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February 3, 1998

VIA AIRBORNE EXPRESS

Execu[illegible]e Secretary
Florida Public Service Commission
2450 Schumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Notification by Network Long Distance, Inc. and National Teleservice, Inc. of Stock Acquisition Agreement and Subsequent Merger

Dear Sir:

On behalf of Network Long Distance, Inc. ("Network") and National Teleservice, Inc. ("NTI"), this letter is to advise the Commission of a Stock Acquisition Agreement (the "Agreement") whereby NTI became a wholly owned subsidiary of Network in May, 1997, and the shareholders of NTI at the time of the transaction received a designated number of shares of Network common stock in exchange.[1] NTI has since been merged into Network effective December 31, 1997 (the "Merger") for purposes of creating one (1) larger telecommunications operation with a single brand identity and consolidated operations. It is our understanding, based upon our review of the applicable statutes and regulations and our discussion with Commission Staff members, that the referenced transactions do not require prior Commission approval, so we are respectfully submitting this letter to the Commission for notification purposes only.

The Parties

Network is a publicly held Delaware corporation with offices located at 525 Florida Street, Baton Rouge, Louisiana 70801. Network is a non-dominant carrier that resells domestic and international long distance service purchased from various facilities based carriers pursuant to the FCC's *Competitive Carrier* policies. Network is authorized by the FCC to offer domestic interstate and international services in all fifty (50) states and the District of Columbia as a non-dominant carrier. Network currently originates interstate traffic in forty-seven (47) states, and provides intrastate service, pursuant to certification, registration or tariff requirements, or on an unregulated

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[1] A copy of the Stock Acquisition Agreement is attached as Exhibit "A".

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basis, in forty nine (49) states. Network is a certified carrier in the State of Florida.[2]

NTI was a Minnesota corporation which became a wholly owned subsidiary of Network in May, 1997 as a result of the transaction described herein. NTI's principal offices were located at 111 Riverfront, Winona, Minnesota 66987. Until the Merger, NTI was (a) a non-dominant carrier that resold domestic and international long distance service purchased from various facilities based carriers pursuant to the FCC's *Competitive Carrier* policies, (b) authorized by the FCC to offer domestic interstate and international services, (c) originated interstate traffic in twelve (12) states, and (d) provided intrastate service, pursuant to certification, registration or tariff requirements, or on an unregulated basis, in twelve (12) states. NTI is presently authorized under its former corporate name as a certified carrier in the State of Florida.[3]

The Stock Acquisition Agreement

Applicants hereby notify the Commission of Stock Acquisition Agreement which Applicants submit accomplished the following:

1. The record and beneficial holders of 100% of the issued and outstanding no par value common stock of NTI transferred and delivered to Network all of their right, title and interest in and to said shares;

2. Network issued and delivered to the present NTI shareholders 3,274,000 shares of Network's common stock as called for in Exhibit "A";

3. The shares were allocated to the shareholders of record of NTI on the basis of the percentage ownership of each shareholder of the NTI stock;

4. NTI became, by virtue of the stock purchase, a wholly owned subsidiary of Network, and

[2] In Florida, Network provides intrastate telecommunications services pursuant to Certificate of Public Convenience and Necessity bearing Certificate Number 3178 issued in matter entitled "Application form for Authority to Provide Interexchange Telecommunications Service Within the State of Florida." Docket Number 930249-TI.

[3] In Florida, NTI provided intrastate telecommunications services pursuant to Certificate of Public Convenience and Necessity bearing Certificate Number 4803 issued in the matter entitled "Application form for Authority to Provide Interexchange Telecommunications Service Within the State of Florida." Docket Number 961125-TI.

5. After consummation of the Stock Acquisition Agreement NTI initially continued to operate as a regulated entity pursuant to its present certifications, registrations, tariff requirements and rate structures.

Critical to the proposed Agreement was the need to ensure the continuation of high quality service to all customers then served by both Network and NTI. The above described transaction serves the public interest for several reasons. First, it has enabled the companies to operate with a more streamlined and efficient level of service for all involved customers by creating a larger parent operation. The transaction enhanced the operating efficiencies, including market efficiencies, of both Applicants. Second, it has increased the appeal to present and potential customers of both Network and NTI as these entities can provide telecommunications services to their customers in a more efficient manner. Finally, it has resulted in substantial cost savings for both Network and NTI because of discounts on quantity ordering of materials and services as well as network efficiencies.

The Subsequent Merger

In addition to the Stock Acquisition Agreement, Applicants hereby notify the Commission of the Merger which Applicants submit accomplished the following:

(a) Effective December 31, 1997, Network merged NTI, its 100% wholly owned subsidiary corporation, with and into Network pursuant to the short form parent-subsidiary merger rules of the State of Delaware.

(b) All of NTI's issued and outstanding common stock were cancelled and extinguished as part of the Merger.

(c) The separate existence of NTI ceased after the Merger, with Network remaining as the surviving corporation, and

(d) Network is in the process of making an orderly transition of all of the present customer accounts of NTI to Network, and will continue to service these customers through and pursuant to the Certificate of Public Convenience and Necessity presently utilized by Network in its service of its existing customers in the State of Florida. Network is in the process of notifying all current end users of NTI of the event and also of any change in rates due to the alignment of two or more different rate products into a single rate product for common services, by either a separate mailing or by a bill insert. To the extent that any present NTI rate products are not included in Network's Tariffs on file with the Commission, Network will amend its Tariffs accordingly. As such, the transaction has not, and will not, cause any inconvenience or confusion to the pre-existing customers of either NTI or Network

(e) The technical, managerial and financial personnel of Network and NTI will remain the same after the transaction, and will continue to serve their respective customers with their present high level of expertise

(f) Critical to the Merger was the need to ensure the continuation of high quality service to all customers currently served by both Network and NTI. The Merger thus serves the public interest for the following reasons

(i) It will enable the companies to operate with a more streamlined and efficient level of service for all involved customers by creating a larger parent operation. The transaction will enhance the operating efficiencies, including market efficiencies, of both Applicants

(ii) It will serve to create a heightened level of operating efficiency which generally will serve to enhance the overall capacity of Applicants to compete in the marketplace and to provide telecommunications services for a greater number of Florida customers at competitive rates and under one brand identity

The Merger will be beneficial for the shareholders of Network as the Merger will consolidate the operations of NTI, Network's 100% wholly owned subsidiary, with and into Network. In addition, Network, as well as its customers and those of NTI, will benefit from the enhanced economies of scale and operating efficiencies, as is explained above

Current financial information for Network is attached hereto as Exhibit "B" * Current financial information for NTI is included in Exhibit "B"

* Exhibit "B" is the Form 10-K submitted to the SEC by Network for the period ended March 31, 1997

The parties are forwarding this letter to the Commission for informational purposes, to be included in the appropriate files. Absent receipt of written notification to the contrary within thirty days, we will proceed on our understanding that no approval or other formal action is required by the Commission regarding the subject transaction.

Enclosed are the original and thirteen (13) copies of this letter. Please return one (1) file-stamped copy in the envelope provided. If you need any further information or have any questions regarding the matters discussed herein, please do not hesitate to contact the undersigned.

Thank you for your assistance in this matter.

Respectfully submitted,

Benjamin W. Bronston
Nowalsky, Bronston & Gothard, L.L.P.
3500 North Causeway Boulevard
Suite 1442
Metairie, Louisiana 70002
(504) 832-1984

BWB/bb
Enclosures

cc: Tom Williams

EXHIBIT A

STOCK ACQUISITION AGREEMENT

BY AND AMONG

NATIONAL TELESERVICE, INC.,

THE 1993 FRIEND FAMILY REVOCABLE TRUST,

LEAF FAMILY PARTNERS, LTD.,

O. A. FRIEND,

JOHN V. LEAF,

NETWORK LONG DISTANCE, INC.

AND

MARY J. LANG

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STOCK ACQUISITION AGREEMENT

BY AND AMONG

NATIONAL TELESERVICE, INC.,

THE 1993 FRIEND FAMILY REVOCABLE TRUST,

LEAF FAMILY PARTNERS, LTD.,

O. A. FRIEND,

JOHN V. LEAF,

NETWORK LONG DISTANCE, INC.

AND

MARY J. LANG

THIS **STOCK ACQUISITION AGREEMENT** ("Agreement"), is dated as of May ___, 1997, by and among **NATIONAL TELESERVICE, INC.**, a Minnesota corporation ("NTI"), **O. A. FRIEND**, as sole Trustee and his successors in trust under **THE 1993 FRIEND FAMILY REVOCABLE TRUST**, a revocable trust established under the laws of the State of California, (the "Friend Trust"), **LEAF FAMILY PARTNERS, LTD.**, a Colorado limited partnership (the "Leaf Partnership"), Friend Trust and Leaf Partnership, being known together herein as the "Sellers", **O. A. Friend**, an individual resident of the State of Washington ("Friend"), **John V. Leaf**, an individual resident of the State of Minnesota ("Leaf"), Friend and Leaf, being known together herein as the "Principals"), **NETWORK LONG DISTANCE, INC.**, a Delaware corporation ("Buyer"), and, for the purposes of Sections 5.10, 7.5 and 8.17, **Mary J. Lang**, an individual resident of the State of Minnesota ("Lang").

W I T N E S S E T H

WHEREAS, Buyer, the Sellers and NTI have indicated their mutual desire that Buyer should acquire all of the issued and outstanding stock of NTI (the "Acquisition"), upon the terms and conditions set forth in this Agreement, and

WHEREAS, the Sellers are the record and beneficial holders of 100% of the issued and outstanding no par value common stock of NTI authorized issued and outstanding (the "NTI Stock"), and by their signatures below, agree to convey all of their shares to Buyer.

NOW, THEREFORE, the parties hereto hereby represent, warrant, covenant and agree as follows

ARTICLE 1. CONVEYANCE OF STOCK

Subject to the terms and conditions provided in this Agreement, the Sellers agree to transfer to Buyer all of their right, title and interest in and to the shares of the NTI Stock owned by Sellers at the Closing (as defined herein) in consideration of the issuance of _________ shares of the $.0001 par value common stock of Buyer (the "Stock") to Sellers allocated to each Seller on the basis of his percentage ownership of the NTI Stock (the "Percentage Interest").

The number of shares of Stock delivered at Closing shall be adjusted based by the amount of cash and cash equivalents reflected on the books of NTI as of the close of business on the day preceding Closing (the "Cash Amount"). If the Cash Amount is less than $2,000,000, the number of shares of Stock delivered by Buyer to Sellers at Closing will be reduced by an amount equal to the quotient of the amount of such difference divided by eight and rounded up to the nearest whole number. If the Cash Amount exceeds $2,000,000, the number of shares of Stock delivered at Closing will be increased by an amount equal to the quotient of the amount of such difference divided by eight and rounded up to the nearest whole number.

ARTICLE 2. CLOSING

The closing of the Acquisition (the "Closing") shall take place at the offices of Blackwell Sanders Matheny Weary & Lombardi in Kansas City, Missouri, at 10:00 a.m. local time as soon as reasonably possible after the date on which the last of the conditions described in Articles 7, 8 and 9 to be satisfied is satisfied or at such other time and place as shall be mutually agreed upon by the parties (the "Closing Date").

ARTICLE 3. REPRESENTATIONS AND WARRANTIES OF THE SELLERS AND NTI

As an inducement for Buyer to enter into this Agreement, NTI, each of the Sellers and each of the Principals, hereby jointly and severally represent, warrant, covenant and agree with and to Buyer, as follows:

3.1 NTI Incorporation. NTI is a corporation duly organized and validly existing and in good standing under the laws of the State of Minnesota. NTI has full corporate power and corporate authority to carry on its business as it is now being conducted, to own and operate its assets, business and properties, to conduct its business as now conducted by it, to enter into this Agreement and to perform its obligations hereunder. Annexed hereto as Schedule 3.1 and made a part hereof is a complete and correct copy of the Articles of Incorporation and Bylaws (together with all amendments and restatements of each such document) of NTI.

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3.2 Seller's Organization. The Friend Trust is a revocable trust duly established under the laws of the State of California. The Friend Trust has full trust power and trust authority to enter into this Agreement and perform its obligations hereunder. Annexed hereto as Schedule 3.2.1 and made a part hereof is a complete and correct copy of the Trust Declaration and other governing documents of the Friend Trust (together with all amendments and restatements of each such document). O. A. Friend, sole trustee of the Friend Trust, has full power and authority to act on behalf of the Friend Trust, including entering into and executing this Agreement and performing its obligations hereunder.

The Leaf Partnership is a limited partnership duly organized and validly existing and in good standing under the laws of the State of Colorado. The Leaf Partnership has full power and authority to enter into this Agreement and perform its obligations hereunder. Annexed hereto as Schedule 3.2.2 and made a part hereof is a complete and correct copy of the Limited Partnership Agreement and other governing documents of the Leaf Partnership (together with all amendments and restatements of each such document). John V. Leaf and Cynthia Ann Leaf, General Partners of the Leaf Partnership, have full power and authority to act on behalf of the Leaf Partnership, including entering into and executing this Agreement and performing its obligations hereunder.

3.3 Capitalization of NTI, Corporate Documents. NTI has an authorized capital stock consisting of 25,000 shares of no par value common stock, 940 of which are issued and outstanding (the "NTI Stock"). All of the issued and outstanding NTI Stock is owned of record and beneficially by the Sellers. Annexed hereto as Schedule 3.3 and made a part hereof is a complete and correct description of the ownership by the Sellers of the NTI Stock, including the number of shares held by each Seller and the certificate numbers of each of the stock certificates issued to the Sellers and the date of such issuance, as shown on NTI's books and records at March 31, 1997. Except as disclosed in Schedule 3.3, there are no other classes of equity, options, warrants, calls, rights or commitments or any other agreements of any character relating to the sale, issuance or voting of any shares of the NTI Stock, or any securities convertible into or evidencing the right to purchase any shares of the NTI Stock.

3.4 Title to NTI Stock. Each of the Sellers has good and marketable title to, and owns and will continue to own free and clear of all claims, liens, pledges, options and other encumbrances, all of the NTI Stock listed in Schedule 3.3 as being owned by him. All of the NTI Stock is validly issued, fully paid, non-assessable with no personal liability attaching to the ownership thereof and has not been issued in violation of the preemptive rights of any other shareholders.

