basis, using computer systems that detect unusual or high volume calling patterns.

Switching Facilities

The Company's Telco subsidiary currently operates seven DSC Communications Corporation ("DSC") DEX 600S, 600 and 600E digital telecommunications switches in Fort Lauderdale, Florida; Davenport, Iowa; Chattanooga, Tennessee; Austin, Texas; Washington, D.C.; Las Vegas, Nevada and New York, New York. An additional two switches in Los Angeles, California and Cleveland, Ohio are being deployed in the first half of 1998. Switches are digital computerized routing facilities that receive calls, route calls through transmission lines to their destination and record information about the source, destination and duration of the calls. In order for a call to be completed through a switch, there must be two ports available — an incoming port and an outgoing port. For example, if a switch is equipped with 30,000 ports, the switch can accommodate up to 15,000 simultaneous telephone calls. The Company's switches are currently configured with 13,824 to 51,840 equipped ports. The Company's DEX 600 switches can be expanded to a configuration with 30,720 equipped ports while the Company's DEX 600E switches can be expanded to a configuration with 107,520 equipped ports.

The Company continually evaluates the capacity and location of the switches based on current and projected customer traffic. In order to maximize the efficiency of the network, the Company has recently entered into an agreement for the purchase and installation of multiple DSC advanced switching platforms. These technologically advanced switches will increase network capacity and broaden service offerings. Specifically, the DSC products include the MegaHub® 600E tandem switching systems as well as the elements from its intelligent network ("IN") product line such as the DSC INfusion℠ Signal Transfer Point (STP) W/2 systems, along with other network applications.

Transmission Lines

The Company owns approximately 100,000 network miles of DS-3 capacity (under a long-term right to use agreement) and also leases additional transmission lines from a variety of facilities-based and resale long distance carriers. The Company's contracts with these entities typically have terms ranging from 12 to 60 months. The Company supplements its leased "on-network" capacity with "off-net" services from a variety of resale and facilities-based long distance carriers. In addition, the Company does not have any on-network international network arrangements and exclusively resells the network capacity of other resale and facilities-based long distance carriers to international destinations.

Network Management Systems

Once calls are originated and routed over leased digital, transmission facilities to the Company's nearest switch location and then routed on a least-cost basis to either the Company's leased network or to an off-net supplier for termination. The Company utilizes Digital Access Cross Connect Systems ("DACS") to electronically cross-connect circuits thereby increasing call routing and circuit provisioning efficiency and providing better network monitoring capabilities. The Company has installed Tellabs ABS Titan 5500 3/1 and 530 1/0 DACS equipment on all switches. In addition, the Company has configured a large portion of the network with Signaling System 7 Common Channel Signaling ("SS7"). This network protocol reduces connect time delays and provides additional technical capabilities and efficiencies for call routing. The Company is currently in the process of deploying SS7 in additional portions of the network.

Carrier Agreements

The Company currently has agreements with Frontier, IXC Long Distance, Inc. ("IXC Long Distance"), MCI, and WorldCom to provide switching services and network transmission of its long distance traffic. The agreements with IXC Long Distance, MCI, and WorldCom each contain minimum usage commitments, while the agreement with Frontier provides for Frontier to be the exclusive carrier for certain calling card calls and personal 800 service. The Company is currently meeting all minimum commitments under these contracts.

Competition

The long distance telecommunications market is highly competitive. The principal competitive factors affecting the Company's market share are pricing, customer service, and diversity of products, services and features. The Company's ability to compete effectively will depend on its continued ability to maintain high quality, market-driven services at prices generally equal to or below those charged by its competitors.

Several of the Company's competitors are substantially larger and have substantially greater financial and technical resources. As the Company grows, it expects to face increased competition, particularly from AT&T, MCI, and Sprint. The Company also competes with regional IXCs and resellers for interLATA long distance services and with local exchange carriers for interLATA and intraLATA long distance services. The Company's pricing strategy is to keep its rates generally below those of AT&T, MCI, and Sprint. Competition within the industry is expected to increase as a result of LECs being permitted to provide long distance service as a result of the passage of the Telecommunications Act of 1996. See "—Regulation."

Legislative, judicial, and technological factors have helped to create the foundation for smaller long distance providers to emerge as viable competitive alternatives to AT&T, MCI, and Sprint for long distance telecommunication services. The FCC has required that all IXCs allow the resale of their services, and the AT&T Decree substantially eliminated different access arrangements as distinguishing features among long distance carriers. In recent years, national and regional network providers have substantially upgraded the quality and capacity of their domestic long distance networks, resulting in significant excess transmission capacity for voice and data communications. Due to anticipated advances in telecommunications transmission technology, the Company expects the resale of excess transmission capacity to continue to be an important factor in long distance telecommunications.

Regulatory Developments

The 1996 Telecommunications Act opens the local phone services market to competition by requiring LECs to permit interconnection to their networks and establishing, among other things, LEC obligations with respect to unbundled access to network elements, resale, number portability, dialing parity, access to rights-of-way, and mutual compensation. The legislation also codifies the LECs' equal access and nondiscrimination obligations and preempts inconsistent state regulation. In addition, the legislation contains special provisions that eliminate the AT&T Decree and the GTE Decree, thereby eliminating certain restrictions on the BOCs and GTE Operating Companies ("GTOCs") from providing long distance services and engaging in telecommunications equipment manufacturing. These new statutory provisions permit the BOCs to enter the long distance market under certain circumstances. As of the date of enactment of the legislation, a BOC is no longer restricted from providing interLATA long distance service outside of those markets in which it provides local exchange service (referred to as "out-of-region" long distance service). A BOC may provide long distance service within the regions in which it also provides local exchange service (referred to as "in-region" service) if it satisfies certain procedural and substantive requirements and upon obtaining FCC approval on a state-by-state basis. The GTOCs are permitted to enter the long distance market as of the date of enactment without regard to limitations by region, although the necessary state and/or federal regulatory approvals that are otherwise applicable to the provision of intrastate and/or interstate long distance service will need to be obtained, and the GTOCs are subject to the provisions of the 1996 Telecommunications Act that impose interconnection and other requirements on LECs.

The Company expects that some or all of the BOCs will seek to provide out-of-region long distance service. Certain of them have already taken steps to provide out-of-region service in multiple states. It is not known when, and under what specific condition, other applications will be granted by the state regulatory commissions in those states. Several of the BOCs have unsuccessfully sought authority from the FCC to provide in-region long distance service in various states. While no application has yet been granted by the FCC, it is expected that most or all of the BOCs will eventually be granted authority to provide in-region long distance service in many or all states.

As required by the 1996 Telecommunications Act, in August 1996, the FCC adopted new rules implementing certain provisions of the 1996 Telecommunications Act (the "Interconnection Orders"). These rules are designed to implement the pro-competitive, deregulatory national policy framework of the new statute by removing or minimizing the regulatory, economic, and operational impediments to competition for facilities-based and resold local services, including switched local exchange service. Although setting minimum, uniform, national rules, the Interconnection Orders also rely heavily on states to apply these rules and to exercise their own discretion in implementing a pro-competitive regime in their local telephone markets. The Interconnection Orders are primarily important to the Company at this time insofar as they establish the basis for the cost to the Company of providing resold local services. Consistent with the 1996 Telecommunications Act, the Interconnection Orders require incumbent LECs to offer their telecommunications services at retail prices minus avoided costs. The Interconnection Orders also require, among other things, that intraLATA presubscription (pursuant to which LECs must allow customers to choose different carriers for intraLATA toll service without having to dial extra digits) be implemented no later than February 1999. Portions of the Interconnection Orders were struck down by the U.S. Eighth Circuit Court of Appeals in 1997, but the United States Supreme Court has agreed to review the lower court decision. The Supreme Court is expected to issue a decision in the first half of 1999. In the meantime, certain of the rules adopted in the Interconnection Orders, including rules that concern the wholesale pricing of local services, cannot be implemented. Nevertheless, the Company generally believes the trend toward increased competition and deregulation of the telecommunications industry will be accelerated by the 1996 Telecommunications Act and subsequent developments.

The 1996 Telecommunications Act also addresses a wide range of other telecommunications issues that will potentially impact the Company's operations, including provisions pertaining to regulatory forbearance by the FCC; the imposition of additional liability for the unauthorized switching of subscribers' long distance carriers; the creation of new opportunities for competitive local service providers; provisions pertaining to interconnection; provisions pertaining to universal service and access charge reform; and requirements pertaining to the treatment and confidentiality of subscriber network information. The legislation requires the FCC to conduct a large number of proceedings to adopt rules and regulations to implement the new statutory provisions and requirements. It is unknown at this time precisely the nature and extent of the impact that the legislation and regulatory developments will have on the Company.

The Company has applied for authority to expand its existing state authorizations to provide resold local exchange service in certain states. As a result of the opening of this market, the Company is in the process of obtaining state authority, where necessary, to provide resold local services as a complement to its long distance services. Resold local exchange service is a new service development, and there can be no assurance of how local exchange resale will be implemented or what effect it will have on competition within the telecommunications industry generally or on the competitive position of the Company specifically. To the extent that the Company converts from a reseller to a facilities-based carrier, modification or amendment of the Company's state certifications may be required. As of December 31, 1997, the Company is certified to provide resold local exchange services in 31 states.

Regulation

The terms and conditions under which the Company provides communications services are subject to government regulation. Federal laws and FCC regulations generally apply to interstate telecommunications, while particular state regulatory authorities generally have jurisdiction over telecommunications that originate and terminate within the same state. In addition, the Company's network marketing system is or may be subject to or affected by extensive federal and state regulation.

Federal

The Company is classified by the FCC as a non-dominant carrier, and therefore is subject to minimal federal regulation. After the recent reclassification of AT&T as a non-dominant carrier in its provision of domestic services, only the LECs are classified as dominant carriers for the provision of interstate access services. As a consequence, the FCC regulates many of the rates, charges, and services of the LECs to a greater degree than the Company. The FCC has proposed that the BOCs offering out-of-region interstate interexchange services be regulated as non-dominant carriers, as long as such services are offered by an affiliate of the BOC that complies with certain structural separation requirements, which may make it easier for the BOCs to compete directly with the Company for long distance subscribers.

The FCC generally does not exercise direct oversight over cost justification and the level of charges for service of non-dominant carriers, such as the Company, although it has the statutory power to do so. Non-dominant carriers are required by statute to offer interstate and international services under rates, terms, and conditions that are just, reasonable, and not unduly discriminatory. The FCC imposes only minimal reporting requirements on non-dominant carriers, although the Company is subject to certain reporting, accounting, and record keeping obligations. A number of these requirements are imposed, at least in part, on all carriers and others are imposed on carriers, such as the Company, whose annual operating revenues exceed $100 million.

In addition, informal complaints are lodged from time to time against the Company before the FCC and various state agencies for various reasons, to which the Company has timely responded. Although such complaints could result in additional legal actions or proceedings being brought against the Company, the Company believes that such matters will be satisfactorily resolved without a material adverse impact upon the Company's results of operations; however, the Company can not be assured of such resolution. Should the Company's belief with respect to any and all complaints pending before the FCC be incorrect, the Company could be subject to financial penalties and potential revocation of its operating authority for interstate or intrastate calls, as applicable.

The Company currently has separate tariffs on file with the FCC, covering its domestic interstate services and international services. Although the tariffs of non-dominant carriers, and the rates and charges they specify, are subject to FCC review, they are presumed to be lawful and are seldom contested. Resale carriers, like all other interstate carriers, are also subject to a variety of miscellaneous FCC regulations that, for instance, govern the documentation and verifications necessary to change a subscriber's long distance carrier, limit the use of "800" numbers for pay-per-call services, require disclosure of certain information if operator assisted services are provided, and govern interlocking directors and management.

On December 31, 1997, the U.S. District Court for the Northern District of Texas in Wichita Falls found Sections 271-275 of the Telecommunications Act to be unconstitutional. These provisions require the BOCs to meet certain requirements as a condition to providing in region long distance services. The District Court subsequently stayed the December 31, 1997 order pending review by a federal court of appeals, which is expected to be completed by the end of 1998. This stay restores to the telecommunications industry for the time being the regulatory status it had before the December 31, 1997 ruling.

State

The Company is subject to varying levels of regulation in the states in which it is currently authorized to provide intrastate telecommunications services. The vast majority of the states require the Company to apply for certification to provide intrastate telecommunications services, or to register or to be found exempt from regulation, before commencing intrastate service. The vast majority of states also require the Company to file and maintain detailed tariffs listing their rates for intrastate service. Many states also impose various reporting requirements and/or require prior approval for transfers of control of certified carriers, and/or for corporate reorganizations; acquisitions of telecommunications operations; assignments of carrier assets, including subscriber bases; carrier stock offerings; and incurrence by carriers of significant debt obligations. Certificates of authority can generally be conditioned, modified, canceled, terminated, or revoked by state regulatory authorities for failure to comply with state law and/or the rules, regulations, and policies of the state regulatory authorities. Fines and other penalties, including the return of all monies received for intrastate traffic from residents of a state, may be imposed for such violations. If state regulatory agencies conclude that the Company has taken steps without obtaining the required authority, they may impose one or more of the sanctions listed above.

