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ORIGINAL

CLARICOM HOLDINGS, INC.
AND SUBSIDIARIES

FINANCIAL STATEMENTS
and Report of Independent Accountants

DECEMBER 31, 1997 and 1996

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NON-PROPRIETARY VERSION

CLARICOM HOLDINGS, INC.
and Subsidiaries

Financial Statements
December 31, 1997 and 1996
Index

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300 Atlantic Street
P.O. Box 9316
Stamford, CT 06904

Price Waterhouse LLP

Report of Independent Accountants

June 11, 1998

To the Board of Directors and Stockholders
of Claricom Holdings, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Claricom Holdings, Inc. and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for the year ended December 31, 1997 and for the seven months ended December 31, 1996, in conformity with generally accepted accounting principles. These 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

CLARICOM HOLDINGS, INC. and Subsidiaries

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands)

	Twelve Months Ended December 31, 1997	Seven Months Ended December 31, 1996
Revenues	$179,811	$106,848
Cost of revenues	105,346	64,946
Gross profit	74,465	41,902
Selling expenses		
General and administrative expenses		
Operating income	6,149	7,183
Interest expense		
Other non-operating expense (income)		
Income (loss) before income taxes	(1,563)	3,809
Provision for income taxes	452	704
Net income (loss)	($2,015)	$3,105

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

CLARICOM HOLDINGS, INC. and Subsidiaries

CONSOLIDATED BALANCE SHEET

(In thousands, except for share amounts)

	December 31, 1997	December 31, 1996
Assets		
Current assets :		
Cash and cash equivalents		
Accounts receivable, net of allowance for doubtful accounts of		
Inventories		
Prepaid expenses and other current assets		
Total current assets	52,369	47,824
Property and equipment, net	8,082	5,979
Goodwill, net	68,514	68,716
Deferred taxes	5,753	6,297
Other assets	2,409	1,802
TOTAL ASSETS	$137,127	$130,618
Liabilities and Stockholders' Equity		
Current liabilities :		
Current portion of long-term debt		
Accounts payable		
Accrued payroll and related costs		
Accrued liabilities		
Deferred revenue and customer deposits		
Total current liabilities	56,946	61,630
Long-term debt	64,858	50,705
Long-term deferred revenue	1,628	2,704
Total liabilities	123,432	115,039
Commitments and contingencies (See Note 6)		
Stockholders' equity :		
Class A common stock: $0.001 par value: 9.915,000 shares authorized; and shares issued and outstanding	0	0
Class L common stock: $0.001 par value; 85,000 shares authorized; and shares issued and outstanding	0	0
Additional paid-in capital		
Stockholder note		
Deferred compensation		
Retained earnings		
	13,695	15,579
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$137,127	$130,618

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

CLARICOM HOLDINGS, INC. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

	Twelve Months Ended December 31, 1997	Seven Months Ended December 31, 1996
CASH FLOWS FROM OPERATING ACTIVITIES :		
Net income (loss)	($2,015)	$3,105
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities :		
Depreciation and amortization		
Accretion of debt discount		
Provision for losses on accounts receivable		
Deferred income taxes		
Noncash interest		
Decrease (increase) in accounts receivable		
Increase in inventories		
Increase in prepaid expenses and other current assets		
Increase (decrease) in other assets		
(Decrease) increase in accounts payable		
Decrease in accrued liabilities		
Increase (decrease) in deferred revenue		
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(3,758)	1,848
CASH FLOWS FROM INVESTING ACTIVITIES :		
Purchase of Direct Sales and Service Offices and Long Distance Reseller Division of Executone Information Systems	-	
Purchase of property and equipment, net		
NET CASH USED IN INVESTING ACTIVITIES	(2,618)	(59,418)
CASH FLOWS FROM FINANCING ACTIVITIES :		
Proceeds from issuance of common stock		
Proceeds from excercises of stock options		
Term loan advance		
Proceeds from long-term borrowings		
Repayments of long-term borrowings		
Proceeds from line of credit		
Repayments of line of credit		
Repayments of capital lease obligations		
NET CASH PROVIDED BY FINANCING ACTIVITIES	7,773	59,626
INCREASE IN CASH AND CASH EQUIVALENTS	1,397	2,056
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	2,069	13
CASH AND CASH EQUIVALENTS - END OF PERIOD	$3,466	$2,069

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

NOTE 1 - FORMATION OF THE COMPANY AND NATURE OF THE BUSINESS
On May 31, 1996, Clarity Telecom Holdings, Inc. ("Holdings"), an acquisition group led by Bain Capital, acquired the Direct Sales and Service Offices ("DSOs") and Long Distance Reseller business of EXECUTONE Information Systems, Inc. ("Executone") under the Asset Purchase Agreement dated April 9, 1996 between Executone and Holdings (the "Agreement"). The $64.4 million purchase consisted of $58.5 million in cash and a $5.9 million note payable by Holdings.