3.5 Status of NTI Stock. Except as set forth on Schedule 3.5, none of the NTI Stock is subject to any shareholder agreement, voting agreement, voting trust, buy-sell agreement or any other similar agreement with respect to any of the NTI Stock and the NTI Stock shall be transferred to Buyer at the Closing free and clear of all claims, pledges, security interests, liens or encumbrances or other restrictions or limitations of any kind, including inheritance or estate tax liens, pledges, options or other encumbrances.

3.6 Capacity of NTI Stock Owners. Neither Seller is under any present legal disability to enter into and perform this Agreement. Each such Seller will have full power and authority to perform all of its obligations under this Agreement as of the Closing.

3.7 No Right of First Refusal. Except as disclosed on Schedule 3.7 annexed hereto and made a part hereof, neither Seller nor NTI is a party to or restricted by or obligated under any contract or agreement which might be violated by making or performing any part of this Agreement including but not limited to rights of first refusal pursuant to any shareholders or any other agreement.

3.8 Financial Statements. (i) The audited Consolidated Balance Sheets of NTI as of September 30, 1994, 1995 and 1996 and the unaudited Balance Sheet of NTI as of March 31, 1997 (the "Balance Sheets"), and (ii) the related Consolidated Statements of Operations and Shareholders' Equity and the Consolidated Statements of Cash Flows (as to audited statements only) for the fiscal years and periods then ended of NTI, together with the notes thereon, certified by the independent certified public accountants of NTI as to the audited statements, have been delivered by NTI to Buyer. Such audited financial statements and notes were prepared in accordance with generally accepted accounting principles ("GAAP"), consistently applied during the periods involved, are in accordance with the books and records of NTI, contain and reflect adequate reserves for (i) all liabilities or obligations of any nature, whether absolute, contingent or otherwise, in accordance with GAAP and (ii) all reasonably anticipated losses and costs in excess of expected revenue, and present fairly the financial position of NTI, as of such dates and for such periods. All transactions between NTI and the Sellers related to the business or operations of NTI (other than transactions related to compensation of either of the Sellers as set forth in detail on Schedule 3.8 hereto) have been identified in such audited financial statements. The unaudited financial statements as of and for the period ended March 31, 1997 have been prepared on a tax basis, contain and reflect adequate reserves for (i) all liabilities or obligations of any nature, whether absolute, contingent or otherwise, and (ii) all reasonably anticipated losses, except for differences between tax and GAAP accounting, and absence of explanatory footnotes, and present fairly the financial condition and results of operations of NTI as of such date and for such period. Such footnote disclosures, if included with the unaudited financial statements, would be substantially similar in description and content to the footnote disclosures in the audited financial statements for the fiscal year ended September 30, 1996. All transactions between NTI and the Sellers related to the business or operations of NTI (other than transactions related to compensation of either of the Sellers as set forth in detail on Schedule 3.8 hereto) have been identified in such unaudited financial statements. For purposes of this Agreement, the Balance Sheet of NTI at March 31, 1997, is sometimes referred to as the "Balance Sheet" and the date thereof is referred to as the "Balance Sheet Date." NTI shall deliver to Buyer (i) the unaudited compiled financial statements of NTI for each month ended after the Balance Sheet Date, no later than twenty (20) days after the end of each such month until Closing shall have occurred, and (ii) any subsequent unaudited compiled financial statements of NTI for each fiscal quarter after the Balance Sheet Date, no later than thirty (30) days after the end of each such fiscal quarter until Closing shall have occurred. Such financial statements will be prepared in a manner consistent with the audited financial statements of NTI and will be in accordance with the books and records of NTI.

3.9 Business Since March 31, 1997. Except as set forth on Schedule 3.9 attached hereto and made a part hereof, since the Balance Sheet Date, there has not been:

3.9.1 Any material adverse change in the financial condition, operations, business or prospects of NTI, including, but not limited to, any state or federal regulatory proceedings which could culminate in an order or other action which would have such an adverse change, but excluding generally known industry trends and competitive conditions affecting the telecommunications industry generally;

3.9.2 Any material physical damage or destruction, whether or not covered by insurance, adversely affecting the properties, business or operations of NTI;

3.9.3 Any labor dispute or threat thereof or any attempt to organize or reorganize the employees of NTI for the purpose of collective bargaining;

3.9.4 Any direct or indirect redemption, purchase or other acquisition by NTI of any of the NTI Stock, or declaration of or payment or distribution of any kind of cash or other assets to either of the Sellers or to any party related or affiliated with either Seller (a "Seller Affiliate") other than the payment of dividends as set forth in detail on Schedule 3.9 hereto;

3.9.5 Any employment, severance, consulting or other compensation contract entered into by NTI with any director, officer or employee, or any increase of compensation payable or to become payable to any of its officers, employees or agents, except for increases in compensation in the ordinary course of business including pro rata salary and bonus distributions to Sellers previously paid at year end, which increases and distributions are set forth in detail on Schedule 3.9;

3.9.6 Any communication, whether oral or written, to NTI or the Sellers from NTI's customers, subscribers or suppliers or agencies regulating NTI, nor does NTI or the Sellers, after making due inquiry, have any knowledge of, any potential development affecting NTI which would reasonably lead NTI or any of the Sellers to expect a material adverse change in NTI's business;

3.9.7 Any satisfaction or discharge of any lien by NTI or payment by NTI of any obligation or liability, other than an obligation or liability included in the Balance Sheet of NTI, current liabilities incurred since the Balance Sheet Date in the ordinary course of business, liabilities incurred in carrying out the transactions contemplated by this Agreement and obligations and liabilities under the contracts and agreements listed in Schedule 3.16 hereof;

3.9.8 Any guaranty, endorsement or indemnification by NTI of the obligations of any third person, firm or corporation,

3.9.9 Any sale or transfer of any assets or cancellation by NTI of debts or claims having a value, in the aggregate, of more than $10,000, except, in each case, in the ordinary course of business;

3.9.10 Any knowing waiver by NTI of any rights having a value individually or in the aggregate, in excess of $10,000,

3.9.11 Any transaction entered into, other than in the ordinary course of business,

3.9.12 Any mortgage, pledge or lien or other encumbrance of any of its assets, tangible or intangible; or

3.9.13 Any assignment, sale or transfer of any patent, trademark, trade name, trade secret, copyright or other intangible asset.

3.10 Litigation Claims. Except as set forth in Schedule 3.10

3.10.1 There are no claims, suits, actions or proceedings of any nature whatsoever in law or in equity, pending before any court, governmental department, commission, agency, instrumentality or authority or any arbitrator, or, to the best knowledge of NTI, the Sellers, and the Principals, threatened, nor are there, to the best knowledge of NTI, the Sellers, and the Principals, any investigations, whether or not purportedly on behalf of NTI, complaints or reviews by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against, relating to or affecting NTI.

3.10.2 NTI is not operating under or subject to, nor in default with respect to, any order, writ, injunction, garnishment, levy or decree of any federal, state, municipal or other governmental court, department, commission, board, bureau, agency or instrumentality. The use or ownership of NTI's assets, the use or occupancy of NTI's real property, and any interests related thereto, and the transfer of the NTI Shares does not constitute a default thereunder.

3.10.3 During the past five (5) years, there has not been nor is there now pending any claim(s) against any person in his or her capacity as either a director or officer of NTI. The Sellers and the Principals have no actual knowledge or information of any act, error, or omission which would give rise to such a claim. Neither NTI, the Sellers, nor the Principals have been involved in or have knowledge of any facts or circumstances involving the following which would give rise to such a claim: (i) antitrust, communications, copyright, trade name, trademark or patent claims or litigation; (ii) charges in any civil or criminal action or administrative proceeding involving a violation of any federal or state security law or regulation; (iii) charges in any civil or criminal action or administrative proceeding involving a violation of any federal or state antitrust or fair trade law or consumer protection law or regulation, whether general or specific to the communications services industry; and (iv) actions involving representative actions, class actions or derivative suits.

3.10.4 Neither NTI, Sellers nor the Principals are aware of any claim, nor do Sellers have any knowledge of the basis of any claim, against NTI for injury to person or property of employees or any third party suffered as a result of the sale of any product or the performance of any service by NTI, including claims arising out of any alleged defective nature of its products or services, except for those types of claims which are covered by insurance maintained by NTI, such claims being described on Schedule 3.10.

3.11 Compliance with Laws. Except as set forth on Schedule 3.11, annexed hereto and made a part hereof, NTI has not received written notice and neither NTI, either of the Sellers, nor either of the Principals has any knowledge, having made due inquiry, of any violation by NTI of its tariffs or of laws, regulations and orders from any governmental entity having authority to enforce such tariffs, laws, regulations and orders, including, but not limited to, the Communications Act of 1934, as thereafter amended, including, the amendments embodied in the Telecommunications Act of 1996, and the Telephone Consumer Protection Act of 1991 (the "Communications Act"), and NTI, the Sellers, and the Principals do not have any actual knowledge, having made due inquiry, that any requirements of insurance carriers, applicable to its business are not being adhered to. The present uses by NTI of its properties do not violate any such laws, regulations, orders or requirements. To NTI's, Sellers' and Principals' actual knowledge, having made due inquiry, no consent or approval by any governmental or quasi-governmental authority, other than the approval of the Federal Communications Commission, the utility regulatory commissions in the States of Minnesota, Wisconsin, Iowa, Illinois, Nebraska, Kansas, Missouri, South Dakota, North Dakota, Wyoming, California, Arizona, New York, New Jersey, Massachusetts, Florida and Texas (together, the "Commissions") and compliance with applicable federal and state securities and corporation laws, is required in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

3.12 Patents, Trademarks, Miscellaneous Intellectual Property. Schedule 3.12, which is annexed hereto and made a part hereof, sets forth a correct and complete list of all copyrights, patents, trademarks, trade names, processes, inventions and formula applied for, issued to or owned by NTI or under which NTI is licensed or franchised, all of which are valid, in good standing and uncontested. Except as set forth on Schedule 3.12, NTI possesses the rights, licenses or other authority to use all copyrights, patents, inventions, formula, processes (secret or otherwise), trademarks and trade names necessary to conduct its businesses as presently conducted or presently proposed to be conducted. Neither NTI, any Seller, nor any Principal has received any notice or other information with respect to any alleged infringement or unlawful use of any software license, copyright, patent, trademark, trade name, process invention or formula or other intangible property right owned by it or by others. No director or officer of NTI, neither Seller and no Seller Affiliate, nor any Principal has any interest in any such copyright, patent, trademark, trade name, process, invention or formula. NTI has not granted any outstanding licenses or other rights and has no obligations to grant licenses or other rights with respect to any copyright, patent, invention, formula, process, trademark or trade name listed in Schedule 3.12, except as specifically stated in Schedule 3.12.

3.13 Insurance. Schedule 3.13, which is annexed hereto and made a part hereof, is a correct and complete list of all insurance held by NTI including the policy number, name of carrier, coverage, term, expiration date and premium. NTI has its buildings, plants and properties, including, but not limited to telecommunications equipment and inventories, insured for its actual cash value, but not exceeding the amount it would cost to repair or replace such properties, against loss or damage by fire and all other hazards and risks of the character usually insured against by persons operating similar properties in the localities where such properties are located under valid and enforceable policies issued by insurers of recognized responsibility. Such insurance coverage will be continued in full force and effect after the Closing and through the date shown on Schedule 3.13 through which premiums have been paid. NTI has not been refused any insurance by an insurance carrier to which it has applied for insurance during the past three years.

3.14 Indebtedness. Schedule 3.14, which is annexed hereto and made a Part hereof, is a correct and complete list of all instruments, agreements or arrangements pursuant to which NTI has borrowed any money, guaranteed or included any indebtedness or established any line of credit which represents any liability, contingent or otherwise, of NTI on the date hereof. True and complete copies of all such written instruments, agreements or arrangements have been delivered to NTI prior to the date of this Agreement.

3.15 Correct Records. The financial records, ledgers, account books, minute books, stock certificate books, stock registers, and other corporate records of NTI are current, correct and complete in all material respects and all signatures therein are the true signatures of the persons who are purported to have signed.

3.16 Contracts. The following written contracts, plans, agreements, arrangements and leases, (true complete copies of which have been furnished to NTI as of the date hereof), and oral contracts, plans, agreements, arrangements and leases to which NTI is a party are set forth, listed and, for the oral contracts, agreements and arrangements, accurately described, on Schedule 3.16 which annexed hereto and made a part hereof: (i) each contract for the future purchase of materials, services, supplies or equipment which (a) has a term in excess of one year or (b) obligates NTI to pay, in one installment or in the aggregate over its term or one year, whichever is shorter, an amount in excess of $50,000, (ii) each contract with a customer made in the ordinary course of business which (a) has a term in excess of one year or (b) generates revenues for NTI over its term or in any one 12 month period, whichever is shorter, in excess of $50,000; (iii) each contract not made in the ordinary and usual course of business; (iv) each employment, severance and consulting contract; (v) each contract with any labor union or other labor organization; (vi) each guarantee and accommodation; (vii) each license and franchise relating to the business of NTI; (viii) each lease of real and personal property which (a) has a term in excess of one year or (b) obligates NTI to pay, in one installment or in the aggregate over its term or one year, whichever is shorter, an amount in excess of $50,000; (ix) each common carrier agreement pursuant to which NTI purchases telecommunications services; and (x) each contract and agreement with affiliates of NTI, including either Seller and any Seller Affiliate ("Material Contracts"). Except as set forth on Schedule 3.16 hereto, NTI has performed all obligations required to be performed by it to date and has not breached and is not in default under any agreement listed in Schedule 3.16 or to which it is a party or by which it is bound, and all of the same are enforceable in accordance with their terms. NTI has a proper, legal, valid and binding letter of authorization from at least ninety-eight percent (98%) of its presubscribed long distance service customers or subscribers. NTI, Sellers, and Principals know of no facts or circumstances which constitute, or with the passage of time could constitute, a default by NTI, the Sellers or any other party under any Material Contracts, nor are NTI, Sellers, and Principals aware of any restrictions imposed by such contracts which would in any material way negatively impact or impair the consummations of the transactions contemplated by this Agreement.

3.17 Employee Benefit Plans; ERISA

3.17.1 Schedule 3.17.1 lists all contracts, agreements, arrangements and understandings, whether written or oral, with respect to the payment or delivery to any person of compensation, bonuses, perquisites, benefits and other items of value by NTI.

3.17.2 Schedule 3.17.2 lists each employee of NTI and identifies the salary, commissions, bonuses, perquisites and benefits to which each such employee is entitled. Such Schedule also sets forth the names of all directors and officers of NTI and a description of any agreement with respect to the election or tenure of any of them as such.