Network Marketing

The Company's network marketing system is or may be subject to or affected by extensive government regulation, including, without limitation, state regulation of marketing practices and federal and state regulation of the offer and sale of business franchises, business opportunities, and securities. In addition, the Internal Revenue Service and state taxing authorities in any of the 50 states where the Company has IRs could classify the IRs as employees of the Company (as opposed to independent contractors). The Company believes that it is in compliance with the requirements of federal and state regulatory authorities and maintains communications regularly with the various regulatory authorities in each jurisdiction. A final determination by any other jurisdiction that the IRs are employees could cause the Company to be subject to penalties and interest for taxes not withheld, require the Company to withhold taxes in the future, and require the Company to pay unemployment insurance. Additionally, an adverse determination by any one state could influence the decisions of regulatory authorities in other jurisdictions. Any or all of such factors could adversely affect the way the Company does business and could affect the Company's ability to attract potential IRs. While the regulations governing network marketing are complex and vary from state to state, the Company believes that it is in compliance with and has from time to time modified its network marketing system to comply with interpretations of various regulatory authorities.

Various governmental agencies monitor direct selling activities, and the Company has occasionally been requested to supply information regarding its marketing plan to certain of such agencies. Although the Company believes that its network marketing system is in substantial compliance with laws and regulations of each state relating to direct selling activities, there is no assurance that legislation and regulations adopted in particular jurisdictions in the future will not adversely affect the Company's operations.

Employees

As of December 31, 1997, the Company employed approximately 3,000 people. This number does not include IRs, who are classified by the Company as independent contractors rather than employees of the Company. The Company's employees are not unionized, and the Company believes its relationship with its employees is good.

Item 2. Properties

The Company is headquartered in Dallas, Texas and operates out of several leased and owned facilities consisting of an aggregate of 1,138,900 square feet. The following table provides summary information regarding these facilities as of March 1, 1998:

Function	Location	Approximate Square Footage	Leased or Owned
General & Administrative	Dallas, TX	344,500	Leased
General & Administrative	Chantilly, VA	40,200	Leased
General & Administrative	Chicago, IL	14,700	Leased
FirstExcel, F.S.B.	Dallas, TX	12,500	Leased
Commercial Sales Division	(1)	193,500	Leased
Service & Distribution Center	Addison, TX	289,000	Owned
Service Center	Houston, TX	57,900	Leased
Service Center	Reno, NV	48,000	Leased
Service Center	Chantilly, VA	80,000	Owned
Service Center	Arlington, VA	14,500	Leased
Switch Site	Los Angeles, CA	6,200	Leased
Switch Site	Washington, D.C.	3,600	Leased
Switch Site	Fort Lauderdale, FL	4,100	Leased
Switch Site	Davenport, IA	3,500	Leased
Switch Site	Las Vegas, NV	5,000	Leased
Switch Site	New York, NY	6,500	Leased
Switch Site	Cleveland, OH	5,000	Leased
Switch Site	Chattanooga, TN	5,400	Leased
Switch Site	Austin, TX	4,800	Leased

(1) At December 31, 1997, the Company had 27 leased CSD offices located throughout the United States.

Item 3. Legal Proceedings

On August 30, 1996, AT&T filed suit in the United States District Court for the District of Delaware against the Company, its subsidiary, EXCEL Communications Marketing, Inc., and EXCEL Telecommunications, Inc. alleging past and continued infringement of a single patent without specifying the amount of damages. The court granted summary judgment in favor of EXCEL on March 27, 1998. The court held that the patent is invalid because it relates to unpatentable subject matter under U.S. patent laws. The judgment is subject to appeal to the U.S. Federal Circuit Court of Appeals.

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

Excelcom held a special meeting of Stockholders on October 11, 1997 in connection with the business combination with Telco. Holders of common stock voted at the special meeting on the following four matters which were set forth in the Joint Proxy Statement of Excelcom and Telco dated September 15, 1997.

(a) To approve the Merger Agreement and the transactions contemplated thereby.

Votes:	
For:	97,934,860
Against:	31,019
Abstain:	54,289
Broker non-votes*:	1,208,663

(b) To approve the EXCEL Communications, Inc. 1997 Stock Option Plan.

Votes:	
For:	94,006,322
Against:	3,886,219
Abstain:	127,627
Broker non-votes*:	1,208,663

(c) To approve the EXCEL Communications, Inc. 1997 Director Stock Option Plan.

Votes:	
For:	98,117,856
Against:	300,008
Abstain:	170,512
Broker non-votes*:	640,455

(d) To authorize proxies to vote upon any other business that may properly come before the meeting or any adjournment thereof.

Votes:	
For:	98,540,160
Against:	366,314
Abstain:	322,357
Broker non-votes*:	None

* Broker non-votes occur when a broker holding stock in street name does not vote these shares.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

In May 1996, EXCEL's common stock, par value $.001 per share, began trading on the New York Stock Exchange under the symbol "ECI." The following table sets forth, on a per share basis, the range of the high and low sale price information of shares of common stock as reported by the New York Stock Exchange, for the periods indicated during the fiscal years ended December 31, 1997 and 1996.

	Market Price Per Share			
	1997		1996	
	High	Low	High	Low
First Quarter	$21^{5/8}$	13	N/A	N/A
Second Quarter	$29^{3/8}$	$12^{3/8}$	47	$25^{1/2}$
Third Quarter	$28^{7/8}$	$20^{11/16}$	$31^{7/8}$	$19^{1/2}$
Fourth Quarter	$28^{15/16}$	$14^{1/8}$	$35^{1/2}$	20

As of March 23, 1998 there were approximately 3,491 registered holders of EXCEL's common stock.

The Company has in the past declared dividends, including a dividend in the amount of $20.0 million declared by the Company's predecessor on December 31, 1995 to its then existing shareholders, which the Company paid during the second quarter of 1996. However, the Company does not intend to pay any cash dividends with respect to its common stock in the foreseeable future. The Company's Board of Directors will determine the Company's dividend policy in the future based upon, among other things, the Company's results of operations, financial condition, business opportunities, capital requirements, contractual restrictions, and other factors deemed relevant at the time.

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data for the Company as of the dates and for the periods indicated. The data set forth below in this table should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company.

	Year ended December 31,				
	1993	1994	1995	1996	1997 (1)
	(In thousands, except per share and per minute data)				
Statement of Operations Data:					
Revenues:					
Communication services	$ 24,198	$ 108,819	$ 363,301	$ 1,090,649	$ 1,333,101
Marketing services(2)	6,650	43,339	143,397	260,653	121,251
Total revenues	30,848	152,158	506,698	1,351,302	1,454,352
Operating expenses:					
Communication	13,761	58,925	209,995	596,598	716,781
Depreciation and amortization	190	346	1,239	6,880	23,676
Selling, general and administrative	13,351	66,157	217,751	530,295	504,421
Non-recurring charges (3)	—	—	—	—	64,637
Total operating expenses	27,302	125,428	428,985	1,133,773	1,309,515
Operating income	3,546	26,730	77,713	217,529	144,837
Interest expense	(75)	(295)	(593)	(261)	(8,551)
Other income (expense)	24	83	(5,781)	12,647	7,301
Income before income taxes	3,495	26,518	71,339	229,915	143,587
Provision for income taxes	1,126	10,648	26,893	85,488	55,661
Income before cumulative effect of change accounting principle	2,369	15,870	44,446	144,427	87,926
Cumulative effect of change in accounting principle, net of income taxes (4)	—	—	—	—	65,214
Net income	$ 2,369	$ 15,870	$ 44,446	$ 144,427	$ 22,712
Diluted earnings per common and equivalent share:					
Income per share before cumulative effect of change in accounting principle, net of income taxes (5)	$ 0.03	$ 0.18	$ 0.46	$ 1.35	$ 0.76
Cumulative effect of change in accounting principle, net of income taxes, on earnings per share (5)	—	—	—	—	(0.56)
Diluted earnings per share (5)	$ 0.03	$ 0.18	$ 0.46	$ 1.35	$ 0.20
Cash dividends declared per share	$ —	$ 0.046	$ 0.202	$ —	$ —
Supplemental Operating Data:					
Long distance minutes of usage (in 000's)(6)	118,357	544,552	2,101,240	6,271,203	7,902,190
Weighted average long distance revenue per minute of usage(7)	$ 0.204	$ 0.200	$ 0.173	$ 0.175	$ 0.166
Weighted average communication charges per minute of usage(8)	$ 0.116	$ 0.108	$ 0.100	$ 0.095	$ 0.089
Balance Sheet Data:					
Working capital, net	$ (186)	$ 7,134	$ 1,071	$ 209,227	$ 31,599
Property and equipment, net	662	2,476	8,560	76,912	281,847
Total assets	9,058	59,412	203,581	579,164	1,637,016
Long-term obligations, net of current maturities	313	3,369	345	100	477,292
Stockholders' equity	1,995	13,635	37,708	322,281	752,707

(1) On October 14, 1997, the Company completed its merger with Telco. The Merger was accounted for as a purchase; accordingly, the operating results for Telco are included in the Company's operating results after October 14, 1997, the effective date of the Merger. See Note 3 to the Consolidated Financial Statements.

(2) Revenues from marketing services include the effect of deferring a portion of the cash received during each period and amortizing the deferred revenues over 12 months. See Note 1 to the Consolidated Financial Statements.

(3) Results for 1997 include $64.6 million in non-recurring charges primarily related to the consolidation and integration of Telco. See Note 4 to the Consolidated Financial Statements.

(4) Effective January 1, 1997, the Company changed its method of accounting for subscriber acquisition costs. See Note 1, "– Marketing Activities", to the Consolidated Financial Statements.

(5) See Note 8 to the Consolidated Financial Statements for an explanation of the number of shares used in computing earnings per share.

(6) Long distance minutes of usage represent minutes billable to subscribers during the period.

(7) Weighted average long distance revenue per minute of usage equals revenues for all long distance phone services divided by the aggregate minutes of usage.

(8) Weighted average communication charges per minute of usage equals the cost of all long distance phone services sold to the Company's subscribers divided by the aggregate minutes of usage.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements set forth in this report are forward looking statements that involve a number of risks and uncertainties. Among many factors that could cause actual results to differ materially are the following: the Company's ability to manage rapid growth; the Company's ability to attract, maintain, and motivate a large base of IRs; litigation including that with independent representatives ("IRs"), regulation and management of IRs; competition in the long distance telecommunications and paging industries; the Company's ongoing relationship with its long distance carriers; dependence upon key personnel; subscriber attrition; the adoption of new, or changes in, accounting policies, practices, and estimates and the application of such policies, practices, and estimates; federal and state governmental regulation of the long distance telecommunications or direct selling industry; the Company's ability to develop and manage its own long distance network; the Company's ability to maintain, operate, and upgrade its information systems; and the Company's success in the offering of paging and other additional communications products and services.

General

EXCEL provides long distance telecommunications and paging services to both residential and commercial customers in the United States. The Company has developed several marketing channels which include direct sales to residential, commercial and wholesale customers through IRs, dealers and direct sales personnel in addition to direct mail marketing of several dial around products. These multiple distribution channels which target both residential and commercial customers are a key element of the Company's business strategy as they allow the Company to balance capacity of network traffic and provide multiple avenues for growth.

The Company's Telco subsidiary operates a nationwide telecommunications network consisting of seven switches, leased transmission lines and sophisticated network management systems designed to optimize traffic routing. This network currently originates traffic in all or some part of 48 states and the District of Columbia and operates as an "open network", meaning that any individual within the Company's originating service area, whose LEC provides equal access, can access the Company's long distance network by dialing either of the Company's CIC codes, or by presubscribing to the Company as their long distance service provider.

The Company owns approximately 100,000 network miles of DS-3 capacity (under a long term right to use agreement) and also leases additional transmission lines from a variety of facilities-based and resale long distance carriers. The Company's contracts with these entities typically have terms ranging from 12 to 60 months. The Company supplements its leased "on-network" capacity with "off-net" services from a variety of resale and facilities-based long distance carriers. In addition, the Company does not have any on-network international network arrangements and exclusively resells the network capacity of other resale and facilities-based long distance carriers to international destinations.

The Company currently has agreements with Frontier Communications Services, Inc. ("Frontier"), IXC Long Distance, Inc. ("IXC Long Distance"), MCI Telecommunications Corp. ("MCI"), and WorldCom, Inc. ("WorldCom") to provide switching services and network transmission of its long distance subscribers' traffic. The agreements with IXC Long Distance, MCI, and WorldCom each contain minimum usage commitments, while the agreement with Frontier provides that Frontier is to be the exclusive carrier for certain calling card calls and personal 800 service. The Company is currently meeting all minimum commitments under these contracts. During 1998, the Company intends to migrate a substantial portion of its traffic currently being carried by third parties onto its own network and to continue to meet its minimum commitments.