Due to a pending trademark infringement, Holdings changed its name to Claricom Holdings, Inc. ("Claricom"). Claricom and its wholly owned subsidiaries (the "Company") sells, installs, supports and services voice processing systems (through its Claricom, Inc. subsidiary) and provides cost-effective long distance telephone service (through its Claricom Networks, Inc. subsidiary). In connection with the purchase, the Company and Executone signed a distributor agreement that allows the Company to sell and service Executone's telephony products. The Company is required to purchase or license certain levels of product from Executone on an annual basis. The distributor agreement expires on May 30, 2001. See Note 11 for a discussion of subsequent events relating to the distributor agreement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Principles of Consolidation. The consolidated financial statements include the accounts of Claricom and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year's presentation.

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

Revenue Recognition. Revenue from equipment, software and installation contracts is recognized when the contract or contract phase for major installations is completed. Revenue derived from maintenance is recognized (1) when the work is complete for maintenance performed on a time and materials basis or (2) ratably over the service period for contracted maintenance. Revenue of the Long Distance Reseller business is recognized as service is provided based upon actual usage through the long distance carrier.

Cash and cash equivalents. The Company considers all highly liquid investments having a maturity of three months or less to be cash equivalents. The carrying amount of all cash equivalents approximates fair value.

Inventories. Inventories are stated at the lower of cost (on a first-in, first-out basis) or market. Substantially all inventory is purchased from Executone at discounts off Executone's distributor price list, as provided in the Agreement. Although this leaves the Company directly affected by Executone's financial condition and ability to supply product, management does not believe significant supply risk exists at December 31, 1997. Finished goods include service stock that is amortized over the estimated product/service life of the related systems.

Property and Equipment. Property and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated economic useful lives of the assets, which range from three to ten years for furniture, fixtures and equipment and thirty years for a building. Amortization, principally of leasehold improvements, is provided over the life of the respective lease terms that range from three to ten years. Property and equipment at December 31, 1997 and 1996 consists of the following (000's):

	1997	1996
Land and building		
Leasehold improvements		
Furniture and fixtures		
Equipment		
	10,668	6,911
Accumulated depreciation and amortization	(2,586)	(932)
Property and equipment, net	$ 8,082	$ 5,979

Depreciation expense and amortization of leasehold improvements was $1,654,000 and $932,000 for the twelve month period ended December 31, 1997 and the seven month period ended December 31, 1996, respectively. This expense is included in General and Administrative Expenses.

Goodwill. Goodwill represents the excess of the purchase price of the businesses acquired over the fair value of the net tangible assets acquired. Amortization is provided on a straight-line basis over 25 years. Goodwill is measured for possible impairment whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable; such measurement is based on the undiscounted future cash flows from the related operations. For the twelve month period ended December 31, 1997 and the seven month period ended December 31, 1996, $2.9 million and $1.8 million, respectively, of amortization expense was recorded and is included in General and Administrative Expenses.

Warranty Costs. The Company generally warrants its new installations and base change outs (upgrades) for one year after installation. Moves, adds and changes to previously installed systems are warranted for 90 days on a customized job or 30 days for demand jobs. A provision for estimated warranty costs is maintained as a percentage of applicable product sales.

Income Taxes. The Company utilizes the liability method of accounting for income taxes as set forth in FAS No. 109, "Accounting for Income Taxes". Under the liability method, deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Fair Value of Financial Instruments. The carrying amounts of all financial instruments, which include primarily cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses approximate fair value due to the short maturity of these items; debt carrying values approximate fair value due to interest rates that change with market interest rates.

Concentrations of Credit Risk. Trade accounts receivable potentially subject the Company to credit risk. This risk is limited due to the large number of customers in the Company's base and their dispersion across the country and numerous industries. An allowance for doubtful accounts is maintained based upon factors surrounding the credit risk of specific customers and historical trends.

Stock-Based Compensation. The Company grants stock options for a fixed number of shares to certain employees, as approved by the Board of Directors, from time to time. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees", and, accordingly, recognizes no compensation expense for stock option grants where the exercise price equals the fair market value at the date of grant. If the exercise price is less than the fair market value of the shares at the date of the option grant, deferred compensation is recorded as an offset to equity at the time of grant. The deferred compensation is amortized to expense over the vesting period of the options. In October, 1995, FAS No. 123, "Accounting for Stock-Based Compensation", was issued which requires recognition of stock-based compensation costs or pro forma disclosure in a footnote of such costs beginning with fiscal year 1996. As permitted under FAS No. 123, the Company continues to utilize the intrinsic value method of accounting for stock-based compensation as defined under APB Opinion No. 25. See Note 8 for required FAS No. 123 pro forma disclosure.

NOTE 3 - SUPPLEMENTAL CASH FLOW DISCLOSURE

NOTE 4 - DEBT

The Company's debt at December 31, 1997 and 1996 consists of the following (000's):

	1997	1996
Term loans (a)		
Senior subordinated debt (net of unamortized discount of and (b)		
Borrowings under revolving credit facility (c)		
Junior subordinated note (net of unamortized discount and (d)		
Capital lease obligations (e)		
	69,075	58,600
Less : current portion of long-term debt	4,217	7,895
Total long-term debt	$ 64,858	$ 50,705