3.17.3 No employee or director of NTI will be entitled to severance pay by virtue of the transactions contemplated by this Agreement. Schedule 3.17.3 sets forth each employee or director of NTI who has any right to severance pay for any reason, listing the employee name, severance amount or method of calculation, and the basis for such right.

3.17.4 Schedule 3.17.4.1 contains a true and complete list of each pension, profit sharing, other deferred compensation, bonus, incentive compensation, stock purchase, stock option, retirement, supplemental retirement, severance or termination pay, medical, hospitalization, educational assistance, legal assistance, life insurance, dental, disability, salary continuation, vacation, supplemental unemployment benefits plan, program, arrangement or contract, and each other employee benefit plan, program, arrangement or contract, maintained, contributed to, or required to be contributed to, or promised by NTI or any Related Party (hereinafter defined) for the benefit of any current or former employee, director or agent of NTI or any Related Party, whether or not any of the foregoing is funded, whether formal or informal, whether or not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (collectively, the "Benefit Plans"). NTI and its Related Parties do not have any express or implied commitment or contract to create any additional Benefit Plan or modify any existing Benefit Plan, other than as may be required to comply with ERISA or the Internal Revenue Code of 1986, as amended (the "Code"). NTI has delivered to Buyer, with respect to each applicable Benefit Plan (1) true and complete copies of all documents embodying or relating to each Benefit Plan including, without limitation, the plan and trust or other funding arrangement relating thereto, insurance contracts, summary plan descriptions, employee handbooks or personnel manuals, and all amendments and supplements thereto; (2) the most recent annual report (Series 5500 and all schedules thereto), if any, required by ERISA, and (3) the most recent determination letter received from the Internal Revenue Service ("IRS"), if any, and any request for a determination letter with respect to which a response has not been received. "Related Party" means any member of a controlled group of corporations, a group of trades or businesses under common control or an affiliated service group, within the meaning of Section 414(b), (c), (m) or (o) of the Code, of NTI.

3.17.5 The Benefit Plans that are intended by NTI or any Related Party to meet the requirements of Section 401(a) of the Code are so qualified. All such Benefit Plans have been administered in compliance with and consistent with all applicable requirements of the Code and ERISA, including, without limitation, all reporting and disclosure requirements. No Benefit Plan is subject to Title IV of ERISA.

3.17.6 With respect to all Benefit Plans, NTI is in compliance with the requirements prescribed by any and all statutes, orders or governmental rules or regulations currently in effect, including, but not limited to, ERISA and the Code. NTI and any Related Party have performed the obligations required to be performed by them under, and are not in default under or in violation of, any and all of the Benefit Plans, and each Benefit Plan has been operated in all material respects in accordance with the requirements of all applicable laws and regulations. Neither any Benefit Plan or fiduciary nor NTI or any Related Party nor any Party in Interest, has taken any action, or failed to take any action that could subject it or any other person to any material liability for any excise tax under Chapter 43 of the Code, any penalty under Title I of ERISA, or for breach of fiduciary duty with respect to or in connection with a Benefit Plan. "Party in Interest" means any party in interest with respect to any Benefit Plan (within the meaning of Section

3(14) of ERISA) and any disqualified person with respect to any Benefit Plan (within the meaning of Section 4975(e)(2) of the Code).

3.17.7 At no time has NTI or any Related Party been required to contribute to any "multiemployer plan" (within the meaning of Section 3(37) of ERISA and NTI and its Related Parties have no liability (contingent or otherwise) relating to the withdrawal or partial withdrawal from a multiemployer plan. NTI and its Related Parties do not participate in any "multiple employer plans," within the meaning of ERISA.

3.17.8 No Benefit Plan provides or is required to provide group health, medical, death or survivor benefits to any former or retired employee of NTI or beneficiary thereof, except to the extent (i) required under any state insurance law providing for a conversion option under a group insurance policy or (ii) under Section 601 of ERISA.

3.17.9 No Benefit Plan or fiduciary has nor does NTI or any Related Party have any liability to any participant, beneficiary or other person under any provision of ERISA or any other applicable law by reason of any payment of, or failure to pay, benefits or other amounts with respect to or in connection with any Benefit Plan.

3.17.10 Each Benefit Plan may be terminated by NTI or its Related Parties within a period of thirty (30) days following the Closing Date without acceleration or additional vesting of any benefits (except as otherwise required by law) and without payment of any amount as a penalty, bonus, premium, severance pay or other compensation or amount.

3.17.11 With respect to each person who is, has been or would, after serving any waiting period, be eligible for any Benefit Plan which is a group health plan or insurance coverage sponsored by NTI, NTI has previously provided to Buyer all information necessary to comply with the requirements of the Health Insurance Portability and Accountability Act of 1996 concerning certificates of coverages.

3.18 Title to Property

3.18.1 Schedule 3.18.1, which is annexed hereto and made a part hereof, contains accurate descriptions by categories of NTI's owned real property (including all plants and structures located thereon) (the "Real Property") as of the date of this Agreement. Except as set forth in Schedule 3.18.1, NTI has good and marketable title in fee simple to its Real Property, free and clear of all liens and encumbrances and use restrictions. NTI owns or leases all the furniture, equipment and leasehold improvements located in the structures referred to in Schedule 3.18.1.

3.18.2 Schedule 3.18.2 sets forth all leases, subleases and other agreements under which NTI uses or occupies, or has the right to use or occupy, now or in the future, any real property (the "Leased Real Property"). NTI has heretofore delivered to Buyer true, correct and complete copies of all leases (including all modifications, amendments and supplements thereto for the Leased Real Property (the "Real Property Leases"). Each Real Property Lease is valid, binding and in full force and effect, all rent and other sums and charges payable by NTI as tenants thereunder are current, no termination event or condition or uncured default of a material nature on the part of NTI or, to NTI's best knowledge, the landlord, exists under any Real Property Lease. NTI has a good and valid leasehold interest in the Leased Real Property leased by it, free and clear of all mortgages, pledges, liens, encumbrances and security interests except as set forth on Schedule 3.18.2.

3.18.3 NTI has good and defensible title to all of its other assets and properties used in the business of NTI, and all assets and properties reflected in the Balance Sheets, or acquired after the Balance Sheet Date (other than assets or property sold or otherwise disposed of in the ordinary course of its business subsequent to such date) (the "Other Assets"), such Other Assets being, in each case, free and clear of all security interests, mortgages, pledges, liens, conditional sales, agreements, leases, encumbrances or charges of any nature whatsoever except as expressly stated in Schedule 3.18.3.

3.18.4 The Real Property, Leased Real Property, and the Other Assets constitute all of the assets used in, and necessary for the operation of, NTI's business and operations. The Real Property and Leased Real Property, their uses, appurtenances and improvements substantially comply with all applicable ordinances and regulations, building, and zoning laws. The buildings, machinery, appurtenances and improvements are in good condition and repair, ordinary wear and tear excepted, and are free of any latent structural or engineering defects known to NTI or the Sellers. The Other Assets are in good condition and repair, ordinary wear and tear excepted, and are free of any latent structural or engineering defects known to NTI or the Sellers.

3.19 Consents. Except as set forth in Schedule 3.19, except for applicable requirements under the Communications Act, state communications or utility regulatory laws, state securities or blue sky laws, if applicable, no consent, approval or authorization of, or filing, registration, qualification, declaration or designation with, any governmental authority or any other third party is required on the part of NTI or the Sellers as a condition to the valid execution, delivery and performance of this Agreement by NTI and by the Sellers or as a condition to the due and valid consummation of the transactions contemplated by this Agreement or by any of the exhibits.

3.20 No Defaults. Subject to applicable requirements under the Communications Act, state communications laws, and the state securities or blue sky laws, if applicable, the execution, delivery and performance by NTI and the Sellers of this Agreement will not, in any material respect (with respect to clauses (ii) through (iv), inclusive, of this Section 3.20), (i) conflict with the Articles of Incorporation, as amended, or Bylaws of NTI, (ii) conflict with, result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third-party right of termination, cancellation, modification or acceleration) under, any of the terms, conditions or provisions of any trust agreement, voting agreement, shareholders' agreement, voting trust, note, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement, tariff or other instrument or obligation of any kind affecting NTI or the Sellers or to which NTI or the Sellers are a party or by which any of the properties or assets of NTI are or may be bound; (iii) violate any requirement of law, rule or regulation applicable to NTI; (iv) violate any order, injunction, judgment or decree of any court or other governmental authority or any determination of an arbitrator applicable to NTI, either Seller or any of NTI's properties or assets; or (v) result in the creation or imposition of any lien charge or encumbrance of any nature whatsoever upon any of NTI's assets, which lien charge or encumbrance has not been removed prior to Closing.

3.21 Qualification/Subsidiaries and Other Interests. Neither the nature of NTI's business nor the location of its properties require that it be duly certified, licensed or qualified to do business in any state or jurisdiction other than the States of Minnesota, Wisconsin, Iowa, Illinois, Nebraska, Kansas, Missouri, South Dakota, North Dakota, Wyoming, California, Arizona, New York, New Jersey, Massachusetts, Florida and Texas (together, the "States"). NTI is duly qualified, certified or licensed in each such state where qualification, certification or licensing is necessary or required to conduct its business and offer communications services, except where the failure to so qualify, certify or license would not have a material adverse effect on NTI or the operation of its business.

NTI has no subsidiary corporations or any other interest in any corporation, partnership, association or joint venture, other than as described on Schedule 3.21, attached hereto and made a part hereof.

3.22 Brokers. Except for Heritage Capital Corp., there is no broker or finder or other person who would have any valid claim against the Sellers or NTI for a commission or brokerage in connection with this Agreement or the transactions contemplated hereby and NTI has not retained or employed any such broker, finder or person as such, nor taken any action which would give any person any valid claim against any party hereto for such a commission or brokerage. NTI shall pay at Closing the fees, commissions, expenses and any other charges of Heritage Capital Corp. (the "Heritage Fees") and the amount of the Heritage Fees shall be deducted from the Cash Amount at Closing and the number of shares of Stock to be delivered by Buyer to the Sellers shall be adjusted pursuant to the purchase price adjustment mechanisms set forth in Article I.

3.23 Corporate and Seller Action. This Agreement and each other agreement required to be executed and delivered by NTI and the Sellers has been duly authorized, executed and delivered by NTI and the Sellers and constitutes a legal, valid and binding agreement of NTI and the Sellers, enforceable against them in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally, by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing. NTI has taken all actions required by law and by its Articles of Incorporation and Bylaws to authorize the execution and delivery of this Agreement, together with its Schedules and Exhibits, and the consummation of the transactions contemplated by this Agreement or by any of the Exhibits.

3.24 Liabilities. Except as set forth in Schedule 3.24, as of March 31, 1997, NTI had no material liabilities, absolute or contingent, which are not shown on the Balance Sheet. All liabilities, absolute or contingent, of NTI incurred subsequent to March 31, 1997, will have been incurred only in the ordinary course of business. The accounts, notes, and other receivables, whether current on noncurrent, of NTI shown on the most recent Balance Sheet before the Closing, and all such receivables of NTI as of the Closing, were and shall be, to the best knowledge of NTI, the Sellers and Principals, good and collectible, subject only to an allowance for doubtful accounts, losses or reserves for returns which may be provided for in such Balance Sheet or, in the case of receivables subsequently created, on the books of NTI as of the Closing. The total amount of debt owed by NTI to banks or other third party lenders does not, and will not as of the Closing, exceed $660,000. The average monthly total fraud losses is for the six (6) months preceding the Closing Date does not exceed two (2) times the average monthly total fraud losses for the fiscal year ended September 30, 1996.

3.25 Tax Returns. Except as set forth in Schedule 3.25, annexed hereto and made a part hereof, all federal income tax returns, and other federal tax returns of every nature, and all state, county and local tax returns and declarations of estimated tax or estimated tax deposit forms required to be filed by NTI, have been duly and timely filed, were true, correct and complete in all material respects and NTI has timely paid all taxes which have become due and owing or pursuant to any assessment received by it and has paid all installments of estimated tax due. Where such returns and reports have not been audited and approved or settled, there has not been any waiver or extension of any applicable statute of limitations, and NTI has not received any notice of deficiency or adjustment. The amounts shown as provisions for taxes on the Balance Sheet are sufficient for the payment of all respective federal, state, county and local taxes.

All taxes and other assessments and levies which NTI is required by law to withhold or to correct have been duly withheld and collected, and have been paid over to the proper governmental authorities or are held by NTI in separate bank accounts for such payment. All statements and reports required to be filed under any Chapter of the Code by NTI have been true, correct and complete in all material respects and duly and timely filed.

Except as described on Schedule 3.25, attached hereto and made a part hereof, to the best of the Sellers' and the Principals' knowledge, having made due inquiry, there is not now pending or under contemplation any audit of any payment, return or report made or filed by NTI or of any claimed fa lure to pay or report any kind of tax which may be assessed by any taxing authority against N

3.26 Banks. Schedule 3.26, which is annexed hereto and made a part hereof, is a correct and complete list setting forth the name of each bank in which NTI has an account or safe deposit box, the names of all persons authorized to draw thereon or to have access thereto, and the name of each person holding a power of attorney from NTI.

3.27 Disclosure by NTI, the Sellers and the Principals. No representation or warranty made by NTI, the Sellers or the Principals in this Agreement and no statement made in any certificate to be delivered at the Closing, Exhibit or Schedule furnished or to be furnished in connection with the transactions herein contemplated contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary to make such representation or warranty or any such statement not misleading to a prospective purchaser of the NTI Stock who is seeking full information with respect to NTI. No disclosure of information with respect to any warranty or representation contained in this Agreement, or other matters contemplated by this Agreement, shall be deemed to have been made or given unless it expressly appears in this Agreement, or in any document submitted pursuant to a specific requirement of this Agreement.

3.28 Conflict of Interest. Except as set forth on Schedule 3.28 annexed hereto and made a part hereof or disclosed as "due from officers" in the financial statements, neither the Sellers nor any Principal, director, officer, or employee of NTI or any Seller Affiliate, has (i) loaned to or guaranteed the loan of a third party to NTI or borrowed any money from NTI or (ii) any interest in any property, real or personal whether owned or leased, tangible or intangible, including but not limited to, software, inventions, patents, trade names or trademarks used in connection with or pertaining to the business of NTI or any lender, supplier, customer, sales representatives or distributor of NTI; provided, however, that the Sellers or such Principal, director, officer, or employee or relative thereof shall not be deemed to have such interest solely by virtue of the ownership of less than five percent (5%) of any stock or indebtedness of any publicly-held company, the stock or indebtedness of which is traded on a recognized stock exchange or on the Nasdaq National Market System ("Nasdaq NMS") or the Nasdaq Small Cap Market ("Nasdaq SCM").