The Company's revenues primarily consist of revenues for communication services and marketing services. Revenues for communication services, as reflected in the Company's Consolidated Financial Statements, are net of the effect of certain adjustments, including those for unbillable call records. The Company's long distance subscribers are located throughout the United States, and the Company completes subscriber calls to all directly dialable locations worldwide. The Company bills its subscribers for long distance usage based on the type of calls, time of calls, duration of calls, the terminating phone numbers, and each subscriber's rate plan in effect at the time of the call.

Marketing services revenues are primarily comprised of receipts for materials and services rendered by EXCEL to IRs and area coordinators ("ACs"). Except in certain states, IRs are required to make an initial refundable application deposit with EXCEL as an expression of commitment. There is no additional cost to participate. IRs have an option to purchase a start-up package, which includes a training class and training materials, business forms, promotional and presentation materials, ongoing technical and administrative support services, and monthly reports. If the start-up package is purchased, the application deposit requirement is waived. In addition, EXCEL offers training positions whereby ACs, certified by the Company, provide training to new IRs. The portions of the marketing services revenues received that relate to ongoing technical and administrative support services are deferred and amortized over the period in which the services are used in order to match those revenues with the costs of providing the related support services.

Operating expenses include communication charges, depreciation and amortization, and selling, general and administrative expenses. Communication charges include the costs of operating the Company's network and amounts paid by the Company based on the Company's subscribers' long distance and paging usage. The Company pays its carriers based on the type of calls, time of certain calls, duration of calls, the terminating phone numbers, and the terms of the Company's contract in effect at the time of the calls.

Selling, general and administrative expenses consist of marketing costs and the costs of providing teleservices and other support services for subscribers, billing and collecting long distance and paging revenues, and the costs of the information systems and personnel required to support the Company's operations. Marketing costs include commissions paid to IRs and sales representatives, the costs of providing training, business forms, promotional and presentation materials, technical and administrative support services, and monthly reports to IRs, salaries and commissions paid to CSD sales representatives, and direct mail advertising expenses. Commissions paid to IRs are based upon the acquisition of new long distance and paging subscribers ("subscriber acquisition costs") and long distance telephone and paging usage by subscribers. The Company also pays commissions for the training of IRs and certain ACs. Effective January 1, 1997, the Company changed its method of accounting for subscriber acquisition costs. Previously, the Company had deferred the portions of commissions paid to IRs that directly relate to the acquisition of long distance and paging subscribers. Beginning January 1, 1997, the Company began fully expensing subscriber acquisition costs in the period incurred in order to present its operating results in a manner more consistent with other telecommunications companies against which its results are now compared.

EXCEL and Telco Merger

On October 14, 1997, EXCEL succeeded to the businesses of Excelcom and Telco as a result of mergers of wholly-owned subsidiaries with and into Excelcom and Telco, pursuant to the Agreement and Plan of Merger dated as of June 5, 1997 (the "Merger"). The Merger creates the fifth largest long distance company in the United States based on the number of presubscribed lines, with pro forma consolidated annualized revenues of approximately $2 billion, 11 billion annualized long distance minutes of usage, 6.0 million customers, and approximately 100,000 network miles of DS-3 capacity. (See Note 3–"EXCEL and Telco Merger".)

At the closing of the Merger on October 14, 1997: (i) Excelcom and Telco became wholly-owned subsidiaries of EXCEL; (ii) each outstanding share of Excelcom common stock converted into the right to receive one share of common stock of EXCEL; (iii) each outstanding share of Telco common stock converted into the right to receive 0.7595 shares of common stock of EXCEL and $15.00 in cash; (iv) except for certain options, each then outstanding and unexercised option to acquire one share of Telco common stock was assumed by EXCEL and converted into an option to acquire 1.5190 shares of EXCEL common stock, and the exercise price per share with respect to each such assumed option was adjusted to equal the exercise price under the original option divided by 1.5190; (v) each then outstanding and unexercised option to acquire one share of Excelcom common stock was assumed by EXCEL and converted into an option to acquire one share of EXCEL common stock, and the exercise price per share was unchanged. Consideration for the Merger consisted of $666.2 million in cash (including $164.5 million of Telco debt paid by EXCEL) and 25,376,506 shares of common stock, $.001 par value, of the Company ("Company Common Stock").

On October 14, 1997, EXCEL made an initial borrowing of approximately $544 million under the new credit facility to fund the cash purchase price of the Merger and related costs and expenses and to refinance existing indebtedness of Telco. The initial LIBOR spread and Prime spread were 1.0% and 0%, respectively. (See Note 5 - "Long-Term Debt and Capital Lease Obligations".)

The merger of Telco into EXCEL has been accounted for under the "purchase" method of accounting, with EXCEL as the acquirer in accordance with generally accepted accounting principles. The results of operations for the year ended December 31, 1997 include Telco's financial results after October 14, 1997, the effective date of the Merger. The merger with Telco resulted in goodwill of $906.6 million which is being amortized straight-line over a period of 40 years.

Non-Recurring Charges

During the fourth quarter of 1997, primarily as a result of the Merger, the Company initiated plans to reorganize and restructure its management and operational organization and facilities to eliminate duplicate facilities, abandon certain projects and activities, and to take further advantage of the synergies available to the combined entities. Accordingly, the Company charged to operations the estimated costs of such reorganization and restructuring activities in addition to certain legal expenses, vendor disputes, and other charges. These costs amount to $64.6 million and are included in non-recurring charges in the Company's Consolidated Statement of Operations.

The following table reflects the components of the significant items included in non-recurring charges for the year ended December 31, 1997 (amounts in thousands):

	Year Ended December 31, 1997
Reduction in carrying value of certain assets	$ 47,678
Costs to exit unfavorable contracts	5,559
Legal expenses, vendor disputes, and other charges	11,400
Non-recurring charges	$ 64,637

Current and future issues affecting the Company's operations for 1998 and beyond include the following:

Ability of the Company to Migrate Traffic. The Company's realization of operating cost savings from the Merger will be affected by the Company's ability to direct traffic to its network from EXCEL's existing third party carriers in a timely manner, which is expected to result in an overall lower cost per minute. The Company's ability to migrate this traffic in a timely manner will be limited by operational and network infrastructure limitations as well as by the continuing purchase commitment requirements under EXCEL's agreements with third party carriers.

Regulatory Changes. The operations of the Company will continue to be affected by the ongoing events associated with the 1996 Telecommunications Act. Such events include access charge reform which could change existing transmission costs for both the Company and other long distance companies, the entry by the Regional Bell Operating Companies into the long distance marketplace, and the ability of long distance companies like the Company to begin marketing local telephone services.

In conjunction with upcoming local competition, incumbent local phone companies are not likely to provide billing services for customers presubscribed to competitive local phone companies. This would force the Company to either bill the customer directly, enter into a billing and collection agreement with new local phone companies or seek other alternatives.

Additionally, the Federal Communications Commission has mandated that by June 30, 1998, all telecommunications companies must migrate from their existing five-digit CIC codes (10 + XXX) to seven-digit CIC codes (10 + 10 + XXX). This will require a change in the dialing patterns of the Telco Consumer

Division customers in order to utilize the Company's services, and the Company is required to integrate re-education materials into its future marketing activities.

Competitive Factors. The Company has observed increased competition in all of its distribution channels as well as an increase in the number of promotional, discounted calling plans available to all long distance consumers, particularly relating to residential customers. The impact to the Company has included (i) a decline in the Company's residential revenue per minute as the Company has responded to competitive pressures with lower priced products, and (ii) a sequential decline in dial around revenues.

Network Costs. The Company is in the process of expanding its network in order to facilitate the on-net migration of traffic that is currently being carried by third parties. This will result in an increase in recurring fixed costs associated with the network which the Company anticipates will be offset by reductions in third party costs for switch services. However, the Company may experience a temporary increase in overall network costs as additional fixed costs are incurred in anticipation of the migration of traffic.

Integration of the Companies. The Merger involves the integration of two companies that have previously operated independently and there can be no assurance that the Company will not encounter significant difficulties in integrating the respective operations of EXCEL and Telco including, but not limited to, integrating, documenting, and operating certain software systems; retaining key employees; and integrating other operational functions, or that the benefits expected from such integration will be realized. These benefits include the migration of EXCEL traffic from third parties to the Telco network, the expansion of commercial products to be sold by the IRs with the assistance of Telco's commercial sales force, reduced capital spending and reductions in various general and administrative expenses.

Increased Customer Acquisitions. During the fourth quarter of 1997, the Company observed an increase in its acquisition of new customers through its network marketing channel. In connection with the Company's IR marketing plan, an upfront customer acquisition commission is typically paid before a customer has generated material usage revenue. In a period of customer growth, commissions paid for new customers can exceed the corresponding profit generated by the additional revenue in the current period and thus reduce net income.

Expansion of Commercial Sales. The Company intends to continue to grow its level of commercial sales As a result, the Company expects to see an increase in its commercial revenues as a percentage of total revenues. Since commercial products tend to generally yield a lower rate per minute, the Company could experience a decrease in its overall revenue per minute and a decline in operating margins.

Year 2000 Issue. The Year 2000 issue is the risk that computer programs using two-digit date fields will fail to properly recognize the Year 2000, with the result being business interruptions due to computer system failures by the Company's software and hardware or that of government entities, service providers, vendors and customers. In response to the Year 2000 issue, the Company has developed a plan to assess the Company's Year 2000 risk and is in the process of performing its review. The Company anticipates that certain software will require replacement or modification. Based on the Company's review to date, it does not expect the cost of software replacement or modification to be material to its financial position or results of operations.

Results of Operations

Year Ended December 31, 1997 Compared to the Year Ended December 31, 1996

Revenues. Total revenues increased 7.1% to $1.5 billion for the year ended December 31, 1997 from $1.4 billion for the year ended December 31, 1996. Communication services revenues increased 18.2% to $1.3 billion for the year ended December 31, 1997 from $1.1 billion for the year ended December 31, 1996 primarily due to an increase in long distance minutes of usage by subscribers. Long distance minutes of usage increased 25.4% to 7.9 billion minutes for the year ended December 31, 1997 from 6.3 billion minutes for the year ended December 31, 1996 primarily due to the inclusion of Telco's minutes beginning October 15, 1997. Long distance revenues per minute of usage decreased by 5.1% to 16.6 cents per minute for the year ended

December 31, 1997 from 17.5 cents per minute for the year ended December 31, 1996. This decrease in revenue per minute of usage is due primarily to the inclusion of Telco's commercial and wholesale minutes which yield a lower revenue per minute than residential minutes. Included in communication services revenue for the year ended December 31, 1997 is net paging revenue of $24.6 million.

Marketing services revenues, which include revenues recognized from IRs for training, business forms, promotional and presentation materials, ongoing technical and administrative support services, and monthly reports, decreased 53.5% to $121.3 million for the year ended December 31, 1997 from $260.7 million for the year ended December 31, 1996, primarily due to a decrease in the number of applications received from new IRs.

Operating Expenses. Communication charges increased 20.1% to $716.8 million for the year ended December 31, 1997 from $596.6 million for the year ended December 31, 1996. Long distance communication charges were 8.9 cents per minute for the year ended December 31, 1997 compared to 9.5 cents per minute for the year ended December 31, 1996. As a percentage of communication services revenues, communication charges were 53.8% for the year ended December 31, 1997 compared to 54.7% for the year ended December 31, 1996. This decrease in communication charges as a percentage of communication services revenues primarily relates to the reduction in per minute rates from the Company's long distance carriers, resulting from migrating long distance traffic from Frontier to WorldCom, MCI and IXC Long Distance.

Depreciation and amortization increased from $6.9 million for the year ended December 31, 1996 to $23.7 million for the year ended December 31, 1997 primarily due to amortization of goodwill resulting from the Merger and an increase in depreciation resulting from assets acquired in the Merger.

Selling, general and administrative expenses decreased 4.9% to $504.4 million for the year ended December 31, 1997 from $530.3 million for the year ended December 31, 1996. Selling expenses, which include commissions paid to IRs, the costs of providing training, and other administrative support services to IRs, and since the Merger, salaries and commissions paid to CSD sales representatives in addition to direct mail advertising costs, decreased from $362.4 million for the year ended December 31, 1996 to $278.0 million for the year ended December 31, 1997, primarily due to a decrease in the number of IRs. General and administrative expenses increased from $167.9 million for the year ended December 31, 1996 to $226.4 million for the year ended December 31, 1997. This increase primarily relates to the inclusion of Telco's operating results after October 14, 1997. As a percentage of communication services revenues, selling, general and administrative expenses were 37.8% for the year ended December 31, 1997 compared to 48.6% for the year ended December 31, 1996.

Included in the Company's operating expenses for the year ended December 31, 1997 is $64.6 million in non-recurring charges primarily related to the consolidation and integration of Telco. (See—"Non-Recurring Charges" and Note 4 to the Consolidated Financial Statements.)