3.29 Securities Law Reporting. NTI is not now and has never been subject to the reporting requirements administered and enforced by the Securities and Exchange Commission ("SEC").

3.30 Environmental Matters.

3.30.1 NTI has never generated, stored, discharged, disposed of, spilled, dumped, poured, emptied, or released Hazardous Materials (as defined below) and

Hazardous Materials (excluding cleaning materials used by NTI in the ordinary course of its business) are not presently at, on, in, beside, above or under the Real Property or, to Sellers and Principals' best knowledge on the Leased Real Property (the Real Property and the Leased Real Property being collectively referred to as the "NTI Property") and no contingent liability exists in connection with any release of any Hazardous Materials by NTI. To the best knowledge of NTI, the Sellers and the Principals, underground storage tanks are not and have never been located on the NTI Property.

3.30.2 NTI's operations conducted at the NTI Property at all times complied in all respects with Environmental Laws (as defined below). NTI has obtained all governmental authorizations and permits under Environmental Laws necessary for its operations. NTI is in compliance with each term and condition of such authorizations and permits.

3.30.3 To the best knowledge of NTI, the Sellers and the Principals, the NTI Property and NTI's operations thereon are not subject to (i) any federal, state, or local investigation, (ii) any judicial or administrative proceeding alleging the violation of or liability under any Environmental Law, or (iii) any outstanding written order or agreement with any governmental authority or private party relating to any Environmental Law.

3.30.4 For the purpose of this Agreement, the term "hazardous materials" shall include, but not be limited to, any substance defined as "hazardous substances," "hazardous air pollutant," "pollutants," "contaminants," "hazardous materials," "hazardous wastes," "toxic chemicals," "petroleum or petroleum products," "toxics," "hazardous chemicals," "extremely hazardous substances," "pesticides" or related materials, including but not limited to radon and asbestos, as now, in the past, or hereafter defined in any applicable federal, state or local law, regulation, ordinance, policy or directive, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986,, the Emergency Planning and Community Right-to-Know Act; the Resource Conservation and Recovery Act,; the Hazardous Materials Transportation Act of 1974, the Federal Buyer Pollution Control Act; the Clean Air Act, the Federal Insecticide Fungicide and Rodenticide Act; the Safe Drinking Buyer Act; the Toxic Substances Control Act, the Oil Pollution Act of 1990; any laws regulating the use of biological agents or substances including medical or infectious wastes, each as amended or supplemented, and any analogous future or present local, state and federal statutes, regulations and ordinances promulgated pursuant thereto which may be applicable, as any such acts may be amended ("Environmental Laws").

3.30.5 NTI agrees and consents to the performance of environmental testing on the NTI Property as Buyer may reasonably request; provided, however, that the performance of such tests will not negate or affect NTI's, the Sellers' or the Principal's representations or warranties or agreement to indemnify contained herein.

3.31 Labor Matters. No group of employees of NTI is presently organized into a collective bargaining unit. No labor union has recently attempted, or is presently attempting, to organize any of NTI's employees into a collective bargaining unit. No employees of NTI are on strike or are threatening to strike.

3.32 Americans With Disabilities Act. NTI, the Sellers, and the Principals have no actual knowledge of any violations of the United States Americans With Disabilities Act's mandates and obligations, including but not limited to, those regulating telecommunications providers, facilities accessibility and employment practices.

3.33 Securities Laws Compliance.

3.33.1 Each Seller is acquiring the Stock for his own account for investment, not as a nominee or agent, and not with a view to the resale or distribution of the Stock or any part thereof, and neither Seller has a plan or intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Seller further represents that there is no contract, undertaking, agreement or arrangement with any person for resale in connection with a distribution to any person with respect to any of the Stock. Each Seller acknowledges that the offering of the Stock pursuant to this Agreement will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities or blue sky law, on the grounds that the offering and sale of the Stock contemplated by this Agreement are exempt from registration pursuant to exemptions available under such laws, and that Buyer's reliance upon such exemptions is predicated upon Sellers' representations set forth in this Agreement. Each Seller acknowledges and understands that Stock must be held for an indefinite period of time unless the Stock is subsequently registered under the Securities Act and/or applicable state securities or blue sky laws or an exemption from such registration is available.

3.33.2 Each Seller has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of an investment in the Stock and is able to bear the economic risk of an investment in the Stock, including, without limiting the generality of the foregoing, the risk of losing part or all of his investment in the Stock and the possible inability to sell or transfer within that amount of time.

3.33.3 The transfer of all or any of the Stock may be refused by Buyer's transfer agent unless the Stock for which transfer is sought is registered under the Securities Act and all other applicable federal securities or blue sky laws or unless the Seller seeking such transfer provides such information as is deemed necessary by Buyer to show that such registration is not required, including an opinion of legal counsel acceptable to Buyer.

3.34 Expenses. The legal expenses allocated to NTI in connection with the transactions contemplated by this Agreement shall be reasonable and shall not exceed, in the aggregate, $50,000, unless NTI shall have received written approval to exceed such fee amount from Buyer, which approval shall not be unreasonably withheld. All other expenses allocated to NTI or incurred by it in connection with this Agreement, excluding legal expenses, shall not exceed $15,000. Fifty percent (50%) of the total amount of the legal expenses and all other expenses allocated to or incurred by NTI, which shall not exceed in the aggregate $65,000 (the "Transaction Fees") shall be deducted from the Cash Amount at Closing and the number of shares of Stock to be delivered by Buyer to the Seller shall be adjusted pursuant to the purchase price adjustment mechanisms set forth in Article I.

3.35 Pooling. There are no facts, circumstances or conditions not disclosed herein or in the financial statements or schedules which would prevent the transactions contemplated by this Agreement from qualifying for treatment under all relevant accounting principles, opinions and rulings as a pooling of interests combination.

ARTICLE 4. BUYER'S REPRESENTATIONS AND WARRANTIES

Buyer represents and warrants that:

4.1 Incorporation. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is qualified as a foreign corporation in each other jurisdiction in which it is lawfully required to qualify to conduct business, except where the failure to so qualify would not have a material adverse effect on Buyer.

4.2 No Defaults. Except for any consents, waivers or other documents required to be obtained by the Buyer pursuant to the Loan and Security Agreement dated May 30, 1996 by and between the Buyer and Nations Bank, N.A. (South) and any documents related thereto and subject to the applicable requirements under the Communication Act, state communications laws, the Securities Act, the Exchange Act and the state securities or blue sky laws, if applicable, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby is an event which of itself or with the giving of notice or the passage of time, or both, could constitute, in any material respect (with respect to clauses (i) and (iii) of this Section 4.2), a violation of or conflict with or result in any breach of, or default under the terms, conditions or provisions of, (i) any judgment, law or regulation (assuming receipt of the approvals referenced in Section 3.10 hereof) or (ii) Buyer's Articles of Incorporation or Bylaws, or (iii) any agreement or instrument to which Buyer is a party or by which it is bound or could result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever on the property or assets of Buyer, and no such event of itself or with the giving of notice or the passage of time, or both, will result in the acceleration of the due date of any obligation of Buyer.

4.3 Corporate Action of Buyer. This Agreement and each other agreement required to be executed and delivered by Buyer at or prior to Closing has, or will have been, duly authorized, executed and delivered by Buyer and constitutes a legal, valid and binding agreement of Buyer, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally, by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

4.4 Disclosure by Buyer. No representation or warranty made by Buyer in this Agreement, and no statement made in any certificate to be delivered at the Closing, Exhibit or Schedule furnished or to be furnished in connection with the transactions herein contemplated, contains or will contain any untrue statement of a material fact or omits or will omit a material fact necessary to make the statements contained therein or herein not misleading to a prospective purchaser of the Stock who is seeking full information with respect to Buyer. No disclosure of information with respect to any warranty or representation contained in this Agreement, or other matters contemplated by this Agreement, shall be deemed to have been made or given unless it expressly appears in this Agreement, or in any document submitted pursuant to a specific requirement of this Agreement.

4.5 Stock. The Stock, when issued and delivered hereunder, will be duly and validly issued and will be fully paid and nonassessable.

4.6 Brokers. Except for Serrus Ventures, LLC there is no broker or finder or other person who would have any valid claim against Buyer for a commission or brokerage in connection with the Agreement or the transactions contemplated hereby and Buyer has not retained or employed any such broker, finder or person as such, nor taken any action which would give any person any valid claim against any party hereto for such a commission or brokerage. Buyer shall pay the fees, commissions, expenses and any other charges of Serrus Ventures.

4.7 SEC Reports. At or prior to Closing, Buyer shall deliver to Sellers its Form 10-K for the fiscal year ended March 31, 1996 of Buyer, all Form 10-Q's filed with the SEC since the end of the last fiscal year of Buyer and all Form 8-K's filed during the twenty-four (24) months preceding the Closing Date (the "SEC Reports"). The information set forth in the SEC Reports does not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements made therein not misleading.

ARTICLE 5. COVENANTS OF THE SELLERS AND NTI PENDING CLOSING

The Sellers, Principals and NTI jointly and severally covenant and agree that from the date hereof to and including the Closing:

5.1 Maintenance of Business. NTI shall continue to carry on its business, maintain its Real Property, Leased Real Property and Other Assets and keep its books of account, records and files in substantially the same manner as heretofore, except that NTI shall seek Buyer's consent prior to incurring any expense other than in the ordinary course of business or capital expenditure which individually or in the aggregate would exceed $10,000. NTI will maintain in full force and effect insurance policies now in effect.

5.2 Negative Covenants. Without the prior written consent of Buyer, NTI shall not, and the Sellers and Principals shall do all things and take all reasonable and proper action to provide that NTI shall not:

5.2.1 Issue, sell, purchase or redeem, or grant options to purchase or otherwise agree to sell, purchase or redeem any shares of its capital stock or any other securities of NTI except for the issuance of common stock pursuant to exercise of the Lang Option as provided for in Section 8.17 hereof.

5.2.2 Amend its Articles of Incorporation or adopt or amend its Bylaws.

5.2.3 Incur or prepay any liability for borrowed money, short term debt or long term debt (as those terms are defined in GAAP), other than in the ordinary course of business and consistent with past practices.

5.2.4 Pay or guarantee any obligation or liability other than obligations or liabilities reflected in the Balance Sheets, when due, liabilities incurred since the Balance Sheet Date in the ordinary course of business and obligations under contracts and agreements referred to in Schedules annexed hereto or entered into in the ordinary course of business and current payment of salary, bonus and due from officers accrual previously made to Sellers in connection with fiscal year end adjustments such salary, bonus and due from officers accrual being set forth in detail on Schedule 5.2.4 hereto;

5.2.5 Adopt or modify any severance, consulting, bonus, pension, profit sharing, benefit or other compensation plan or arrangement or increase its overall work force or enter into any contract of employment, except compensation increases or decreases or changes in benefits and increases in work force made in the ordinary course of business;

5.2.6 Enter into or modify any contract or commitment, incur any liability, absolute or contingent, waive or fail to enforce any right or enter into any other transaction, other than in the ordinary course of business;

5.2.7 Take any action that would or might reasonably be expected to result in any representation or warranty set forth in this Agreement being or becoming untrue in any respect or in any of the conditions to the consummation of the transactions contemplated by this Agreement set forth in Article 8 hereof not being satisfied;

5.2.8 Enter into or modify any contracts to purchase long distance service from interexchange carriers; or

5.2.9 Have made or become obligated to make any dividend payment or other distribution to the Sellers.

5.3 Access to Facilities, Files and Records. At the reasonable request of Buyer, NTI shall, from time to time, give or cause to be given to Buyer, its officers, employees, accountants, counsel and authorized representatives full access to (i) all of the property, accounts, books and other financial records, minute books, deeds, title papers, insurance policies, certificates, licenses, agreements, contracts, tariffs, commitments, tax returns, records and files of every character, employees, equipment, machinery, fixtures, furniture, vehicles, notes and accounts payable and receivable and inventories of NTI; (ii) all such other information concerning the affairs of NTI as Buyer may reasonably request; (iii) consult with the independent auditors of and counsel to NTI with respect to all matters, including, but not limited to, the financial condition of NTI and the audit of NTI's financial statements and any legal and regulatory matters affecting NTI, and (iv) at Buyer's own cost and expense, the Real Property of NTI in order to perform a Phase I environmental audit (the "Environmental Audit").

5.4 Organization, Good Will. NTI shall preserve its business organization intact, retain the services of its present officers and use its best efforts to retain substantially as at present its employees, and preserve the good will of its suppliers, subscribers, customers and others having business relations with it.

5.5 Third Party Consents. NTI, Sellers and the Principals will obtain or cause to be obtained the consent of any third party whose consent is required by NTI or the Sellers in order that the transactions contemplated by this Agreement may be consummated without violation of any representation, warranty or covenant made by any of them in this Agreement, provided, however, that NTI shall not spend any money or otherwise incur any obligation in order to obtain any such consent without the prior written approval of Buyer.

5.6 Securities Laws. NTI, Sellers and the Principals will take all action necessary to permit the transactions contemplated herein to be consummated in compliance with all applicable federal and state securities laws.

5.7 Communications Laws. NTI, Sellers and the Principals will take all action necessary to permit the transactions contemplated herein to be consummated in compliance with all applicable federal, state and local telecommunications laws governing or applicable to NTI and its business.

5.8 Notice of Proceeding. NTI will, upon becoming aware of any order or decree or any complaint praying for an order or decree restraining or enjoining the consummation of the Agreement or the transactions contemplated hereunder, or upon receiving any notice from any governmental department, court, agency or commission of its intention to institute an investigation into, or institute a suit or proceeding to restrain or enjoin the consummation of this Agreement or such transactions, or to nullify or render ineffective this Agreement or such transactions if consummated, promptly notify Buyer in writing of such order, decree, complaint or notice.

5.9 Delivery of NTI Shareholder List. The list of shareholders in Schedule 3.2 hereof is a true and complete list setting forth the identity of all of the common shareholders of NTI, their holdings of all of the stock of NTI, the certificate number of each share certificate issued to each of them, and the date of such issuance. Prior to the Closing, NTI will deliver an updated list of its common shareholders and their holdings and Buyer may rely completely on such updated list of shareholders.