Operating income before non-recurring charges decreased 3.7% to $209.5 million for the year ended December 31, 1997 from $217.5 million for the year ended December 31, 1996. As a percentage of communication services revenues, operating income before non-recurring charges was 15.7% and 19.9% for the years ended December 31, 1997 and 1996, respectively.

The Company's interest expense increased to $8.6 million for the year ended December 31, 1997 from $261,000 for the year ended December 31, 1996. The increase in interest expense results primarily from the payment of interest on debt incurred to fund the acquisition of Telco on October 14, 1997.

Other income (expense) decreased to $7.3 million for the year ended December 31, 1997 from $12.6 million for the year ended December 31, 1996. Included in other income (expense) for the year ended December 31, 1996 is approximately $6.2 million of income related to the sale of the Company's 49% investment in a joint venture. In addition, interest income increased from $6.5 million for the year ended December 31, 1996 to $7.3 million for the year ended December 31, 1997. The increase in interest income was primarily due to additional interest income generated by the investment of cash received from operations and the net proceeds received from the sale of the Company's common stock in the IPO in May 1996 offset by cash used to fund the repurchase of the Company's common stock.

Included in the Company's net income of $22.7 million for the year ended December 31, 1997 is a one-time charge of $65.2 million, net of income taxes, ($0.56 per share) in the first quarter to reflect the change in accounting for subscriber acquisition costs. The Company had net income of $144.4 million for the year ended December 31, 1996. On a pro forma basis, the Company's net income for the year ended December 31, 1996 would have been $121.8 million ($1.14 per share) if this accounting change had been retroactively applied.

Year Ended December 31, 1996 Compared to the Year Ended December 31, 1995

Revenues. Total revenues increased 176% to $1.4 billion for the year ended December 31, 1996 from $506.7 million for the year ended December 31, 1995. The increase in revenues was primarily due to increases in long distance minutes of usage by subscribers and in the number of applications from new IRs and ACs. Communication services revenues increased 203% to $1.1 billion for the year ended December 31, 1996 from $363.3 million for the year ended December 31, 1995. Long distance minutes of usage increased 200% to 6.3 billion minutes for the year ended December 31, 1996 from 2.1 billion minutes for the year ended December 31, 1995.

Marketing services revenues, which include revenues recognized from IRs for training, business forms, promotional and presentation materials, ongoing technical and administrative support services, and monthly reports, increased 82% to $260.7 million for the year ended December 31, 1996 from $143.4 million for the year ended December 31, 1995. These revenues increased primarily due to the growth in applications from new IRs.

The Company experienced operational difficulties late in the second quarter of 1996 due to the failure of Frontier to add the network capacity needed to handle the Company's growth in its subscriber base and related long distance traffic. The Company believes that the blockage experienced in several states as a result of the network capacity problems resulted in a slowdown in marketing activities, the loss of subscribers, and reduced calling activity during the third quarter. By the end of the third quarter, 90% of the 1-plus traffic had been migrated to the networks of new carriers. However, the magnitude of migrating more than 4 million subscribers across approximately 900 LECs to three new networks created some disruption in the flow of data between the LECs, the underlying carriers, and EXCEL. These migration difficulties continued to impact subscriber attrition and call volume in the fourth quarter of 1996. Additionally, the amount of time and management resources required to meet the aggressive schedule for the network migration conflicted with programming requirements related to new marketing positions which were introduced in September 1996 at the Company's annual IR convention. The extensive amount of programming resources needed for the new marketing positions caused some delay in the processing of transactions involving the IRs which in turn negatively affected IR morale. As a result, the number of applications received from IRs decreased in the fourth quarter of 1996 from the third quarter of 1996.

Operating Expenses. Communication charges increased 184% to $596.6 million for the year ended December 31, 1996 from $210.0 million for the year ended December 31, 1995. Communication charges were 9.5 cents per minute for the year ended December 31, 1996 compared to 10.0 cents per minute for the year ended December 31, 1995. As a percentage of communication services revenues, communication charges were 54.7% for the year ended December 31, 1996 compared to 57.8% for the year ended December 31, 1995. This decrease in communication charges as a percentage of communication services revenues reflects the reduction in rates from Frontier that were implemented from April 1995 through February 1996, and the lower rates associated with migrating long distance traffic to WorldCom, MCI and IXC Long Distance.

Depreciation and amortization increased 475% from $1.2 million for the year ended December 31, 1995 to $6.9 million for the year ended December 31, 1996. This increase was primarily due to an increase in depreciation on information systems and other assets acquired to support the growth in the business and enhance service to subscribers.

Selling, general and administrative expenses increased 143% to $530.2 million for the year ended

December 31, 1996 from $217.8 million for the year ended December 31, 1995. Selling expenses, which directly relate to the Company's marketing activities and which include commissions and the costs of providing training, business forms, promotional and presentation materials, technical and administrative support services, and monthly reports, increased 147% to $362.4 million for the year ended December 31, 1996 from $146.7 million for the year ended December 31, 1995. This increase is primarily due to growth in new IRs. General and administrative expenses increased 136% to $167.9 million for the year ended December 31, 1996 from $71.1 million for the year ended December 31, 1995. This increase was primarily driven by the growth in the Company's communication operations and was due in part to the cost of building the Company's management team and information systems necessary to support the growth in the business and enhance service to subscribers. As a percentage of communication services revenues, selling, general and administrative expenses were 48.6% for the year ended December 31, 1996 compared to 59.9% for the year ended December 31, 1995.

Operating income increased 180% to $217.5 million for the year ended December 31, 1996 from $77.7 million for the year ended December 31, 1995. As a percentage of communication services revenues, operating income was 19.9% for the year ended December 31, 1996 compared to 21.4% for the year ended December 31, 1995.

Included in other income (expense) for the year ended December 31, 1996 is approximately $6.2 million of income related to the Company's 49% investment in a joint venture. For the year ended December 31, 1995, the Company recognized a loss of $6.2 million related to start-up costs incurred by the joint venture. In addition, the Company's interest income increased to $6.5 million for the year ended December 31, 1996 from $467,000 for the year ended December 31, 1995. The increase in interest income was primarily due to additional interest income generated by the investment of cash.

Income Taxes. The provision for income taxes as a percentage of income before income taxes decreased to 37.2% in 1996 from 37.7% in 1995. The decrease is primarily attributable to lower overall state income tax rates applicable to 1996 consolidated earnings.

Inflation

Management believes that inflation has not had a material effect on the Company's results of operations.

Liquidity and Capital Resources

As of December 31, 1997, the Company had cash and cash equivalents of $16.2 million and working capital of $31.6 million. The Company's operating activities provided cash of approximately $130.2 million for the year ended December 31, 1997 and $101.5 million for the year ended December 31, 1996.

The Company's investing activities have consisted primarily of cash paid in connection with the Telco Merger of $475.6 million, the purchase of franchise agreements of $3.5 million, and property and equipment purchases of $63.7 million for the year ended December 31, 1997. The Company purchased property and equipment totaling $75.5 million for the year ended December 31, 1996.

Total cash generated from financing activities was $258.8 million and $113.4 million for the years ended December 31, 1997 and 1996, respectively. The increase in cash generated from financing activities for the year ended December 31, 1997 was primarily due to net proceeds received from the issuance of long-term debt in connection with the Merger and net proceeds received from the issuance of additional common stock due to the exercise of stock options. For the year ended December 31, 1996, the Company received net proceeds of approximately $133.9 million for the sale of its common stock in its initial public offering. In addition, other financing activities have consisted of payments of debt and capital lease obligations and the repurchase of the Company's common stock. During the year ended December 31, 1997, the Company made payments on debt and capital lease obligations of $297.7 million and repurchased the Company's common stock for $56.7 million. The Company made payments on debt and capital lease obligations of $479,000 and payments of dividends of approximately $20.0 million during the year ended 1996.

On October 10, 1997, the Company entered into a new credit facility for borrowings up to $1 billion (the "New Credit Facility"). Borrowings under the New Credit Facility are available for general corporate purposes including acquisitions and are subject to various financial covenants. The interest rate on the New Credit Facility is based on the Company's prevailing debt ratio and ranges on a Eurodollar (LIBOR) option from a spread of 0.625% to 1.75%, and on a Base (Prime) Rate option from a spread of 0% to 0.50%. Total borrowing availability under the New Credit Facility reduces to $800 million on September 30, 2000, and to $500 million on September 30, 2001, and the New Credit Facility expires on September 30, 2002.

On October 14, 1997, approximately $135.2 million of the Company's cash and cash equivalents was used to fund a portion of the Telco merger and related costs. Also, on October 14, 1997, the Company made an initial borrowing of approximately $544 million under the New Credit Facility to fund the cash purchase price of the Merger and related costs and expenses and to refinance existing indebtedness of Telco. The initial LIBOR spread and Prime spread were 1.0% and 0%, respectively.

The Company believes that its existing sources of liquidity and anticipated funds from operations, will be sufficient to fund its capital expenditures, working capital, and other cash requirements through the end of 1998.

Various legal proceedings have arisen against the Company in the ordinary course of business. Information with respect to legal proceedings is set forth in Part I, Item 3. of this Form 10-K.

Regulatory Issues

On February 8, 1996, the 1996 Telecommunications Act was enacted into law. This comprehensive federal legislation will affect every sector of the telecommunications industry. Included in the new statutory provisions is the opening up of local telephone markets to competition from facilities-based and resale carriers and, subject to certain requirements and safeguards, the elimination of restrictions on Bell Operating Company ("BOC") and GTE Operating Company ("GTOC") entrance into the long distance telecommunications market. The FCC adopted rules to govern the introduction of new forms of competition in its August 8, 1996 Interconnection Orders, significant aspects of which, including provisions governing the wholesale pricing of local service, were overturned by the U.S. Eighth Circuit Court of Appeals. The U.S. Supreme Court has agreed to hear appeals of this decision, but it is not expected to render a final decision until early 1999. Therefore, it is unknown at this time whether this Eighth Circuit decision will be upheld or what impact the 1996 Telecommunications Act or the Interconnection Orders will have on the Company. Depending on the nature and timing of BOC and GTOC entry into the long distance market, the Company may face significant additional competition in the provision of long distance services. However, the 1996 Telecommunications Act opens the local telephone market to competition, which, depending on the nature of such opening, the Company believes may allow it to provide resold local exchange services in several states. As of December 31, 1997, the Company is authorized to provide resold local exchange services in 31 states.

Various governmental agencies monitor direct selling activities, and the Company has occasionally been requested to supply information regarding its marketing plan to certain of such agencies. Although the Company believes that its network marketing system is in substantial compliance with laws and regulations of each state relating to direct selling activities, there is no assurance that legislation and regulations adopted in particular jurisdictions in the future will not adversely affect the Company's operations.

Quarterly Results of Operations

The following table includes summarized quarterly financial data for each of the four quarters of 1996 and 1997. This quarterly information is unaudited, has been prepared on the same basis as the annual financial statements, and, in the opinion of the Company's management, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. Operating results for any quarter are not necessarily indicative of results for any future period.

	1996				1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (1)
	(In thousands, except per share and per minute data)							
Statement of Operations Data:								
Revenues:								
Communication services	$205,274	$ 271,926	$ 299,623	$ 313,826	$ 303,673	$ 292,926	$ 294,430	$ 442,072
Marketing services(2)	75,516	73,439	67,036	44,662	27,694	37,648	30,892	25,017
Total revenues	280,790	345,365	366,659	358,488	331,367	330,574	325,322	467,089
Operating expenses:								
Communication	113,514	151,421	162,299	169,364	165,246	157,239	153,061	241,235
Depreciation and amortization	607	1,179	1,911	3,183	3,561	4,369	4,710	11,036
Selling, general and administrative	113,274	136,123	142,295	138,603	108,790	111,712	116,345	167,574
Non-recurring charges (3)	—	—	—	—	—	—	—	64,637
Total operating expenses	227,395	288,723	306,505	311,150	277,597	273,320	274,116	484,482
Operating income (loss)	53,395	56,642	60,154	47,338	53,770	57,254	51,206	(17,393)
Interest expense	(52)	(79)	(117)	(13)	(21)	(11)	(11)	(8,508)
Other income (expense)	1,544	4,683	4,291	2,129	2,136	2,050	2,153	962
Income (loss) before income taxes	54,887	61,246	64,328	49,454	55,885	59,293	53,348	(24,939)
Provision (benefit) for income taxes	20,901	22,826	23,401	18,360	20,789	22,294	20,059	(7,481)
Income (loss) before cumulative effect of change in accounting principle	33,986	38,420	40,927	31,094	35,096	36,999	33,289	(17,458)
Cumulative effect of change in accounting principle, net of income taxes (4)	—	—	—	—	65,214	—	—	—
Net income (loss)	$ 33,986	$ 38,420	$ 40,927	$ 31,094	$ (30,118)	$ 36,999	$ 33,289	$ (17,458)
Diluted net income (loss) per common and equivalent share:								
Income (loss) per share before cumulative effect of change in accounting principle (5)	$ 0.34	$ 0.36	$ 0.37	$ 0.28	$ (0.32)	$ 0.34	$ 0.31	$ (0.14)
Cumulative effect of change in accounting principle, net of income taxes (5)	—	—	—	—	(0.59)	—	—	—
Diluted net income (loss) per share (5)	$ 0.34	$ 0.36	$ 0.37	$ 0.28	$ (0.27)	$ 0.34	$ 0.31	$ (0.14)
Supplemental Operating Data:								
Long distance minutes of usage (in 000's)(6)	1,227,713	1,554,057	1,679,957	1,809,476	1,718,485	1,584,816	1,694,600	2,904,289
Weighted average long distance revenue per minute of usage(7)	$ 0.167	$ 0.175	$ 0.178	$ 0.174	$ 0.176	$ 0.182	$ 0.172	$ 0.149
Weighted average communication charges per minute of usage(8)	$ 0.092	$ 0.097	$ 0.097	$ 0.094	$ 0.096	$ 0.096	$ 0.089	$ 0.082

(1) On October 14, 1997, the Company completed its merger with Telco. The Merger was accounted for as a purchase; accordingly, the operating results for Telco are included in the Company's operating results after October 14, 1997, the effective date of the Merger. See Note 3 to the Consolidated Financial Statements.

(2) Revenues from marketing services include the effect of deferring a portion of the cash received during each period and amortizing the deferred revenues over 12 months. See Note 1 to the Consolidated Financial Statements.

(3) Results for 1997 include $64.6 million in non-recurring charges primarily related to the consolidation and integration of Telco. See Note 4 to the Consolidated Financial Statements.

(4) Effective January 1, 1997, the Company changed its method of accounting for subscriber acquisition costs. See Note 1, "-Marketing Activities," to the Consolidated Financial Statements.

(5) See Note 8 to the Consolidated Financial Statements for an explanation of the number of shares used in computing net income per share.

(6) Long distance minutes of usage represent minutes billable to subscribers during the period.

(7) Weighted average long distance revenue per minute of usage equals revenues for all long distance phone services divided by the aggregate minutes of usage.

(8) Weighted average communication charges per minute of usage equals the cost of all long distance phone services sold to the Company's subscribers divided by the aggregate minutes of usage.

EXCEL COMMUNICATIONS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors
of EXCEL Communications, Inc.:

We have audited the accompanying consolidated balance sheets of EXCEL Communications, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 1996 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's 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 the Company as of December 31, 1996 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As explained in Note 1 to the consolidated financial statements, effective January 1, 1997, the Company changed its method of accounting for subscriber acquisition costs.

Dallas, Texas
January 26, 1998

ARTHUR ANDERSEN LLP

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 1996	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 169,846	$ 16,161
Accounts receivable, net	206,309	328,309
Inventories	16,263	3,651
Deferred income tax asset	1,897	34,128
Other current assets	2,517	14,217
	396,832	396,466
Property and equipment, net	76,912	281,847
Deferred subscriber acquisition costs	104,765	—
Goodwill	—	943,682
Deferred income tax asset	—	3,684
Other assets	655	11,337
	$ 579,164	$ 1,637,016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 132,770	$ 199,853
Commissions payable	22,484	22,265
Accrued liabilities	32,112	137,777
Other current liabilities	—	4,296
Current maturities of long-term debt and capital lease obligations	239	676
	187,605	364,867
Long-term debt and capital lease obligations	100	477,292
Deferred management services fees and other long-term liabilities	25,279	42,150
Deferred income taxes payable	43,899	—
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, none outstanding	—	—
Common stock, $0.001 par value, 500,000,000 shares authorized, 108,800,000 and 132,679,709 issued; 108,800,000 and 132,613,909 outstanding	109	133
Additional paid-in capital	139,880	548,519
Unrealized gain on securities available for sale	—	21
Treasury stock, 65,800 shares at cost	—	(970)
Retained earnings	182,292	205,004
Total stockholders' equity	322,281	752,707
	$ 579,164	$ 1,637,016

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

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 31,		
	1995	1996	1997
Revenues:			
Communication services	$ 363,301	$ 1,090,649	$ 1,333,101
Marketing services	143,397	260,653	121,251
Total revenues	506,698	1,351,302	1,454,352
Operating expenses:			
Communication	209,995	596,598	716,781
Depreciation and amortization	1,239	6,880	23,676
Selling, general and administrative	217,751	530,295	504,421
Non-recurring charges	—	—	64,637
Total operating expenses	428,985	1,133,773	1,309,515
Operating income	77,713	217,529	144,837
Interest expense	(593)	(261)	(8,551)
Other income (expense)	(5,781)	12,647	7,301
Income before income taxes	71,339	229,915	143,587
Provision for income taxes	26,893	85,488	55,661
Income before cumulative effect of change in accounting principle	44,446	144,427	87,926
Cumulative effect of change in accounting principle, net of income taxes	—	—	65,214
Net income	$ 44,446	$ 144,427	$ 22,712
Basic earnings per share	$ 0.46	$ 1.38	$ 0.20
Diluted earnings per common and equivalent share:			
Weighted average number of shares and share equivalents outstanding	97,321	107,247	115,547
Income before cumulative effect of change in accounting principle	$ 0.46	$ 1.35	$ 0.76
Cumulative effect of change in accounting principle, net of income taxes	—	—	(0.56)
Diluted earnings per share	$ 0.46	$ 1.35	$ 0.20

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

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except per share data)

	Shares	Common Stock	Additional Paid-in Capital	Unearned Compensation	Unrealized Gain on Securities Available for Sale	Shares	Treasury Stock	Retained Earnings	Total Equity
Balance, January 1, 1995	100,000	$ 100	$ 345	$ —	$ —	(1,000)	$ (13)	$ 13,203	$ 13,635
Net income	—	—	—	—	—	—	—	44,446	44,446
Dividends declared ($.202 per share)	—	—	—	—	—	—	—	(19,784)	(19,784)
Advances to employee stock ownership plan	—	—	—	(6,000)	—	—	—	—	(6,000)
Allocation of common stock to employees	—	—	1,569	3,842	—	—	—	—	5,411
Cancellation of treasury stock	(1,000)	(1)	(12)	—	—	1,000	13	—	—
Balance, December 31, 1995	99,000	99	1,902	(2,158)	—	—	—	37,865	37,708
Net income	—	—	—	—	—	—	—	144,427	144,427
Issuance of common shares in public offering	9,800	10	133,860	—	—	—	—	—	133,870
Allocation of common stock to employees	—	—	4,118	2,158	—	—	—	—	6,276
Balance, December 31, 1996	108,800	109	139,880	—	—	—	—	182,292	322,281
Net income	—	—	—	—	—	—	—	22,712	22,712
Issuance of common stock	26,633	27	464,351	—	—	—	—	—	464,378
Unrealized gain on securities available for sale	—	—	—	—	21	—	—	—	21
Purchase of treasury stock	—	—	—	—	—	(2,819)	(56,685)	—	(56,685)
Cancellation of treasury stock	(2,753)	(3)	(55,712)	—	—	2,753	55,715	—	—
Balance, December 31, 1997	132,680	$ 133	$548,519	$ —	$ 21	(66)	$ (970)	$ 205,004	$ 752,707

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

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	1995	1996	1997
Operating activities:			
Net income	$ 44,446	$ 144,427	$ 22,712
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle	—	—	65,214
Depreciation and amortization	1,239	6,880	23,676
Non-recurring charges	—	—	64,637
ESOP compensation	5,627	6,276	—
Loss on disposal of assets	—	224	152
(Income) losses from joint venture	6,248	(6,248)	—
Deferred income taxes	12,759	25,136	(5,063)
Changes in assets and liabilities:			
Accounts receivable, net	(61,836)	(115,882)	2,616
Deferred subscriber acquisition costs	(51,413)	(36,399)	—
Accounts payable	48,813	67,654	47,568
Commissions payable	16,169	1,598	(219)
Deferred management services fees and other long-term liabilities	15,802	3,988	(23,214)
Accrued liabilities	8,932	18,290	(68,503)
Income taxes payable	2,171	(4,974)	(5,566)
Inventories and other	(1,996)	(9,446)	6,216
Net cash provided by operating activities	46,961	101,524	130,226
Investing activities:			
Proceeds from sale of assets	—	—	47
Purchase of property and equipment	(7,323)	(75,456)	(63,720)
Acquisition of Telco, net of cash acquired	—	—	(475,566)
Purchase of franchise agreement	—	—	(3,514)
Investment in joint venture	(6,003)	—	—
Net cash used in investing activities	(13,326)	(75,456)	(542,753)
Financing activities:			
Payments of debt and capital lease obligations	(3,069)	(479)	(297,734)
Proceeds from issuance of long-term debt	—	—	615,000
Debt issuance costs	—	—	(6,330)
Purchase of treasury stock	—	—	(56,685)
Payments of dividends	(3,000)	(20,000)	—
Advances to employee stock ownership plan	(6,000)	—	—
Equity issuance costs	—	—	(4,644)
Net proceeds from issuance of common stock	—	133,870	9,235
Net cash (used in) provided by financing activities	(12,069)	113,391	258,842
Net increase (decrease) in cash and cash equivalents	21,566	139,459	(153,685)
Cash and cash equivalents, beginning of period	8,821	30,387	169,846
Cash and cash equivalents, end of period	$ 30,387	$ 169,846	$ 16,161
Supplemental disclosure:			
Interest paid during the period	$ 593	$ 261	$ 2,987
Income taxes paid during the period	13,046	76,323	43,264

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

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Presentation

Description of Business and Operations

EXCEL Communications, Inc., previously New RES, Inc., was incorporated in the state of Delaware in May 1997. EXCEL Communications, Inc. is the parent company of Excelcom, Inc. ("Excelcom"), previously EXCEL Communications, Inc., which was incorporated in the state of Delaware in December 1995. Excelcom's predecessor, EXCEL Telecommunications, Inc., was incorporated in the state of Texas in December 1988. All references to the "Company" or "EXCEL" refer to EXCEL Communications, Inc. and include its subsidiaries and predecessors. EXCEL is a provider of a variety of communications products and services which include residential long distance service, commercial long distance service, and paging service. The Company's presubscribed residential services are marketed exclusively through a network marketing system of independent representatives ("IRs"). EXCEL markets residential dial around products and services through Dial & Save℠, Long Distance Wholesale Club℠ and Telco Choice℠ programs and markets its commercial products and services through IRs and approximately 311 direct sales personnel, 117 sales management personnel, 275 active dealers and 19 telesales agents. The Company completes subscriber calls to all directly dialable locations worldwide.

On October 14, 1997, EXCEL Communications, Inc., succeeded to the businesses of Excelcom and Telco Communications Group, Inc. ("Telco"), a facilities-based provider of telecommunications services, pursuant to the Agreement and Plan of Merger dated as of June 5, 1997 (the "Merger"). The Merger creates the fifth largest long distance company in the United States based on the number of presubscribed lines, with pro forma consolidated annualized revenues of approximately $2 billion, 11 billion annualized long distance minutes of usage, 6.0 million customers, and approximately 100,000 network miles of DS-3 capacity. The results of operations for the year ended December 31, 1997 include Telco's financial results after October 14, 1997, the effective date of the Merger. (See Note 3 – "EXCEL and Telco Merger".)

The Company leases transmission lines from a variety of facilities-based and resale long distance carriers. The Company's contracts with these entities typically have terms ranging from 12 to 60 months. The Company supplements its leased "on-network" capacity with "off-net" services from a variety of resale and facilities-based long distance carriers. In addition, the Company does not have any on-network international network arrangements and exclusively resells the network capacity of other resale and facilities-based long distance carriers to international destinations.

The Company currently has agreements with Frontier Communications Services, Inc. ("Frontier"), IXC Long Distance, Inc. ("IXC Long Distance"), MCI Telecommunications Corp. ("MCI"), and WorldCom, Inc. ("WorldCom") to provide switching services and network transmission of its long distance subscribers' traffic. The agreements with IXC Long Distance, MCI, and WorldCom each contain minimum usage commitments, while the agreement with Frontier provides that Frontier is to be the exclusive carrier for certain calling card calls and personal 800 service. The Company is currently meeting all minimum commitments under these contracts.

Marketing Activities

Marketing services revenues are primarily comprised of receipts for materials and services rendered by EXCEL to IRs and area coordinators ("ACs"). Except in certain states, IRs are required to make an initial refundable application deposit with EXCEL as an expression of commitment. There is no additional cost to participate. IRs have an option to purchase a start-up package, which includes a training class and training materials, business forms, promotional and presentation materials, ongoing technical and administrative support services, and monthly reports. If the start-up package is purchased, the application deposit requirement is waived. In addition, EXCEL offers training positions whereby ACs, certified by the Company, provide training to new IRs.