5.10 Confidential Information. NTI, each Seller, each Principal and Lang shall maintain all information gained from Buyer in connection with the transactions contemplated by this Agreement and the terms of this Agreement (the "Buyer Confidential Information") in strict confidence, and shall take all precautions necessary to prevent disclosure, access to, or transmission of the Buyer Confidential Information, or any part thereof, to any third party, except as required by law or order of any court having competent jurisdiction. The Buyer Confidential Information shall be used only for the purposes of evaluating the transactions contemplated hereby and in the event the Closing does not occur for any reason, each Seller and NTI shall, immediately upon Buyer's request, return all copies and recordings of the Buyer Confidential Information in their possession or under their control and delete all records thereof in any data storage system maintained by or for such Seller or NTI.

5.11 No Solicitation. NTI agrees that, prior to the Closing, it shall not, nor shall any of its directors, officers, employees, agents or representatives to, directly or indirectly, solicit, initiate or encourage (including by way of furnishing or disclosing information) inquiries or proposals concerning any merger, consolidation or acquisition or purchase of all or any substantial portion of the assets or capital stock of NTI (an "Acquisition Transaction") or negotiate or enter into any discussions or other communications with any prospective purchaser (other than Buyer or its affiliates) with respect to any Acquisition Transaction. NTI shall immediately advise Buyer of any inquiries or proposals relating to any Acquisition Transaction.

5.12 Recommendation and Approval of Agreement. The Board of Directors of NTI has approved and recommended the transactions contemplated by this Agreement and the agreements related hereto to the shareholders of NTI. Each of the Sellers agrees to vote their NTI Stock in favor of the transactions contemplated by this Agreement and the agreements related hereto and to take such actions as may be necessary to consummate the transactions contemplated hereby.

5.13 Audited Financial Statements. NTI shall promptly take any action necessary in order that, no later than forty-five (45) days following the Closing, NTI can obtain and deliver to Buyer an audited balance sheet of NTI for each of the two immediately preceding fiscal years and as of March 31, 1997, and an audited income statement, statement of cash flows and statement of shareholders' equity for each of the three preceding years and for the six month periods ended March 31, 1997 and 1996 (the "Audited Financial Statements") with an unqualified opinion thereon from a certified public accountant reasonably acceptable to Buyer, together with the consent of the applicable auditor, in form and content reasonably acceptable to Buyer to the effect that such financial statements may be included in future public filings of Buyer with the SEC. Such financial statements shall be prepared in accordance with generally accepted accounting principles and the reporting requirements of the SEC, including the rules applicable under Regulation S-X. Such statements of income do not contain any items of special or non-recurring income or any other income not earned in the ordinary course of business except as expressly specified therein, and the Audited Financial Statements include all adjustments, which consist of normal recurring accruals and all elements of allocable overhead, necessary for such fair presentation.

5.14 Public Announcements. NTI, each of the Sellers, each of the Principals and Lang acknowledges that Buyer is a publicly-held company and dissemination of information concerning this transaction or trading in Buyer's stock by any party to this transaction or any party receiving information from any party to this transaction prior to public release could result in violation of SEC insider trading regulations. Therefore, NTI and each of the Sellers agrees not to disseminate any information or make any public statement concerning the transactions other than what is in press releases of Buyer, provided, however, that Buyer shall not issue any press release or other public announcement regarding the execution of this Agreement without the prior consent of the Sellers, which consent shall not be unreasonably withheld or delayed.

5.15 Adverse Events. Promptly after the occurrence, or failure to occur, of any event, the occurrence or failure of which would (i) materially adversely affect, or could reasonably be expected to materially adversely affect, the assets, properties, operations, business, prospects, or condition (financial or otherwise) of NTI or the ability of any Seller, Principal or NTI to perform any of its obligations under this Agreement, or (ii) which, if known as of the date of this Agreement, would have been required to be disclosed to Buyer or (iii) causes any representation or warranty contained in this Agreement or any Schedule or Exhibit hereto to be untrue or inaccurate at any time from the date of this Agreement to and including the Closing, NTI, Principal and/or such Seller shall provide to Buyer all relevant information related thereto.

5.15 Employees. On or before the Closing Date, NTI shall deliver to Buyer a list of NTI's employees as of the end of the calendar month immediately preceding the Closing, indicating the following information for each employee:

5.16.1 his or her compensation and any applicable severance arrangement;

5.16.2 whether remunerated on an hourly, weekly, or monthly basis;

5.16.3 date of most recent commencement of service with NTI, and

5.16.4 accrued holiday, vacation, sick leave, long service entitlement (if any) and permitted time-off due as compensation for additional time worked, all of which are accurately reflected in the financial statements of NTI.

5.17 Expenses. Sellers shall indemnify and hold harmless Buyer and NTI in respect of any expenses or claims for fees in excess of the amounts set forth in Section 3.33 hereof with respect to the transactions contemplated herein by anyone claiming to have acted for the benefit of, or on behalf of, NTI or the Sellers.

ARTICLE 6. COVENANTS OF BUYER PENDING ACQUISITION

Buyer covenants and agrees that:

6.1 Corporate Action. Subject to the provisions of this Agreement, Buyer will take all necessary corporate and other action required of it to carry out the transactions contemplated by this Agreement; provided, however, that nothing in this Article 6 or anywhere else in this Agreement shall require Buyer to carry out such transactions if a Final Order (as defined in Section 9.2 of this Agreement) would contain or require a term, condition or provision which, in Buyer's sole determination, is unduly burdensome.

6.2 Confidentiality. Buyer shall maintain all information gained from NTI in connection with its evaluation of the transactions contemplated by this Agreement (the "NTI Confidential Information") in strict confidence, and shall take all precautions necessary to prevent disclosure, access to, or transmission of the NTI Confidential Information, or any part thereof, to any third party, except (i) for the exclusive purpose of evaluating the Merger, (ii) as required by law or an order of any court having competent jurisdiction, and (iii) as is necessary or required for Buyer to satisfy its disclosure obligations under the federal and state securities laws. In the event the Closing does not occur for any reason, Buyer shall, immediately upon NTI's request, return all copies and recordings of the NTI Confidential Information in its possession or under its control and delete all records thereof in any data storage system maintained by or for Buyer.

6.3 Notice of Proceedings. Buyer will, upon becoming aware of any order or decree or any complaint praying for an order or decree restraining or enjoining the consummation of this

Agreement or the transactions contemplated hereunder, or upon receiving any notice from any governmental department, court, agency or commission of its intention to institute an investigation into, or institute a suit or proceeding to restrain or enjoin the consummation of this Agreement or such transactions if consummated, promptly notify NTI in writing of such order, decree complaint or notice.

6.4 Nasdaq NMS Listing. Buyer agrees that, following Closing, it will use its reasonable best efforts to qualify its common stock for listing on the Nasdaq NMS.

ARTICLE 7. CONDITIONS TO THE OBLIGATIONS OF THE SELLERS AND NTI

The obligations of the Sellers and NTI under this Agreement are, at the option of the Sellers and NTI, subject to the fulfillment of the following conditions prior to or at the Closing.

7.1 Representations, Warranties, Covenants

7.1.1 All representations and warranties of Buyer contained in this Agreement and in any certificate, Exhibit or Schedule to be delivered by Buyer pursuant hereto or in connection with the transactions contemplated hereby shall be true and accurate in all material respects as of the date when made and shall be deemed to be made again at and as of the Closing and shall then be true and accurate in all material respects;

7.1.2 Buyer shall have performed and complied in all material respects with each and every covenant, agreement and condition required by this Agreement to be performed or complied with by it prior to or at the Closing.

7.1.3 Buyer shall have delivered to NTI a certificate of an officer of Buyer, dated as of the Closing, certifying to the fulfillment of the conditions set forth in this Section 7.1.

7.2 Proceedings. No order of any court or other governmental agency shall have been issued which enjoins the consummation of the transactions contemplated by this Agreement.

7.3 Proceedings and Instruments Satisfactory. All proceedings, corporate, regulatory or otherwise, to be taken in connection with the transactions contemplated by this Agreement and all documents incident thereto, shall be satisfactory in form and substance to the Sellers and Buyer shall have furnished the Sellers with certified copies of such proceedings and such other instruments and documents as the Sellers shall have reasonably requested.

7.4 Delivery of Stock. Subject to Section 8.19 hereof, Buyer shall have delivered to the Sellers certificates representing shares of the Stock in an amount determined as provided in Article 1 of this Agreement. Such Stock shall be validly issued, fully paid and non-assessable, will not be subject to any preemptive rights and will be duly listed for trading on the Nasdaq SCM Automated Confirmation Transaction Service. Each such certificate shall bear the following legend:

> THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAW OF ANY STATE AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS THEY ARE SO REGISTERED OR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE

Such certificates (including, without limitation, any certificate issued upon transfer or in exchange therefor or in substitution therefor) shall also bear any legend required under any applicable state securities or blue sky laws. Buyer may make a notation on its records or give instructions to any transfer agents or registrars for the Stock in order to implement the restrictions on transfer set forth in this Section 7.4. In connection with any transfer of such Stock, the transferor shall provide Buyer with such customary certificates, opinions and other documents as Buyer may reasonably request to assure that such transfer complies fully with applicable securities and other laws. Buyer shall not incur any liability for any delay in recognizing any transfer of such Stock if Buyer in good faith believes that such transfer may have been or would be in violation of any material respect of the provisions of the Securities Act or applicable state securities or blue sky laws. After such time as the legend described by this Section 7.4 is no longer required on any certificate or certificates representing any of the Stock in the good faith judgment of Buyer, upon request of a Seller, Buyer shall cause such certificates or certificates to be exchanged for a certificate or certificates that do not bear such legend.

7.5 Registration Rights Agreement. Buyer shall have executed and delivered to the Sellers the Registration Rights Agreement in substantially the form attached hereto and made a part hereof as Schedule 7.5.

7.6 Employment, Consulting and Non-Compete Agreements. On or before the Closing, Buyer shall have entered into employment agreements with Leaf and Lang and a consulting agreement with Friend (the "Employment and Consulting Agreements") in substantially the forms attached hereto and made a part hereof as Schedules 7.6.1 (with respect to the Employment Agreements) and 7.6.2 (with respect to the Consulting Agreement).

7.7 Tax Opinion. Sellers shall have received a tax opinion from its counsel or independent certified accountants, based on customary reliance and subject to customary qualifications, to the effect that for federal income tax purposes:

7.7.1 the acquisition by Sellers of the Stock solely in exchange for NTI Stock will qualify as a reorganization under § 368(a)(1)(B) of the Code.

7.7.2 no gain or loss will be recognized by the Sellers upon the receipt of the Stock in exchange for NTI Stock;

7.7.3 The holding period of the Sellers for the Stock received in exchange for the NTI Stock will include their respective holding period for the NTI Stock; and

7.7.4 The tax basis of the Stock received by Sellers in exchange for NTI Stock will be the same as the tax basis of the NTI Stock exchanged.

7.8 Consents. Buyer shall have obtained all consents required to be obtained in order to consummate the transactions contemplated by this Agreement.

ARTICLE 8. CONDITIONS TO THE OBLIGATIONS OF BUYER

The obligations of Buyer under this Agreement are, at the option of Buyer, subject to the fulfillment of the following conditions prior to or at the Closing:

.1 Representations, Warranties, Covenants

8.1.1 All representations and warranties of NTI, the Sellers and the Principals contained in this Agreement and in any certificate, Exhibit or Schedule to be delivered pursuant hereto or in connection with the transactions contemplated hereby, which Schedule or Exhibit shall not be amended by NTI, the Sellers or the Principals without Buyer's prior written consent, shall be true and accurate in all material respects as of the date when made and shall be deemed to be made again at and as of the Closing and shall then be true and accurate in all material respects.

8.1.2 NTI, the Sellers and the Principals shall have performed and complied in all material respects with each and every covenant, agreement and condition required by this Agreement to be performed or complied with by them prior to or at the Closing;

8., 3 The Sellers, the Principals and NTI shall each deliver to Buyer at the Closing a certificate, certifying to the fulfillment of the conditions set forth in this Section 8 1.

8.2 Proceedings. There shall be no claims, actions, suits or proceedings pending or threatened against NTI, the Sellers or the Principals which would restrict or prohibit NTI, the Sellers or the Principals from consummating the transactions contemplated by this Agreement.

8.3 No Casualty. Prior to the Closing, there shall not have occurred any damage, destruction or loss not covered by insurance exceeding $10,000

8.4 Proceedings and Instruments Satisfactory. Except as provided for in Section 9.2 hereof, all consents, approvals or proceedings, corporate, regulatory or otherwise, required by third parties or governmental authorities to be taken in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be obtained and be satisfactory in form and substance to Buyer and NTI shall have furnished Buyer with certified copies of such proceedings and such other instruments and documents as Buyer shall have reasonably requested.

8.5 Delivery of NTI Common Stock. The Sellers shall have delivered certificates representing all of the NTI Stock, free and clear of all liens and encumbrances, duly endorsed in blank with guaranteed signatures and all required transfer stamps, if any.

8.6 NTI's Creditors and Others. If required by Buyer, each instrument or other agreement or document under which NTI has incurred or may incur debt or bank borrowings or other performance obligations shall have been amended where necessary or appropriate, without the assumption by Buyer or NTI of any additional obligation or cost and in a manner satisfactory in form and substance to Buyer and NTI, so as to permit the transactions contemplated by this Agreement without a default or acceleration of any obligation thereunder and to provide that neither Buyer nor NTI shall become liable, contingently or otherwise, by reason of consummation of such transactions, for acceleration of payment or other performance of such debt, bank borrowings or obligations.

8.7 No Change in NTI's Capitalization. NTI's authorized and issued and outstanding capital stock shall be as stated in Section 3.2 and, except for the Lang Option, NTI shall have no agreement, obligation or commitment of any character to issue shares of its capital stock, or debentures, bonds, or other evidences of indebtedness convertible, in whole or in part, into shares of its capital stock. In addition, NTI's long-term debt shall not exceed a total of $660,000.

8.8 Resolutions and Resignation of NTI's Directors. NTI shall have delivered to Buyer at the Closing certified copies of resolutions adopted by the Board of Directors and shareholders of NTI adopting and approving this Agreement and written resignations of NTI directors.

8.9 Certificates of Good Standing. NTI shall have delivered to Buyer a Certificate of Good Standing(or its equivalent) issued by the Secretary of State of the state of each applicable state to the effect that NTI is duly incorporated or qualified to transact business and is in good standing under the laws of such states, as of the date of the Closing. The Leaf Partnership shall have delivered to Buyer a Certificate of Good Standing (or its equivalent) issued by the Secretary of State of the state of its formation to the effect that it is duly formed and qualified to transact business and is in good standing under the laws of such state, as of the Closing.