Selling, general and administrative expenses consist of marketing costs and the costs of providing teleservices and other support services for subscribers, billing and collecting long distance and paging revenues, and the costs of the information systems and personnel required to support the Company's operations. Marketing costs include commissions paid to IRs and sales representatives, the costs of providing training, business forms, promotional and presentation materials, technical and administrative support services, and monthly reports to IRs, salaries and commissions paid to CSD sales representatives, and direct mail advertising expenses. Commissions paid to IRs are based upon the acquisition of new long distance and paging subscribers ("subscriber acquisition costs") and long distance telephone and paging usage by subscribers. The Company also pays commissions for the training of IRs and certain ACs. Effective January 1, 1997, the Company changed its method of accounting for subscriber acquisition costs. Previously, the Company had deferred the portions of commissions paid to IRs that directly relate to the acquisition of long distance and paging subscribers. Beginning January 1, 1997, the Company began fully expensing subscriber acquisition costs in the period incurred in order to present its operating results in a manner more consistent with other telecommunications companies against which its results are now compared. The Company recognized a one-time charge of $65.2 million, net of income taxes, ($0.56 per share) in the first quarter of 1997 to reflect the change in accounting principle. On a pro forma basis, the Company's net income would have been $121.8 million ($1.14 per share) and $12.4 million ($0.13 per share) for the years ended December 31, 1996 and 1995, respectively, if this accounting change had been retroactively applied.

Costs incurred in connection with direct mail advertising and marketing commercial long distance products are recognized as expense in the period in which they are incurred.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are net of allowance for doubtful accounts and anticipated revenue adjustments of approximately $9.0 million and $23.1 million as of December 31, 1996 and 1997, respectively. The Company establishes an allowance for doubtful accounts and anticipated revenue adjustments based upon factors surrounding the credit risk of specific subscribers, historical trends, and other information. During 1997, the Company recorded bad debt expense of approximately 3% of communication services revenues based on current trends and information.

Long Distance Revenue Recognition

Revenue is recorded when service is rendered, which is measured when a long distance call is completed and is recorded net of an allowance for certain revenues which the Company estimates will ultimately be refunded, rebated, uncollectible or unbillable.

Concentrations of Credit Risk

The Company's subscribers are primarily residential subscribers and are not concentrated in any specific geographic region of the United States. The Company has agreements with local exchange carriers ("LECs"), which provide billing and collection services to the majority of the Company's subscribers. As of December 31, 1996 and 1997, approximately 92% and 70% respectively, of the Company's accounts receivable were due from LECs.

Inventories

Inventory consists primarily of pagers held for resale and sales aids, which include marketing materials and promotional items and is valued at the lower of cost (determined on a first-in, first-out basis) or market.

Property and Equipment

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

Asset Classification	Estimated Useful Life
Buildings	30 years
Furniture and equipment	3-5 years
Information systems software	5 years
Information systems hardware	5 years
Network equipment	5-35 years
Leasehold improvements	Life of lease

Long-Lived Assets, Identifiable Intangibles and Goodwill

The Company has recorded goodwill and certain identifiable intangibles in connection with the Merger. These assets are amortized over periods ranging from 5 to 40 years. The Company reviews long-lived assets, certain identifiable intangibles, and goodwill pertaining to those assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected cash flows is less than the carrying amount of the asset, an impairment loss is recognized. No impairment loss has been recorded in 1995, 1996 or 1997.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *"Accounting for Income Taxes"* which requires that deferred income tax expenses be provided based upon estimated future tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes calculated based upon provisions of enacted tax laws.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

Stock Based Compensation

The Company, as permitted by the Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123"), has chosen to continue to account for stock based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees.*" Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. The Company has adopted the disclosure requirements of SFAS No. 123.

3. **EXCEL and Telco Merger**

On October 14, 1997, New RES, Inc., a Delaware corporation and newly formed holding company, now EXCEL Communications, Inc., ("Holdings"), succeeded to the businesses of Excelcom, previously EXCEL Communications, Inc., and Telco, as a result of mergers of wholly-owned subsidiaries with and into Excelcom and Telco, pursuant to the Agreement and Plan of Merger dated as of June 5, 1997. At the closing of the Merger on October 14, 1997: (i) Excelcom and Telco became wholly-owned subsidiaries of Holdings; (ii) each outstanding share of Excelcom common stock converted into the right to receive one share of common stock of Holdings; (iii) each outstanding share of Telco common stock converted into the right to receive 0.7595 shares of common stock of Holdings and $15.00 in cash; (iv) except for certain options, each then outstanding and unexercised option to acquire one share of Telco common stock was assumed by Holdings and converted into an option to acquire 1.5190 shares of Holdings common stock, and the exercise price per share with respect to each such assumed option was adjusted to equal the exercise price under the original option divided by 1.5190; (v) each then outstanding and unexercised option to acquire one share of Excelcom common stock was assumed by Holdings and converted into an option to acquire one share of Holdings common stock, and the exercise price per share was unchanged; (vi) the name of EXCEL Communications, Inc. was changed to Excelcom, Inc.; and (vii) the name of Holdings was changed to EXCEL Communications, Inc. Consideration for the Merger consisted of $666.2 million in cash (including $164.5 million of Telco debt assumed and paid by EXCEL) and 25,376,506 shares of common stock, $.001 par value, of the Company ("Company Common Stock").

On October 14, 1997, Holdings made an initial borrowing of approximately $544 million under the New Credit Facility to fund the cash purchase price of the Merger and related costs and expenses and to refinance existing indebtedness of Telco. The initial LIBOR spread and Prime spread were 1.0% and 0%, respectively. (See Note 5 - "Long-Term Debt and Capital Lease Obligations".)

The merger of Telco into Holdings has been accounted for under the "purchase" method of accounting, with EXCEL as the acquirer in accordance with generally accepted accounting principles, and the merger of EXCEL into Holdings has been accounted for as a reorganization. The results of operations for the year ended December 31, 1997 include Telco's financial results after October 14, 1997, the effective date of the Merger. In connection with the purchase accounting, EXCEL recorded certain known liabilities related to costs required to exit activities of Telco and payments to be made under a severance plan. These included exit costs of $36.8 million and severance payments of $2.8 million. Management is currently integrating the two organizations and expects to complete the process by the end of the second quarter of 1998.

The merger with Telco resulted in the recognition of goodwill of $906.6 million which is being amortized straight-line over a period of 40 years. The following unaudited financial information represents the Company's results of operations on a pro forma basis as if the Merger had occurred on January 1, 1996 (dollars in thousands, except per share data):

	Pro Forma Years Ended December 31, 1996	1997
Total revenues	$ 1,802,900	$1,897,540
Net income before cumulative effect of change in accounting principle (1)	$ 120,691	$ 94,067
Net income (1)	$ 120,691	$ 28,853
Net income per share before cumulative effect of change in accounting principle (1)	$ 0.90	$ 0.69
Net income per share (1)	$ 0.90	$ 0.21

(1) Excludes non-recurring charges of $64.6 million in 1997. See Note 4 to the Consolidated Financial Statements.

These pro forma amounts represent the historical operating results of EXCEL and Telco combined with appropriate adjustments which give effect to incremental goodwill amortization and interest expense incurred in connection with the Merger. These pro forma amounts do not give effect to any potential cost savings or synergies that could result from the Merger. The pro forma data are not intended to be indicative of actual results had the Merger occurred on January 1, 1996 nor do they indicate results which may be achieved in the future.

In conjunction with the Merger on October 14, 1997, net cash paid was as follows (dollars in thousands):

Assets acquired	$1,332,102
Liabilities assumed	(365,405)
Common stock issued	(465,515)
Cash paid	501,182
Less cash acquired	(25,616)
Net cash paid	$ 475,566

4. Non-Recurring Charges

During the fourth quarter of 1997, primarily as a result of the Merger, the Company initiated plans to reorganize and restructure its management and operational organization and facilities to eliminate duplicate facilities, abandon certain projects and activities, and to take further advantage of the synergies available to the combined entities. Accordingly, the Company charged to operations the estimated costs of such reorganization and restructuring activities in addition to certain legal expenses, vendor disputes, and other charges. These costs amount to $64.6 million and are included in non-recurring charges in the Company's Consolidated Statement of Operations.

The following table reflects the components of the significant items included in non-recurring charges for the year ended December 31, 1997 (amounts in thousands):

	Year Ended December 31, 1997
Reduction in carrying value of certain assets	$ 47,678
Costs to exit unfavorable contracts	5,559
Legal expenses, vendor disputes and other charges	11,400
Non-recurring charges	$ 64,637

5. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consisted of the following at December 31, 1996 and 1997 (in thousands):

	December 31, 1996	December 31, 1997
Capital lease obligations	$ 339	$ 2,968
Revolving credit facility	—	475,000
Less current maturities	(239)	(676)
	$ 100	$477,292

On October 10, 1997, Holdings entered into a new credit facility for borrowings up to $1 billion (the "New Credit Facility"). Borrowings under the New Credit Facility are available for general corporate purposes including acquisitions and are subject to various financial covenants. The interest rate on the New Credit Facility is based on Holdings' prevailing debt ratio and ranges on a Eurodollar (LIBOR) option from a spread of 0.625% to 1.75%, and on a Base (Prime) Rate option from a spread of 0% to 0.50%. Total borrowing availability under the New Credit Facility reduces to $800 million on September 30, 2000, and to $500 million on September 30, 2001, and the New Credit Facility expires on September 30, 2002.

On October 14, 1997, Holdings made an initial borrowing of approximately $544 million under the New Credit Facility to fund the cash purchase price of the Merger and related costs and expenses and to refinance existing indebtedness of Telco. The initial LIBOR spread and Prime spread were 1.0% and 0%, respectively.

6. Property and Equipment

Property and equipment consisted of the following at December 31, 1996 and 1997 (in thousands):

	December 31, 1996	December 31, 1997
Land	$ 5,067	$ 5,067
Buildings	16,506	18,465
Furniture and equipment	28,074	42,781
Information systems software	17,585	11,977
Information systems hardware	15,480	19,815
Leasehold improvements	2,871	8,491
Network equipment	—	185,423
Network facilities under development	—	25,195
Total	85,583	317,214
Less—Accumulated depreciation and amortization	(8,671)	(35,367)
Net property and equipment	$ 76,912	$ 281,847

7. Income Taxes

The components of the provision for income taxes are as follows for the years ended December 31, 1995, 1996 and 1997 (in thousands):

	Years Ended December 31, 1995	1996	1997
Current income tax expense:			
Federal	$ 13,322	$ 56,731	$ 54,106
State	812	3,621	6,618
	$ 14,134	$ 60,352	$ 60,724
Deferred income tax expense:			
Federal	$ 12,110	$ 23,650	$ (4,606)
State	649	1,486	(457)
	$ 12,759	$ 25,136	$ (5,063)
Provision for income taxes	$ 26,893	$ 85,488	$ 55,661

Temporary differences which give rise to the net deferred income tax (liability) asset at December 31, 1996 and 1997 are as follows (in thousands):

	December 31, 1996	December 31, 1997
Deferred income tax assets:		
Accounts receivable	$ 1,558	$ —
Inventory	—	205
Deferred management services fees	—	5,314
Accrued liabilities	—	44,948
Other	624	2,695
	2,182	53,162
Deferred income tax liabilities:		
Accounts receivable	—	(2,729)
Depreciation	(4,193)	(2,249)
Deferred subscriber acquisition costs	(38,144)	—
Other	(1,847)	(10,372)
	(44,184)	(15,350)
Net deferred tax (liability) asset	(42,002)	37,812
Less—Net current deferred income tax asset	(1,897)	(34,128)
Net long-term deferred income tax (liability) asset	$ (43,899)	$ 3,684

The recognition of the deferred tax asset related to deferred management service fees reflects the cumulative effect of a change in accounting method for income tax purposes for management service fees. The cumulative effect of the change from the cash method to the accrual method is being taken into account over six years beginning in 1996 for income tax return purposes.

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

	Years Ended December 31, 1995	1996	1997
Tax computed at statutory rate	$24,969	$80,470	$50,255
State income taxes and other	1,924	5,018	5,406
Provision for income taxes	$26,893	$85,488	$55,661

8. Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards No. 128, *"Earnings per Share"* ("SFAS No. 128"), effective December 15, 1997. SFAS No. 128 requires the calculation of basic earnings per common share, which is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period, and diluted earnings per common share, which is computed using the weighted average number of shares of common stock and common stock equivalents. Basic earnings per share are computed as follows (in thousands, except per share data):

	Years Ended December 31,		
	1995	1996	1997
Basic:			
Net income	$ 44,446	$144,427	$ 22,712
Weighted average shares of common stock outstanding	99,000	105,346	113,376
Unallocated employee stock plan shares	(2,040)	(540)	—
Adjusted weighted average shares of common stock outstanding	96,960	104,806	113,376
Basic earnings per share	$ 0.46	$ 1.38	$ 0.20

Diluted earnings per share is based on the weighted average number of shares of common stock outstanding. The weighted average shares outstanding include common stock equivalents which represent the effect, using the treasury stock method, of options granted under the Company's stock option plan. Diluted earnings per share are computed as follows (in thousands, except per share data):

	Years Ended December 31,		
	1995	1996	1997
Diluted:			
Net income	$ 44,446	$ 144,427	$ 22,712
Adjustment of shares outstanding:			
Weighted average shares of common stock outstanding	99,000	105,346	113,376
Unallocated employee stock plan shares	(2,040)	(540)	—
Adjusted weighted average shares of common stock outstanding	96,960	104,806	113,376
Shares of common stock issuable upon the assumed exercise of stock options	361	2,441	2,171
Adjusted shares of common stock and common stock equivalents for computation	97,321	107,247	115,547
Diluted earnings per share	$ 0.46	$ 1.35	$ 0.20

In 1995 and 1996, the weighted average shares outstanding exclude employee stock ownership plan shares that had not been released to employees at the end of the period.

9. Stockholders' Equity

Effective January 1, 1996, the Company issued 99,000,000 shares of its common stock to stockholders at a conversion rate of 1,000 shares of newly issued common stock for each share of common stock previously held. These new shares were issued pursuant to a reorganization, which included a statutory merger whereby the Company was formed as a holding company. In addition, 500,000,000 shares were authorized. All common stock and per share amounts in the Company's Consolidated Financial Statements have been adjusted retroactively to give effect to the stock conversion and the change in authorized shares. In May 1996, the

Company sold 9,800,000 shares of its common stock at $15.00 per share, which resulted in 108,800,000 shares outstanding and net proceeds of approximately $133.9 million to the Company after deducting the expenses of the offering. In connection with the Merger, the company issued 25,376,506 shares of common stock, $.001 par value, to Telco stockholders.

The Company also has 10,000,000 shares of preferred stock authorized, which can be issued in one or more series with fixed designations, relative powers, preferences, rights, qualifications, limitations, and restrictions of all shares of each series, including without limitation, dividend rates, preemptive rights, conversion rights, voting rights, redemption and sinking fund provisions, liquidation preferences, and the number of shares constituting each such series, without any further vote or action by the stockholders.

In June 1997, the Company's Board of Directors approved a plan to repurchase up to 10,000,000 shares of its common stock in the open market or through privately negotiated transactions. This plan was terminated upon effectiveness of the Merger and the treasury stock was retired. Repurchases under this plan totaled 2,752,672 shares at a cost of $55.7 million. In December 1997, the Company's Board of Directors approved a new plan to repurchase up to 10,000,000 shares of its common stock in the open market or through privately negotiated transactions. Repurchases under this plan totaled 65,800 shares at a cost of approximately $970,000 through December 31, 1997.

10. Commitments and Contingencies

The Company leases certain office equipment and office space under operating leases. Total expense for the years ended December 31, 1995, 1996 and 1997 was approximately $1.1 million, $6.6 million, and $11.1 million, respectively.

Future minimum rents due under operating leases with initial or remaining terms greater than 12 months as of December 31, 1997 are as follows (in thousands):

1998	$ 14,362
1999	12,216
2000	11,683
2001	9,518
2002	6,665
Thereafter	6,981

Litigation, Claims and Assessments

On August 30, 1996, AT&T filed suit in the United States District Court for the District of Delaware against the Company, its subsidiary, EXCEL Communications Marketing, Inc., and EXCEL Telecommunications, Inc. alleging past and continued infringement of a single patent without specifying the amount of damages. The court granted summary judgment in favor of EXCEL on March 27, 1998. The court held that the patent is invalid because it relates to unpatentable subject matter under U.S. patent laws. The judgment is subject to appeal to the U.S. Federal Circuit Court of Appeals.

Legislative and Regulatory Matters

On February 8, 1996, the 1996 Telecommunications Act was enacted into law. This comprehensive federal legislation will affect every sector of the telecommunications industry. Included in the new statutory provisions is the opening up of local telephone markets to competition from facilities-based and resale carriers and, subject to certain preconditions and safeguards for the BOCs, the elimination of restrictions on Bell Operating Company ("BOC") and GTE Operating Company ("GTOC") entrance into the long distance telecommunications market. The FCC adopted rules to govern the introduction of new forms of competition in its August 8, 1996 Interconnection Orders, significant aspects of which, including provisions governing the wholesale pricing of local service, were overturned by the U.S. Eighth Circuit Court of Appeals. The U.S. Supreme Court has agreed to hear appeals of this decision, but it is not expected by the Company to render a final decision until early 1999. Therefore, it is unknown at this time whether this Eighth Circuit decision will be upheld or what impact the 1996 Telecommunications Act or the Interconnection Orders will have on the Company. Depending on the nature and timing of BOC and GTOC entry into the long distance market, the Company may face significant additional competition in the provision of long distance services. However, the 1996 Telecommunications Act opens the local telephone market to competition, which, depending on the nature of such opening, the Company believes may provide opportunities to compete in the provision of local services. The Company is currently seeking certification to provide resold local exchange services in several states. As of December 31, 1997, the Company is authorized to provide resold local exchange services in 31 states.

Various governmental agencies monitor direct selling activities, and the Company has occasionally been requested to supply information regarding its marketing plan to certain of such agencies. Although the Company believes that its network marketing system is in substantial compliance with laws and regulations of each state relating to direct selling activities, there is no assurance that legislation and regulations adopted in particular jurisdictions in the future will not adversely affect the Company's operations.

11. Employee Benefit Plans

The Company and its subsidiaries offer its qualified employees the opportunity to participate in one of its defined contribution retirement plans qualifying under the provisions of Section 401 (k) of the Internal Revenue Code. Generally each employee may contribute on a tax deferred basis up to 15% of their gross salary into the plan. The Company's contribution is to be determined annually by the Board of Directors. Company contributions to the plan for the years ended December 31, 1995, 1996, and 1997 were not significant.

Effective January 1, 1995, the Company amended the 401(k) plan to incorporate an Employee Stock Ownership Plan ("ESOP") for substantially all employees of EXCEL. On November 1, 1995, the ESOP borrowed $6.0 million from the Company to purchase 3,000,000 shares of common stock. The shares were held in a trust and were allocated to employees' accounts in the ESOP during the same calendar year in which debt repayments were made. The Company recognized compensation expense related to the ESOP of $5.6 million and $6.3 million for the years ended December 31, 1995 and 1996, respectively. During 1995, 1,707,000 shares were released and allocated to ESOP participants. The remaining 1,293,000 shares were allocated to ESOP participants in 1996.

The Company has various stock option plans which permit the issuance of either incentive stock options or non-statutory options to selected employees, directors, and consultants to the Company and its affiliates. The plan reserves 4,400,000 shares of common stock for grant. These options vest over a three to six year period and expire ten years from the date of grant. As of December 31, 1997, 3,270,000 shares remain available for future option grants and 2,279,731 outstanding options are vested or exercisable.

As permitted by SFAS No. 123, the Company has chosen to continue to account for stock based compensation using the intrinsic value method prescribed in APB Opinion No. 25. Accordingly, no compensation cost has been recognized for the Company's stock option plans. Had compensation cost for the Company's stock based compensation plans been determined using the alternative accounting method based on the fair value prescribed by SFAS No. 123, the Company's pro forma net income for the year ended December 31, 1997 would have been $22.1 million and diluted and basic earnings per share would have been $0.19 and $0.20, respectively, for the same period. The reduction in the Company's 1996 and 1995 net income and earnings per share would have been insignificant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of the options granted under this model was $7.75 per option for the year ended December 31, 1997 based on the following assumptions: no expected dividends, risk free interest rate of 6.39%, expected life of six years, and the expected volatility of 28.96%.

A summary of stock option activity for the three years ended December 31, 1997 is as follows:

	Number of Options	Weighted Average Exercise Price per Share
Outstanding, December 31, 1994	—	N/A
Granted	4,893,075	$ 4.50
Exercised	—	N/A
Canceled	—	N/A
Outstanding, December 31, 1995	4,893,075	$ 4.50
Granted	332,750	$ 15.33
Exercised	—	N/A
Canceled	(133,850)	$ 5.33
Outstanding, December 31, 1996	5,091,975	$ 5.19
Granted	1,946,070	$ 19.97
Granted in connection with the merger	4,911,606	$ 9.27
Exercised	(1,255,909)	$ 4.18
Canceled	(646,290)	$ 7.72
Outstanding, December 31, 1997	10,047,452	$ 10.08

The following table summarizes information about fixed stock options outstanding and exercisable at December 31, 1997:

Options Outstanding				Options Exercisable	
Exercise Price Ranges	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.44 - 4.96	5,335,083	7.8	$ 4.19	1,933,443	$ 3.57
$ 9.22-10.95	941,926	8.6	$ 9.73	222,946	$ 9.32
$11.03-15.00	1,509,792	9.1	$ 13.18	115,875	$ 11.73
$17.94-24.00	2,260,651	9.6	$ 22.04	7,467	$ 21.25
$ 0.44-24.00	10,047,452	8.5	$ 10.08	2,279,731	$ 4.60

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by Item 10 appears in and is incorporated by reference herein from the Company's Proxy Statement for its 1998 Annual Meeting of Stockholders (the "Proxy Statement").

Item 11. Executive Compensation

The information required by Item 11 appears in and is incorporated by reference herein from the Company's Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 appears in and is incorporated by reference herein from the Company's Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 appears in and is incorporated by reference herein from the Company's Proxy Statement.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

(1) The consolidated financial statements of EXCEL and supplementary financial information filed as part of this report are included in Part II, Item 8. of this Annual Report on Form 10-K.

(2) All Financial Statement Schedules other than those listed below have been omitted because they are not required under the instructions to the applicable accounting regulations of the Securities and Exchange Commission 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 included in Part II, Item 8. of this Annual Report on Form 10-K:

Report of Independent Public Accountants on Financial 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 on Form 10-K.

(b) Reports on Form 8-K.

(1) Current report on Form 8-K dated October 14, 1997, regarding the completion of the acquisition of Telco Communications Group, Inc.

(2) Current report on Form 8-K dated October 24, 1997, regarding the settlement of the Wood Litigation.

(3) Current report on Form 8-K dated December 17, 1997, regarding the resignation of Donald A. Burns and Henry G. Luken, III from the board of directors.

(c) Exhibits.

Refer to Item 14(a)(3) above.

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.

EXCEL Communications, Inc.

/s/ Kenny A. Troutt
Kenny A. Troutt
Chief Executive Officer
Date: March 27, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on March 27, 1998 on behalf of the registrant and in the capacities indicated.

/s/ Kenny A. Troutt Kenny A. Troutt	Chief Executive Officer, Chairman of the Board, and Director (Principal Executive Officer)
/s/ John J. McLaine John J. McLaine	President, Chief Operating Officer, and Director
/s/ Nicholas A. Merrick Nicholas A. Merrick	Executive Vice President and Chief Financial Officer (Principal Financial Officer) (from October 15, 1997 - present)
/s/ Craig E. Holmes Craig E. Holmes	Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ Stephen R. Smith Stephen R. Smith	Executive Vice President of Marketing-Emeritus and Director
/s/ Ronald A. McDougall Ronald A. McDougall	Director
/s/ T. Allan McArtor T. Allan McArtor	Director

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors
of EXCEL Communications, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of EXCEL Communications, Inc. (a Delaware corporation) and subsidiaries (the "Company") included in this Form 10-K and have issued our report thereon dated January 26, 1998. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedule II, which is the responsibility of the Company's management, is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated 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 consolidated financial statements taken as a whole.

Dallas, Texas
January 26, 1998

ARTHUR ANDERSEN LLP

EXCEL COMMUNICATIONS, INC. AND SUBSIDIARIES

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions(a)	Balance at End of Period
Allowance for doubtful accounts and revenue adjustments:				
December 31, 1995	1,700	13,871	9,690	5,881
December 31, 1996	5,881	38,798	35,728	8,951
December 31, 1997	8,951	70,360	56,183	23,128

(a) Represents amount written off as uncollectible and recoveries of previously reserved amounts.

INDEX TO EXHIBITS
(Item 14(a))

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated June 5, 1997, by and among EXCEL Communications, Inc., New RES, Inc., T-Sub, Inc., E-Sub, Inc. and Telco Communications Group, Inc. The schedules to the Agreement and Plan of Merger and the appendices thereto have been omitted. Holdings will furnish supplementally to the Commission any of the schedules or appendices upon request (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377)
3.1	Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 filed with the Commission).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 filed with the Commission).
4.1	Specimen Certificate for Common Stock of the Company (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 filed with the Commission).
10.1	Excelcom, Inc. 1995 Stock Option Plan (incorporated by reference to Exhibit 4.4. to Excelcom Inc.'s ("Excelcom") Registration Statement on Form S-8, as amended, File No. 333-20061).
10.2	Excelcom, Inc. 1997 Director Stock Option Plan (incorporated by reference to Exhibit 4.5 to Excelcom's Registration Statement on Form S-8, as amended, File No. 333-20061).
10.3	Excelcom, Inc. Director Stock Option Agreement with Ronald A. McDougall (incorporated by reference to Exhibit 4.6 to Excelcom's Registration Statement on Form S-8, as amended, File No. 333-20061).
10.4	Telco Communications Group, Inc. Amended and Restated 1994 Stock Option Plan (incorporated by reference to Exhibit 10.22 to Telco Communications Group Inc.'s ("Telco") Registration Statement on Form S-1, as amended, File No. 333-05857).
10.5	EXCEL Communications, Inc. 1997 Stock Option Plan (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8, File No. 333-38149).
10.6	EXCEL Communications, Inc. 1997 Director Stock Option Plan (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-8, File No. 333-38149).
10.7	EXCEL Telecommunications, Inc. Employee Ownership Plan Trust Agreement dated October 1, 1995 (the "Trust Agreement") between EXCEL Telecommunications, Inc. and Bank One Texas, N.A. ("Bank One") as Trustee of the EXCEL Telecommunications, Inc. Employee Ownership Plan (incorporated by reference to Exhibit 10.3 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.8	Amendment to the Trust Agreement dated December 29, 1995 among the Registrant, EXCEL Telecommunications, Inc., and Bank One (incorporated by reference to Exhibit 10.4 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).