8.10 Certified Articles. NTI shall have furnished to Buyer a copy of its Articles of Incorporation, including all amendments thereto, which shall have been certified by the Secretary of State of the State of Minnesota as of a date reasonably near the Closing Date.

8.11 Certified Bylaws. NTI shall have furnished to Buyer a copy of the Bylaws of NTI which shall have been certified by the Secretary of NTI as of the Closing Date.

8.12 Certificate of Incumbency. NTI shall have furnished to Buyer a Certificate of the Secretary of NTI, certified as of the Closing Date, as to the incumbency and signatures of the officers of NTI executing this Agreement and any document contemplated or delivered under this Agreement.

8.13 Corporate Actions. On or before the Closing (i) the Board of Directors of Buyer shall have approved and ratified this Agreement and authorized the transactions contemplated hereby and (ii) NTI shall have taken, and the Sellers shall cause NTI to have taken all corporate action as may be necessary and satisfactory to Buyer, in its sole discretion, to formalize, update, bolster and ratify the past actions of the employees, officers, directors and shareholders of NTI.

8.14 Seller's Actions. On or before the Closing, the Friend Trust and the Leaf Partnership shall have approved and authorized this Agreement and the transactions contemplated hereby and the Friend Trust and the Leaf Partnership shall each cause their respective entities to have taken all action as may be necessary and satisfactory to Buyer, in its sole discretion, to consummate the transactions contemplated hereby.

8.15 Employment, Consulting and Non-Compete Agreements. On or before the Closing, the Sellers shall have entered into the Employment, Consulting and Non Compete Agreements.

8.16 Termination of Certain Agreements. NTI shall have furnished to Buyer proof of the termination of (i) the Lang Option (defined below), (ii) the Transfer and Redemption Agreement dated September 7, 1994, and (iii) any and all employment and consulting agreements entered into by and between NTI and either of the Principals and any persons or entities affiliated with the Principals, except for the employment, consulting and non-compete agreements referred in Section 8.15 above.

8.17 Lang Option. After the execution of this Agreement but prior to Closing, the option of Mary Lang to acquire common stock of NTI pursuant to that certain Stock Option Agreement, dated December 10, 1992 (the "Lang Option"), shall have been exercised or terminated. If the option is exercised, Lang shall be bound by each and every term and condition of this Agreement as though she were an original Seller except that Article 10 shall not apply to Lang. In such case, the "Percentage Interest" of each of the Sellers set forth in Article 1 of this Agreement shall be proportionately adjusted to reflect the issuance of NTI common stock to Lang pursuant to the exercise of the Lang Option.

8.18 Pooling Opinion. Before the Closing, NTI and Buyer shall have each used their best efforts to have each received a written opinion from their respective independent certified public accountants that the transactions contemplated by this Agreement qualify for treatment under all relevant accounting principles, opinions and rulings, including Accounting Principles Board Opinion No. 16, as a pooling-of-interests combination.

8.19 Adverse Changes. There shall be not have occurred any material adverse change in the nature, operations or prospects of the business of NTI from the date of this Agreement through the Closing Date.

8.20 Escrow Agreement. At the Closing, each of the Sellers (except for Lang) shall have executed and delivered to Buyer an agreement in substantially the form attached hereto and made a part hereof as Schedule 8.20 (the "Escrow Agreement") pursuant to which there shall be deposited in escrow (the "Escrow Fund") by each such Seller with an escrow agent of Buyer's choice (the "Escrow Agent"), ten percent (10%) of the total number of shares of Stock each such Seller receives at Closing (the "Escrowed Shares") to secure the indemnification obligations of such Sellers under this Agreement.

ARTICLE 9. MUTUAL COVENANTS AND CONDITIONS TO OBLIGATIONS OF NTI AND BUYER

9.1 Applications to the Commissions. As soon as practicable after execution of this Agreement, NTI and Buyer shall join in applications to the Commissions requesting the approvals and authorizations of each such Commission of the transactions contemplated by this Agreement. Buyer shall bear all fees of the Commissions charged in connection with or incidental to the filing and processing of the aforesaid applications, as well as the cost of filing and processing. All other fees of legal counsel and accountants and other "out-of-pocket" expenses shall be borne by the party incurring them.

9.2 Necessity for Commission Approvals. The obligations of NTI, Buyer and the Sellers under this Agreement are subject to the receipt prior to the Closing of an opinion of counsel acceptable to the parties to the effect that applications for Final Orders (as defined below) have been filed and there is no legal basis for the denial of a Final Order. For the purposes of this Section 9.2, a "Final Order" shall mean an order of any Commission which is not subject to rehearing by such Commission or to judicial review. The provisions of the prior sentence notwithstanding, nothing in this Section 9.2 shall be construed to require a party to seek judicial review of a Commission order if, upon reconsideration by the Commission which issued such an order upon the motion of a party to this Agreement or a third party, a party to this Agreement determines that such an order upon reconsideration contains a term, condition or provision which is unduly burdensome.

Each of the parties to this Agreement agrees that if Buyer, using its reasonable judgment, determines that an application to any other state or federal agency for its approval and authorizing of the transactions contemplated herein is required, then Buyer shall file such application and the Sellers and NTI shall join in such application with Buyer and otherwise act in accordance with the provisions of Section 9.1 of this Agreement with respect to such application.

9.3 Board Representation. Buyer will use its reasonable best efforts to cause the election of John V. Leaf and Albert A. Woodward to the Board of Directors of Buyer

9.4 Expenses. Whether or not the transactions contemplated by this Agreement are concluded, all costs and expenses incurred by NTI shall be paid by NTI, all costs and expenses incurred by Buyer shall be paid by Buyer, and all costs and expenses incurred by Sellers shall be paid by Sellers, relating to personal tax or estate planning matters shall be paid by the Seller incurring such cost or expense.

ARTICLE 10. INDEMNITY AGREEMENTS

10.1 Sellers' Litigation Indemnity Agreements. The Sellers, proportionally in accordance with their Percentage Interest, shall for a period of one (1) year from the Closing Date indemnify NTI, Buyer and its affiliates and hold its affiliates harmless from any and all claims, actions, suits, liabilities, losses, damages and expenses of every nature and character (including, but not by way of limitation, all reasonable attorneys' fees and all amounts paid in settlement of any claim, action or suit) ("Losses") which arise or result directly or indirectly from matters set forth on Schedule 3.10 hereof, or which should have been listed on such Schedule, provided, however, that the indemnification obligation contained in this Section 10.1 shall not apply to any Losses which arise or result directly or indirectly from any such matters unless a Notice of Claim (as defined below) has been delivered to the Sellers or Principals prior to the first anniversary of the Closing Date. If a Notice of Claim has been delivered prior to such anniversary date, any and all such Losses, whether incurred prior to or after such anniversary date, shall be subject to indemnification under this Section 10.1.

10.2 Sellers' Other Indemnity Agreements. All representations and warranties made in this Agreement by the Sellers and Principals are made to and for the benefit of both Buyer and NTI. With respect to all such representations or warranties in this Agreement (and/or in the Exhibits or Schedules attached hereto and the documents to be delivered by the Sellers and Principals at the Closing), the Sellers, proportionally in accordance with their Percentage Interest, shall for a period of one (1) year from the Closing Date indemnify Buyer and NTI against and hold Buyer and NTI harmless from any and all claims, actions, suits, liabilities, losses, damages, and expenses of every nature and character (including, but not by way of limitation, all reasonable attorneys' fees and all amounts paid in settlement of any claim, action or suit) ("Losses") which arise or result directly or indirectly from any breach of any representation or warranty, provided, however, that the indemnification obligation contained in this Section 10.1 shall not apply to any Losses which arise or result directly or indirectly from any such matters unless a Notice of Claim (as defined below) has been delivered to the Sellers prior to the first anniversary of the Closing Date. If a Notice of Claim has been delivered prior to such anniversary date, any and all such Losses, whether incurred prior to or after such anniversary date, shall be subject to indemnification under this Section 10.1

10.3 Buyer's Indemnity Agreements. With respect to all representations and warranties made by Buyer in this Agreement (and/or in the Exhibits and Schedules attached hereto and the documents to be delivered by Buyer at the Closing), Buyer shall for a period of one (1) year from the Closing Date indemnify the Sellers against and hold the Sellers harmless from any and all Losses which arise or result directly or indirectly from any breach of any such representation or warranty, provided, however, that the indemnification obligation contained in this Section 10.3 shall not apply to any Losses which arise or result directly or indirectly from any such matters unless a Notice of Claim (as defined below) has been delivered to Buyer prior to the first anniversary of the Closing Date. If a Notice of Claim has been delivered prior to such anniversary date, any and all such Losses, whether incurred prior to or after such anniversary date, shall be subject to indemnification under this Section 10.3.

10.4 Limitation of Amount. No party indemnified under Section 10.1 and 10.2 above shall make a claim for indemnification unless and until such party has incurred a Loss based on a single or series of related items for which such party is entitled to indemnification in excess of $50,000 or cumulative Losses of any kind or dollar amount for which such party is entitled to indemnification in excess of a total sum of $100,000, except to the extent that such Losses have been incurred by virtue of or resulted from fraud, gross negligence or intentional misrepresentation in which case this Section 10.4 (including the next sentence) shall not apply. In no event shall the aggregate liability of the Sellers to Buyer and NTI for indemnification under this Article 10 exceed $3,000,000.

10.5 No Limitation. The indemnity agreements in this Article 10 shall not constitute a limitation on any of the warranties, representations, covenants or agreements herein.

10.6 Procedure for General Claims. Buyer shall give reasonably prompt written notice to Sellers of any claim or event other than Third Party Claims (as defined below) with respect to which Buyer believes it or its affiliates is or may be entitled to indemnification pursuant to this Article 10 and the Sellers shall give reasonably prompt notice to Buyer of any claim or event other than Third Party Claims with respect to which the Sellers believe they are or may be entitled to indemnification pursuant to this Article 10 (in each case, a "Notice of Claim"), provided, however, that the failure to give notice as provided in this Section 10.5 shall not relieve the other party of its indemnification obligations hereunder, except to the extent that the indemnifying party is prejudiced by such failure to give notice. The Notice of Claim shall state the nature and basis of said claim or event, the amount thereof to the extent known and the basis of such party's belief that it may be entitled to indemnification with respect thereto, including, without limitation, identifying the representation, warranty, covenant, or agreement which such party believes has been breached.

10.7 Procedure for Third-Party Claims.

10.7.1 Buyer, on the one hand, and the Sellers on the other, (the "Indemnified Party"), shall give reasonably prompt written notice to the other (the "Indemnifying Party") of any claim or event with respect to which the Indemnified Party believes it is or may be entitled to indemnification pursuant to this Article 10 resulting from any claim, action, suit or proceeding brought by any third party in connection with any litigation, administrative proceedings or similar actions (including, without limitation, claims by any assignee or successor of a party hereto or any governmental agency) (collectively, "Third Party Claims"), together with an estimate of the amount in dispute thereunder and a copy of any claim, process, legal pleadings or correspondence with respect thereto received by the Indemnified Party, provided, however, that the failure of the Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations hereunder, except to the extent that the Indemnifying Party is prejudiced by such failure to give notice. Within ten days of receipt of such notice, the Indemnifying Party may, by written notice to the Indemnified Party, assume the defense of such Third Party Claim through counsel of its own choosing (which counsel shall be reasonably acceptable to the Indemnified Party) with all fees and expenses thereof to be paid by the Indemnifying Party, in which event the Indemnified Party may participate in the defense thereof at its sole expense, provided that such Indemnified Party shall have the right to employ separate counsel to represent such Indemnified Party if, in such Indemnified Party's reasonable judgment, a conflict of interest between the Indemnifying Party and such Indemnified Party exists with respect to such Third Party Claim, with all fees and expenses of such separate counsel to be paid by the Indemnifying Party. If the Indemnifying Party fails to assume the defense of such Third Party Claim by filing to deliver a written notice of the Indemnifying Party's intention to assume such defense within ten days after receipt of the initial notice thereof, or thereafter abandons or fails to diligently pursue such defense (and only in such circumstances), the Indemnified Party may assume such defense and the fees and expenses of its counsel will be paid by the Indemnifying Party. If the Indemnifying Party exercises its right to undertake the defense against any such Third Party Claim as provided above, the Indemnified Party shall cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party all pertinent records, materials, and information in its possession or under its control relating thereto as is reasonably required by the Indemnifying Party, with all expenses incurred in connection therewith to be paid by the Indemnifying Party. Similarly, if the Indemnified Party is, directly or indirectly, conducting the defense against any such Third Party Claim, the Indemnifying Party shall cooperate with the Indemnified Party in such defense and make available to the Indemnified Party all such records, materials and information in the Indemnifying Party's control relating thereto as is reasonably required by the Indemnified Party, with all expenses incurred in connection therewith to be paid by the Indemnifying Party. Notwithstanding anything in this Section 10.6 to the contrary, however, if a claim shall be made with respect to which the Indemnifying Party has agreed to assume the defense thereof, the Indemnifying Party shall not thereafter be entitled to dispute, and hereby agrees not to dispute, the Indemnified

Party's right to indemnification therefor pursuant to Article 10 hereof or any subsequent claims of the Indemnified Party with respect to such Third Party Claim

10.7.2 The Indemnifying Party shall not, without the written consent of the Indemnified Party, (i) settle or compromise any Third Party Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnified Party of a written release from all liability in respect of such Third Party Claim, (ii) settle or compromise any Third Party Claim in any manner that may adversely affect the Indemnified Party or (iii) upon the issuance of an order of a court of competent jurisdiction or an arbitrator with respect to such Third Party Claim, appeal or otherwise challenge such order Upon the settlement or compromise of any Third Party Claim, the order of a court of competent jurisdiction or arbitrator (if the Indemnified Party has failed to consent to the appeal or challenge thereof) with respect thereto or the final, non-appealable order of any appellate court (if the Indemnified Party has consented to the appeal or challenge thereof) with respect thereto, as the case may be, any resulting settlement, award, damages or judgment shall be paid (i) in the case of any such Third Party Claim with respect to which the Sellers are the Indemnifying Party, by the Sellers, and (ii) in the case of any such Third Party Claim with respect to which Buyer is the Indemnifying Party, by Buyer

ARTICLE 11. SURVIVAL OF REPRESENTATIONS AND WARRANTIES

11.1 Survival The several representations and warranties of the parties contained in or made pursuant to this Agreement shall be deemed to have been made on and as of the Closing and shall remain operative and in full force and effect until the fifth anniversary of the Closing Date, regardless of any investigation or statement as to the results thereof, made by or on behalf of any such party. Except for the provisions of Article 10, and Sections 5.10, 5.17, 6.2, 9.3, 9.4, 12.6, 12.7, 12.8 through 12.11, inclusive, and 12.13 through 12.15, inclusive, of this Agreement, the several covenants and agreements of the parties contained in this Agreement shall expire on the Closing Date and, except for the provisions of Sections 5.10, 6.2, 9.3, 9.4, 12.2, 12.3, 12.5 12.6, 12.8 through 12.11, inclusive, and 12.13 through 12.15, inclusive, of this Agreement, the several covenants and agreements of the parties contained in this Agreement shall expire on the termination or abandonment of this Agreement.

ARTICLE 12. MISCELLANEOUS

12.1 Abandonment of Transaction The transaction may be abandoned, and this Agreement terminated, at any time after the date of this Agreement, but not later than the Closing, by

12.1.1 The mutual consent of the Board of Directors of NTI and Buyer or

12.1.2 Buyer, if NTI or Sellers is in willful breach of any of its representations, warranties, covenants or agreements under this Agreement in any material respect; or

12.1.3 NTI or Sellers, if Buyer is in willful breach of any of its representations, warranties, covenants or agreements under this Agreement in any material respect; or

12.1.4 Either party hereto if the consummations of the transactions contemplated by this Agreement have been enjoined and such injunction is not subject to appeal or if a Final Order which contains an unduly burdensome term, condition or provision is issued and no appeal is taken therefrom; or

12.1.5 NTI, Sellers or Buyer if the transactions contemplated herein shall not have become effective on or before June 30, 1997.

12.2 Effect of Termination or Abandonment. If for any reason the transactions contemplated hereby shall not become effective, all written schedules and other information and all copies of material from the books and records of any party heretofore furnished to any other party shall be returned promptly to the party furnishing the same and, in such event, the provisions of this Agreement relating to confidential information shall survive the termination of this Agreement and the abandonment of the reorganization.

12.3 Liabilities. In the event this Agreement is terminated and the contemplated transactions are abandoned pursuant to Section 12.1 hereof, no party hereto shall have any duty or liability to the other either for costs, expenses, loss of anticipated profits or otherwise, except with respect to any liability or damages incurred or suffered by a party as a result of the breach by the other party of any of its representations, warranties, covenants or agreements set forth in this Agreement.

12.4 Assignment. This Agreement shall not be assigned by NTI or the Sellers.

12.5 Further Assurances. From time to time prior to, at and after the Closing, the Sellers, NTI and Buyer will and will cause their respective directors and officers to execute all such instruments and take all such actions as the Sellers, Buyer or NTI, being advised by counsel, shall reasonably request in connection with the carrying out and effectuating of the intent and purpose hereof and all transactions and things contemplated by this Agreement including, without limitation, the execution and delivery of any and all confirmatory and other instruments in addition to those to be delivered on the Closing, and any and all actions which may reasonably be necessary or desirable to complete the transactions contemplated hereby.

12.6 Notices. All notices, demands and other communications which may or are required to be given hereunder or with respect hereto shall be given by NTI on behalf of itself and the Sellers, and by Buyer on behalf of itself. All such notices, demands and other communication shall be in writing, shall be given either by personal delivery or by nationally recognized overnight courier or by telecopier, and shall be deemed to have been given or made when personally delivered, one business day after delivered to a nationally recognized overnight courier, postage prepaid and receipt requested, or one business day after transmission by telecopier, receipt confirmed, addressed as follows:

(i) If to Buyer:

Network Long Distance, Inc.
Corporate Headquarters
525 Florida Street
Baton Rouge, LA 70801

with a copy to:

James M. Ash, Esq.
Blackwell Sanders Matheny Weary & Lombardi
2300 Main, Suite 1100
Kansas City, MO 64108

or to such other address as Buyer may from time to time designate by notice to NTI and the Sellers.

(ii) If to NTI:

National Teleservice, Inc.
P.O. Box 1142
111 Riverfront
Winona, WI 55987

with copies to:

Albert A. Woodward, Esq.
Maun & Simon, PLC
2000 Midwest Plaza Building West
801 Nicollet Mall
Minneapolis, MN 55402-2534

(iii) If to Sellers:

O. A. Friend, Sole Trustee under The 1993 Friend Family Revocable Trust
77-740 Seminole

Indian Wells, CA 92260

Leaf Family Partners, Ltd.
Attn: John V. Leaf, General Partner
P.O. Box 30055
Winona, MN 55987

(iv) If to Principals:

O. A. Friend
77-740 Seminole
Indian Wells, CA 92260

John V. Leaf
P.O. Box 30055
Winona, MN 55987

(v) If to Lang:

Mary J. Lang
P. O. Box 1142
111 Riverfront
Winona, MN 55987

or to such other address as NTI, the Sellers, the Principals and Lang may from time to time designate by notice to the other parties.

12.7 Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes and cancels any and all prior agreements between the parties relating to the subject matter hereof.

12.8 Rules of Construction. This Agreement shall be construed as follows:

12.8.1 except as otherwise defined in this Agreement, words shall be given their commonly understood meaning in agreements of this nature, except that accounting terms shall be given the meaning ascribed thereto by generally accepted accounting principles and interpretations;

12.8.2 this Agreement has been negotiated on behalf of the parties hereto with the advice of counsel and no general rule of contract construction requiring an agreement to be more stringently construed against the drafter or proponent of any particular provision shall be applied in construction of this Agreement.

12.8.3 the captions of Articles and Sections hereof are for convenience only and shall not control or affect the meaning or construction of any of the provisions of this Agreement.

12.9 Law Governing. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, but not including the choice of law rules thereof.

12.10 Waiver of Provisions. The terms, covenants, representations, warranties or conditions of this Agreement may be waived only by a written instrument executed by the party waiving compliance. Such waiver shall be authorized solely by the individual or his personal representative, if the Sellers, or the majority vote of the Board of Directors or the Executive Committee of the corporate party waiving compliance or by officers authorized by such Board or Committee. The failure of any party at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by any party of any condition, or the breach of any provision, term covenant, representation or warranty contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed to be or construed as a further or continuing waiver of any such condition or of the breach of any other provision, term, covenant, representation or warranty of this Agreement. The representations and warranties of the Sellers and NTI, on the one hand, and Buyer, on the other hand, contained in this Agreement or in any certificate or other document delivered pursuant hereto or in connection herewith prior to or at the Closing shall not be deemed waived or otherwise amended or modified by any investigation made by any party hereto.

12.11 Successors. All of the terms and conditions of this Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of Buyer and of NTI and the successors and personal representatives of the Sellers. For the purpose of this Agreement, the term "successors" shall include but not be limited to heirs, legatees, and devisees, and the term "personal representatives" shall include administrators, executors, guardians, and conservators.

12.12 Counterparts. This Agreement may be executed in several counterparts, and all so executed shall constitute one agreement, binding on all of the parties hereto, notwithstanding that all parties are not signatory to the original or the same counterpart.

12.13 Public Statements or Releases. NTI, the Sellers and Buyer each agree not to make, issue or release any public announcement, statement or acknowledgment of the existence of, or reveal the terms, conditions and status of, the transactions provided for in this Agreement, without first attempting to the extent reasonably possible (and in all cases with regard to written matters) to clear such announcement, statement, acknowledgment or revelation with the other parties hereto. Each party agrees that it will not unreasonably withhold any such consent or clearance from another party.

12.14 Severability. In the event that any provision in this Agreement be held invalid or unenforceable, by a court of competent jurisdiction, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement, unless such provision goes to the essence of this Agreement in which case the entire Agreement may be declared invalid and not binding upon any of the parties.

12.15 No Third Party Beneficiaries. This Agreement and the obligations of parties hereunder shall operate exclusively for the benefit of the parties executing this Agreement and their permitted successors and assigns and not for the benefit of any other person or entity, including, without limitation, any other shareholder, creditor, employee or former employee of NTI and no such person or entity shall have any rights or remedies hereunder.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and their corporate seals, if applicable, to be hereunto affixed, effective as of the day and year first above written.

NATIONAL TELESERVICE, INC.

By:____________________________
________________________, President

O. A. FRIEND AS SOLE TRUSTEE UNDER THE 1993 FRIEND FAMILY REVOCABLE TRUST

By:____________________________
O. A. Friend, Sole Trustee

LEAF FAMILY PARTNERS, LTD.

By:____________________________
John V. Leaf, General Partner

By:____________________________
Cynthia Ann Leaf, General Partner

O. A. Friend

John V. Leaf

NETWORK LONG DISTANCE, INC.

By:____________________________
Name:__________________________
Title:___________________________

Mary J. Lang

EXHIBIT B

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

EXHIBIT B

FORM 10-K

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

For the Fiscal Year ended: March 31, 1997

OR

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

For the transition period from ________ to ________

Commission File No. 0-23172

NETWORK LONG DISTANCE, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	72-1122018
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

11817 Canon Blvd., Suite 600
Newport News, Virginia 23606
(Address of Principal Executive Offices, Including Zip Code)

Registrant's telephone number, including area code: (757) 873-1040

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, .0001 Par Value Per Share
(Title of Class)

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

As of June 25, 1997, 13,094,088 shares of common stock were outstanding. The aggregate market value of the common stock of Network Long Distance, Inc. (the "Company") held by nonaffiliates as of June 25, 1997 was $48,944,795.

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

Documents incorporated by reference: Part III incorporates certain information by reference from the Registrant's definitive proxy statement for the annual meeting of stockholders which will be filed no later than [illegible] days after the close of the Registrant's fiscal year ended March 31, 1997.

[illegible] pages. Exhibits [illegible]

PART I

ITEM 1. BUSINESS

General

Network Long Distance, Inc., a Delaware corporation, directly and through its subsidiaries ("the Company"), is a provider of long distance and other telecommunication services to end-users, independent agents, and other long distance companies, with a primary concentration on small to medium-sized businesses.

The Company is recognized as a pioneer in the U.S. telecommunications industry, as its predecessor company was established in and has been in continuous operation since 1979, a full five years prior to the court-ordered break-up of the AT&T/Bell System, an event generally regarded as the "birth" of the competitive long distance industry in the U.S.

Over the past three years, the company has expanded substantially through mergers, acquisitions, and its own sales programs to become a nationwide, telecommunications provider. The Company transmits long distance telephone calls over various types of transmission circuits leased from other telecommunications carriers at fixed or variable rates. Calls may be routed through one the Company's four (4) switching centers, which select the least expensive among the various available transmission alternatives to complete the call or calls can be completed by various underlying carriers. The Company provides billing, customer service and other features relative to the call. Profits are based on the Company's ability to charge rates in excess of the Company's cost of transmitting calls over the transmission lines selected by the switching equipment or in excess of underlying carrier costs.

The Company offers a wide range of products and services including "1 plus" domestic long distance service, inbound (800) service, dedicated access and private line service, travel cards, conference calling, paging, prepaid calling cards, wireless services and national internet access service.

The long distance industry is dominated by those companies which comprise the first tier of the industry, those companies with annualized revenues in excess of $1 billion, such as AT&T, MCI, Sprint, and WorldCom. The second tier is comprised of companies under $1 billion but in excess of $100 million in annualized revenues. The third tier consists of those companies with annualized revenues of under $100 million. The Company is a second tier company as a result of its acquisitions completed subsequent to March 31, 1997 (see Mergers).

History

The Company was formed on December 3, 1987, under the name Harmoney Street Capital, Inc. and was primarily in the business of seeking business opportunities and a merger candidate. To this end, on December 19, 1990, the Company acquired 100% of the outstanding shares of M.M. Ross, Inc., a private Louisiana corporation formed in 1979. Since 1990, the Company has continued to expand its services and customer base and is now primarily a long distance telecommunications company. Accordingly, in August, 1991 the Company changed its name to Network Long Distance, Inc. to more accurately reflect its operations.

Recent Developments

Mergers

On June 30, 1996, Network Long Distance, Inc. (Network) merged with Long Distance Telecom, Inc. dba Blue Ridge Telephone (Blue Ridge) and in connection therewith issued 337,079 shares of common stock for all of Blue Ridge's common stock. On November 15, 1996, Network merged with United Wats, Inc. (United Wats) and in connection therewith issued 2,277,780 shares of common stock for all of United Wats' common stock. (Both transactions will be collectively referred to as the "Mergers".) The Mergers were accounted for as pooling of interests.

Subsequent to March 31, 1997, the Company made several strategic moves towards accomplishing its goals and to better position itself to remain competitive in the telecommunications industry.

During May of 1997 the Company completed two mergers; Eastern Telecom, International (ETI) for $1.5 million cash and the issuance of approximately 3,633,000 shares of common stock and National Teleservices, Inc. (NTI) by issuing approximately 3,274,000 shares of common stock. As a result of these transactions, the Company positioned itself within the second tier (over $100 million in annual sales) of the industry based on pro forma fiscal 1997 revenues. The acquisition of ETI will be accounted for as a purchase while the merger with NTI will be accounted for as a pooling of interests. (Both transactions will collectively be known as the "Subsequent Mergers".)

ETI is a switch-based inter-exchange carrier located in Newport News, Virginia and operates primarily along the east coast of the United States. It has expanded rapidly through the deployment of an aggressive direct sales program. It operates a Northern Telecom DMS 250 digital switch which is located in Washington, D.C., and offers "1" plus direct dialing, "0" plus operator assisted calls, 800/888 toll free service, dedicated lines, calling cards, international service, prepaid calling cards, paging, internet access, and conference calling.

NTI is a switch-based inter-exchange carrier located in Winona, Minnesota, and operates primarily in the mid-western United States. As with ETI, it has also expanded rapidly through direct sales. It operates a DEC 600 digital switch located in Winona and offers a full range of telecommunication products and services.

The following unaudited pro forma combined results of operations assume the acquisitions of ETI, NTI and other acquisitions consummated during fiscal 1997 were completed on April 1, 1996.

	Year Ended March 31, 1997
Revenue	$108,018,000
Net loss	(8,735,000)
Loss per share	(0.68)

These pro forma amounts represent the historical operating results of these acquired entities combined with those of the Company with appropriate adjustments which give effect to interest expense, amortization and the common shares issued. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if the combined entities had been operated by current management during the period presented because these amounts do not reflect full network optimization and the synergistic effect on operating, selling, general and administrative expenses; nor do they purport to indicate results which may be attained in the future.