Exhibit No.	Description
10.9	ESOP Loan Agreement dated as of October 1, 1995 by and between EXCEL Telecommunications, Inc. and Bank One (incorporated by reference to Exhibit 10.5 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.10	Non-Recourse Promissory Note dated October 1, 1995 payable to EXCEL Telecommunications, Inc. by Bank One in the original principal amount of $6,000,000 (incorporated by reference to Exhibit 10.6 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.11	ESOP Pledge Agreement dated October 1, 1995 by and between EXCEL Telecommunications, Inc. and Bank One (incorporated by reference to Exhibit 10.7 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.12	Stock Purchase Agreement dated as of October 1, 1995 among EXCEL Telecommunications, Inc., Bank One, Kenny A. Troutt, and Thomas P. Wittmann (incorporated by reference to Exhibit 10.8 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.13	Second Amended and Restated Service Agreement dated as of January 1, 1996 by and between Switched Services Communications, L.L.C. ("SSC") and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.9 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076)##.
10.14	Purchase and Sale Agreement dated as of January 1, 1996 by and among EXCEL Telecommunications, Inc., the Registrant, IXC Long Distance, Inc., SSC, and IXC Carrier, Inc. (incorporated by reference to Exhibit 10.10 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.15	Pledge Agreement dated January 1, 1996 between IXC Long Distance, Inc. and the Registrant (incorporated by reference to Exhibit 10.11 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.16	Promissory Note dated January 1, 1996 payable to the Registrant by IXC Long Distance, Inc. in the original principal amount of $6,247,500 (incorporated by reference to Exhibit 10.12 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.17	EXCEL Reseller Services Agreement dated February 20, 1995 between Allnet Communication Services, Inc. ("Allnet") and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.13 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076)##.
10.18	Amendment No. 1 to EXCEL Reseller Services Agreement dated October 31, 1995 between Allnet and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.14 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076)##.
10.19	Addendum for Dedicated Services to the EXCEL Reseller Services Agreement between Allnet and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.15 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076)##.
10.20	Agreement dated May 1, 1989 between EXCEL Telecommunications, Inc. and Stephen R. Smith (incorporated by reference to Exhibit 10.16 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).

Exhibit No.	Description
10.21	First Amendment of Agreement dated January 8, 1996 between EXCEL Telecommunications, Inc. and Stephen R. Smith (incorporated by reference to Exhibit 10.17 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.22	Commercial Property Contract of Sale dated August 8, 1995 between FM Properties Operating Co. and EXCEL Telecommunications, Inc., as amended (incorporated by reference to Exhibit 10.18 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.23	Standard Form of Agreement between Owner and Contractor/Developer dated November 17, 1995, between EXCEL Telecommunications, Inc. and Wilcox/CMC Addison, Inc. (incorporated by reference to Exhibit 10.19 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.24	Assignment and Assumption of Construction Contract dated December 28, 1995 between EXCEL Telecommunications, Inc. and Registrant (incorporated by reference to Exhibit 10.20 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.25	Office Lease dated October 3, 1991 between State of California Public Employees' Retirement System and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.21 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.26	Lease Amendment dated May 17, 1994 between Stewart Interchange I, Inc., as successor in interest to State of California Public Employees' Retirement System and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.22 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.27	Promissory Note dated April 20, 1995 payable to EXCEL Telecommunications, Inc. by Kenny A. Troutt in the original principal amount of $4,920,000 (incorporated by reference to Exhibit 10.27 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.28	Promissory Note dated April 21, 1995 payable to EXCEL Telecommunications, Inc. by Thomas P. Wittmann in the original principal amount of $360,000 (incorporated by reference to Exhibit 10. 28 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.29	Promissory Note dated September 29, 1995 payable to EXCEL Telecommunications, Inc. by Kenny A. Troutt in the original principal amount of $720,000 (incorporated by reference to Exhibit 10.29 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076) .
10.30	EXCEL Communications, Inc. Employee Ownership Plan, as amended and restated effective October 1, 1995 (incorporated by reference to Exhibit 10.30 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.31	Employment Agreement, dated January 1, 1996, between the Registrant and Kenny A. Troutt (incorporated by reference to Exhibit 10.31 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.32	EXCEL Telecommunications, Inc. 1996 Management Incentive Plan (incorporated by reference to Exhibit 10.32 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.33	Form of agreement with independent representatives (form represents front and back of agreement).

Exhibit No.	Description
10.34	Form of agreement with area coordinators (form represents front and back of agreement).
10.35	Reseller Agreement, dated as of March 8, 1996, between EXCEL Telecommunications, Inc. and Page Mart, Inc. (incorporated by reference to Exhibit 10.1 to Excelcom's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.).##
10.36	Preferred Vendor Status Agreement dated as of January 1, 1996 by and among EXCEL Telecommunications, Inc., IXC Long Distance, Inc., Switched Services Communications, L.L.C., and IXC Carrier, Inc. (incorporated by reference to Exhibit 10.37 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.37	Office Lease Agreement dated February 1, 1996 between Connecticut General Life Insurance Company and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.38 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.38	Amendment No. 2 to EXCEL Reseller Services Agreement dated April 27, 1996 between Allnet and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.39 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).
10.39	Telecommunications Services Agreement, dated May 31, 1996, between WorldCom Network Services, Inc. d/b/a WilTel ("WilTel") and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.1 to Excelcom's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
10.40	Program Enrollment Terms, dated May 31, 1996, between WilTel and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.2 to Excelcom's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).##
10.41	Amended and Restated Program Enrollment Terms, dated November 24, 1997 between WilTel and EXCEL Telecommunications, Inc.#
10.42	Service Schedule, dated May 31, 1996, between WilTel and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.3 to Excelcom's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).##
10.43	Amendment No. 3 to EXCEL Reseller Services Agreement, dated February 20, 1995 and effective April 1, 1995, between Frontier Communications Services, Inc. and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.4 to Excelcom's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
10.44	Carrier Agreement, dated June 26, 1996, between MCI Telecommunications Corporation and EXCEL Telecommunications, Inc. (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, filed with the Commission).##
10.45	Underwriting Agreement, dated May 9, 1996, between the Company and Donaldson, Lufkin & Jenrette Securities Corporation, as representative of the several U.S. underwriters and the several international managers for the Company's initial public offering (incorporated by reference to Exhibit 1.1 to Excelcom's Registration Statement on Form S-1, as amended, File No. 333-1076).

Exhibit No.	Description
10.46	Form of Employment Agreement between Donald A. Burns and Telco (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.47	Form of Employment Agreement between Stephen G. Canton and Telco (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.48	Form of Employment Agreement between Henry G. Luken, III and EXCEL (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.49	Form of Employment Agreement between Nicholas A. Merrick and Telco (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.50	Form of Employment Agreement between Bryan K. Rachlin and Telco (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.51	Form of Non-Competition Agreement between Donald A. Burns and EXCEL (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.52	Form of Non-Competition Agreement between Stephen G. Canton and EXCEL(incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.53	Form of Non-Competition Agreement between Henry G. Luken, III and EXCEL (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.54	Form of Non-Competition Agreement between Nicholas A. Merrick and EXCEL (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.55	Form of Employment Agreement between Bryan K. Rachlin and EXCEL (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-4, as amended, File No. 333-35377).
10.56	EXCEL Shareholders Agreement, dated as of June 5, 1997, by and among Telco Communications Group, Inc. and each of the shareholders party thereto (incorporated by reference to Excelcom's Form 8-K, dated June 5, 1997, as filed with the Commission on June 10, 1997).
10.57	Telco Shareholders Agreement, dated June 5, 1997, by and among EXCEL Communications, Inc. and each of the shareholders party thereto (incorporated by reference to Form 8-K of Telco Communications Group, Inc., dated June 5, 1997, as filed with the Commission on June 10, 1997).
10.58	Agreement for Billing Services by Tel Labs, Inc. and Esprit Telecom dated December 29, 1995 (incorporated by reference to Exhibit 10.4 to Telco's Registration Statement on Form S-1, as amended, File No. 333-05857).

Exhibit No.	Description
10.59	Service Agreement between IXC Carrier, Inc. and Telco Communications Group, Inc. dated December15, 1995 (incorporated by reference to Exhibit 10.17 to Telco's Registration Statement on Form S-1, as amended, File No. 333-05857).
10.60	Telco Communications Group, Inc. Wholesale Customer Agreement for Special International Pricing with Esprit Telecom dated February 21, 1996 (incorporated by reference to Exhibit 10.18 to Telco's Registration Statement on Form S-1, as amended, File No. 333-05857).
10.61	Equipment leases between DSC Finance Corporation and Telco Communications Group, Inc. (Master Lease dated January 1, 1994 and Schedules A-P1) (incorporated by reference to Exhibit 10.29 to Telco's Registration Statement on Form S-1, as amended, File No. 333-05857).
10.62	Carrier Agreement between AT&T Corp. and Telco Communications Group, Inc., dated December 23, 1996 (incorporated by reference to Exhibit 10.44 to Telco's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 0-28668).
10.63	Network Purchase Agreement between Advantis and Telco Network Services, Inc., dated March 11, 1997 (incorporated by reference to Exhibit 10.45 to Telco's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 0-28668).
10.64	Credit Agreement, dated as of October 10, 1997, by and among EXCEL Communications, Inc., the lenders party thereto, Lehman Commercial Paper Inc., as Arranger and Syndication Agent, Bank of America National Trust and Savings Association and Nationsbank of Texas, N.A., as Documentation Agents, and First Union National Bank, as Administrative Agent (incorporated by reference to Exhibit 99.2 to the Company's Form 8-K, dated October 14, 1997, File No. 001-13433).
10.65	Deed of Lease Agreement between Bricks in the Stock, Ltd. And Tel Labs, Inc. effective July 1, 1994 (Corporate Office) (incorporated by reference to Exhibit 10.25 to Telco's Registration Statement on Form S-1, as amended, File No. 333-05857).
10.66	Deed of Lease Agreement between Bricks in the Stock, Ltd. And Tel Labs, Inc. effective March 1, 1995 (Corporate Office) (incorporated by reference to Exhibit 10.26 to Telco's Registration Statement on Form S-1, as amended, File No. 333-05857).
10.67	Credit Agreement between Telco and Nationsbank of Texas, N.A. as Administrative Lender and Lenders dated December 20, 1996 (incorporated by reference to Exhibit 10.43 to Telco's Annual Report on Form 10-K for the year ended December 31, 1996, File No. 0-28668).
10.68	Form Indemnification Agreement by and among the Company and the Company's officers and directors.
10.69	Amendment to the EXCEL Communications, Inc. Employee Owner Plan, dated December 3, 1997.
18.1	Change of Accounting Letter from Arthur Andersen LLP.
22.1	Subsidiaries of EXCEL Communications, Inc.
23.1	Consent of Independent Public Accountants.
27.1	Financial Data Schedule as of December 31, 1997.

\#   Confidential Treatment has been requested.
\##   Confidential treatment has been granted.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into this Company's previously filed Registration Statement File No. 333-3537 on Form S-8. It should be noted that we have not audited any financial statements of the Company subsequent to December 31, 1997 or performed any audit procedures subsequent to the date of our report.

Dallas, Texas
January 26, 1998

ARTHUR ANDERSEN LLP

Exhibit D

EXHIBIT D

Verification

VERIFICATION

I, James M. Smith, hereby declare under penalty of perjury, that I am an officer of Excel Communications, Inc., and I am authorized to make this verification on behalf of the Applicants. I have read the foregoing information and know the contents thereof; and the facts stated therein are true and correct to the best of my knowledge, information and belief.

I declare under penalty of perjury that the foregoing is true and correct, this 5 day of February, 1999.

By: Jas M Smith

Name: James M. Smith

Title: Vice President - Law and Public Policy

Subscribed and sworn to before me this 5 day of February 1999.

Katherine Smithsall
Notary Public

MY COMMISSION EXPIRES
OCTOBER 31, 2002