Pro forma earnings before interest, taxes, depreciation, amortization and non-cash provisions to reduce the carrying value of certain intangible assets (EBITDA) were $3,289,000. (Pro forma EBITDA is provided because EBITDA is a measure commonly used in the industry. EBITDA is not a measurement of financial performance under generally accepted accounting principles and should not be considered an alternative to net income as a measure of performance or to cash flow as a measure of liquidity. EBITDA is not necessarily comparable with similarly titled measures for other companies.)

Consolidation of Operations

After completion of the above two transactions, the Company was made up of five independent operating entities: Network Long Distance, Inc., United Wats, Blue Ridge, ETI and NTI. The Company has determined to undertake the consolidation of the operations of these entities.

Included in this plan is the consolidation of all corporate functions including management, accounting and finance, billing and networking functions, and certain customer service and support functions. The consolidation of these functions is scheduled to take place during the first two quarters of fiscal year 1998.

In May 1997 the Board of Directors elected John D. Crawford to the position of Chairman and Chief Executive Officer. Mr. Crawford previously served in this capacity with ETI. Timothy A. Barton, who was previously elected President, will continue in this capacity. Mr. Barton previously served in this capacity with United Wats. Thomas [illegible] Keefe was elected Chief Financial Officer and Treasurer of the Company. Mr. Keefe previously served in this capacity with ETI. John V. Leaf was elected to the position of Secretary. Mr. Leaf previously served as President and CEO of NTI. The primary focus of the Board of Directors of the Company was to put into place a management team which it believed would complete the overall consolidation of the operating companies and to develop and implement a strategic plan which will allow the Company to remain competitive in the industry.

In addition to management changes, there have been several changes to the Board of Directors of the Company. John D. Crawford, Thomas G. Keefe, John V. Leaf, and Albert A. Woodward, an attorney with the firm of Maun and Simon in Minneapolis, MN, have joined the Board. Marc I. Becker and Dr. Joseph M. Edelman have resigned from the Board.

Strategic Plan

A long standing goal of the Company has been to reach a volume of revenues that would enable it to be classified as a second tier telecommunications company with annual revenues in excess of $100 million. As a result of the acquisitions of ETI and NTI subsequent to March 31, 1997, pro forma annual revenues exceeded $108 million for the year ended March 31, 1997. Based on the pro forma revenues, the Company has achieved its objective and will focus its future efforts to improve profitability and cash flows while continuing to grow revenues. To achieve these objectives, the Company has implemented plans to consolidate its operations as discussed under "Consolidation of Operations."

Reduction of Transmission Costs

Through increased economies of scale, expansion of "on-net" origination and termination of traffic, and greater purchasing power resulting from the mergers, the Company expects to reduce transmission costs as a percentage of revenue.

Revenue Growth

To continue its revenue growth, the Company will focus its efforts on internal sales. Over the past three years, the Company has primarily grown through mergers and acquisitions. Although the Company will continue to seek merger opportunities, this strategy is not expected to be the primary vehicle for revenue growth. Currently, the Company has three distinct sales distribution channels through which the Company markets it products and services: Retail or direct business sales, agents, and association programs, (see SALES AND MARKETING). The Company plans to direct its attention to the business retail and association program distribution channels in an effort to aggressively grow revenue through internal sales.

Sales and Marketing

The Company has three primary sales distribution channels within its long distance telecommunications marketing program: the agent, business retail, and association programs. The Company primarily focuses its efforts and expansion philosophy on the retail and association program channels, where the Company believes it can realize greater profit margins and maintain better control of its customer base. Approximately fifty percent of all employees are direct business retail sales personnel.

Business Retail

The Company's retail division currently concentrates on commercial customers, which use long distance services more frequently on weekdays during normal business hours, as compared to residential users who tend to place calls more frequently at night and on weekends when rates are lower. The Company believes that commercial customers tend to use long distance services more often and generate more billable minutes than residential users. The Company currently has retail sales offices in Louisiana, Virginia, Minnesota, Wisconsin, Iowa, South Dakota, North Dakota, Nebraska, New Jersey, Pennsylvania, Maryland, District of Columbia and Illinois. The Company primarily targets commercial customers with monthly phone charges of approximately $200 to $10,000. The Company plans to expand and further develop its retail sales force through the hiring of additional representatives.

Association Programs

The Company has a program whereby it establishes exclusive marketing agreements with various trade or business associations to market its products and services to the members of the association. Under this program the Company, in conjunction with the association, will solicit the members of the association to subscribe to the services of the Company primarily through telemarketing and direct mail campaigns. In exchange, the Company pays the association a royalty based on the level of monthly revenues generated by the members of the association.

Agent

Master agents sign non-exclusive contracts with the Company to represent the Company and sell its long distance services to end users. The agents are paid a variable commission on each service sold. The Company intends to maintain this channel, but [illegible] primarily devote its marketing resources in the future to its business retail and association programs.

Rates and Charges

Management expects that its rates will generally remain competitive with rates charged by long distance carriers such as AT&T, MCI and Sprint and other common carriers. The savings realized by customers of the Company and other long distance carriers may decrease in the future if, and to the extent, AT&T further reduces its rates. See "Competition" and "Regulation."

The Company charges its customers on the basis of minutes or partial minutes of use at rates which may vary with the distance, duration, time of day and type of call. The Company performs its own billing functions for most of its customer base, and also uses independent billing companies to invoice certain customers in conjunction with their local and long distance telephone bills.

Facilities

The Company's facilities are 100% leased, digital fiber optic transmission facilities. Primary fiber optic vendors for the Company include WilTel and MCI. These facilities are utilized primarily by the Company for the provisioning of its own telecommunications network. Facilities are also leased on behalf of the Company's customers to provide private customer connections to the network. The Company leases these facilities at rates which are less than those charged to its customers for the use of these facilities. In addition to the vendors named above, facilities from Bell Atlantic, Bell South, Ameritech, US West, NYNEX and MFS are an integral part of the Company's network.

The continued availability of cost-effective digital, fiber optic transmission facilities in the Company's service areas, as well as proper planning of the utilization of leased transmissions facilities, is critical to the Company's ability to provide its services on a profitable basis.

The Company contracts with other underlying telecommunications carriers to provide originating and terminating transmission of calls in area's where the Company does not deploy their own facilities. These facilities are carrier facilities and do not carry a fixed monthly cost. The Company pays the carrier, on a per minute basis, for any calls which are transmitted over these facilities.

Network Switching

The Company's computerized network switching equipment routes the calls to their destinations on a least cost route basis, over the leased transmission facilities. In addition to networking, the Company's switching equipment verifies the customer's preassigned authorization code, or the telephone number called from. It also records billing data, tests transmission facilities and monitors system quality and performance. After the Subsequent Mergers, the Company has four switches, to which its leased and carrier facilities are connected. These switches are located in Baton Rouge, Louisiana, Washington, D.C., Winona, Minnesota and Culpeper, Virginia.

The Company believes that digital switches are generally superior to other currently available types of switches. Digital switches are able to interface with the digital transmission facilities leased by the Company and are able to handle multiple transmission channels on a single line, thereby reducing transmission costs. A digital switch also provides superior quality and ease of maintenance.

Mergers and Acquisitions Program

The Company has completed the acquisition of customer bases primarily located in Texas, New Jersey, [illegible], New York, Nevada, Oklahoma, California, Utah, and Illinois.

In addition to the customer bases noted above and the mergers with ETI and NTI, the Company has completed mergers with Blue Ridge and United Wats. Both companies have historically experienced strong internal growth from their respective sales distribution channels and are expected to continue these trends. Although the Company plans to continue evaluating opportunities that may arise, the Company does not intend to solely look towards mergers and acquisitions to grow the Company. (see "Recent Developments")

Competition

The Company competes with numerous interexchange carriers and resellers, some of which are substantially larger, have substantially greater financial, technical and marketing resources, or utilize larger transmission systems than the Company. AT&T is the dominant supplier of long distance services in the United States interLATA market. The Company also competes with other national interexchange carriers, such as MCI, Sprint, WorldCom and regional long distance telecommunications companies. Under the Telecommunications Act of 1996 (Telecom Act) and ensuing federal and state regulatory initiatives, the introduction of local exchange competition establishes the predicate for the Regional Bell Operating Companies (RBOCs) to provide in-region interexchange long distance services. The RBOCs are currently allowed to offer certain "incidental" long distance service in-region and to offer out-of-region long distance services. Once the RBOCs are allowed to offer in-region long distance services, they could be in a position to offer single source local and long distance service.

The Company believes that the principal competitive factors affecting its market share are pricing, transmission quality, customer service, cost of underlying facilities and, to a lesser extent, value added services.

The Company believes that it competes effectively with other interexchange carriers and resellers in its service areas on the basis of these factors. The ability of the Company to compete effectively will depend upon its continued ability to maintain high quality, market oriented services at prices competitive with those charged by its competitors.

The Company's objective is to continue to expand its customer base primarily through its business retail and association program marketing channels. The Company believes this strategy, in conjunction with the increased purchasing power resulting from its recent mergers (see "Recent Developments"), will enable it to continue to obtain favorable contracts from its suppliers which will allow it to maintain adequate margins while offering highly competitive prices for its services. The Company maintains its own in-house billing and customer service operations, which along with its ability to offer competitive price, provides the Company the flexibility to tailor its services to meet the ever changing communication needs of its customers. However, no assurance can be given that the Company's strategies will continue to be successful.

The Company expects to encounter increased competition from both the major communication companies and the smaller regional companies. In addition, the Company may be subject to additional competition due to the enactment of the Telecom Act and the development of new technologies. The telecommunications industry is in a period of rapid evolution marked by the introduction of new products and services and the changing regulatory environment. The Company believes its strategies will put it in a position to continue to effectively compete in this industry.

Government Regulation

The terms and conditions under which the Company provides telecommunications products and services are subject to government regulation. Federal laws and Federal Communications Commission (FCC) regulations apply to interstate and international telecommunications, while particular state regulatory authorities have jurisdiction over telecommunications that originate and terminate within the same state.

Federal Regulation

The Company is classified by the FCC as a non-dominant carrier, and therefore is subject to significantly reduced federal regulation. After the recent reclassification of AT&T as a non-dominant carrier in its provisions of domestic services, only the Local Exchange Carriers (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's. The FCC has proposed that the Regional Bell Operating Companies (RBOCs) offering out-of-region interstate inter-exchange services be regulated as non-dominant carriers, as long as such services are offered by an affiliate of the RBOC that complies with certain structural separation requirements, which may make it easier for the RBOCs to compete directly with the Company for long distance subscribers. These would be the same separation requirements that currently are applicable to independent LECs that provide interstate inter-exchange services, although the FCC on March [illegible] 1996 initiated a rule-making proceeding in which it is considering whether to modify or eliminate these separation requirements.

Because AT&T is no longer classified as a dominant carrier, certain pricing restrictions that formerly applied to AT&T have been eliminated, which may make it easier for AT&T to compete with the Company for low volume long distance subscribers. Non-dominant carriers are currently required to file international tariffs. The FCC generally does not exercise direct oversight over cost jurisdiction 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 has the jurisdiction to act upon complaints filed by third parties or brought on the FCC's own motion against any common carrier, including non-dominant carriers, for failure to comply with its statutory obligations. Additionally, the Telecom Act grants explicit authority to the FCC to "forbear" from regulating any telecommunications services provider in response to a petition and if the agency determines that the public interest will be served. On October 31, 1996, the FCC exercised this authority and released an order which, among other things, requires non-dominant Interexchange Carriers (IXCs) to cancel their currently-filed tariffs for interstate domestic services within nine months of the effective date of the order and prohibits such filings in the future.

The FCC imposes only minimal reporting requirements on non-dominant resellers, 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 certain carriers, such as those whose annual operating revenues exceed $100 million.

On February 8, 1996, President Clinton signed the Telecom Act, which permits, without limitation, the RBOCs to provide domestic and international long distance services to customers located outside of the RBOCs home regions; permits a petitioning RBOC to provide domestic and international long distance service to customers within its home regions upon a finding by the FCC that a petitioning RBOC has satisfied certain criteria for opening up its local exchange network to competition and that its provision of long distance services would further the public interest; and remove existing barriers to entry into local service markets. Additionally, there are significant changes in the manner in which carrier-to-carrier arrangements are regulated at the federal and state level; procedures to revise universal service standards; and, penalties for unauthorized switching of customers. The FCC has instituted proceedings addressing the implementation of this legislation.

On August 8, 1996, the FCC released its First Report and Order in the Matter of Implementation of the Local Competition Provisions in the Telecom Act the FCC Interconnect Order. In the FCC Interconnect Order, the FCC established nationwide rules designed to encourage new entrants to participate in the local service markets through interconnection with the incumbent local exchange carriers (ILEC), resale of the ILECs retail services and unbundled network elements. These rules set the groundwork for the statutory criteria governing RBOC entry into the long distance market. The Company cannot predict the effect such legislation or the implementing regulations will have on the Company or the industry. Motions to stay implementation of the FCC Interconnect Order have been filed with the FCC and federal courts of appeal. Appeals challenging, among other things, the validity of the FCC Interconnect Order have been filed in several federal courts of appeal and assigned to the Eighth Circuit Court of Appeals for disposition. The Eighth Circuit Court of Appeals has stayed the pricing provisions of the FCC Interconnect Order. The United States Supreme Court has declined to review the propriety of the stay. The Company cannot predict either the outcome of these challenges and appeals or the eventual effect on its business or the industry in general.

On December 24, 1996, the FCC released a Notice of Proposed Rulemaking (NPRM) seeking to reform the FCC's current access charge policies and practices to comport with a competitive or potentially competitive local access service market. On May 7, 1997, the FCC announced that it will issue a series of orders that reform Universal Services Subsidy allocations, adopt various reforms to the existing rate structure for interstate access that are designed to reduce access charges, over time, to more economically efficient levels and rate structures. In particular, the FCC adopted changes to its rate structures for Common Line, Local Switching and Local Transport rate elements. The FCC generally removed from minute-of-use access charges costs that are not incurred on a per-minute-of-use basis, with such costs being recovered through flat rated charges. Additional charges and details of the FCC's actions are to be addressed when Orders are released within the near future. Access charges area principal component of the Company's transmission costs. The Company cannot predict whether or not the result of this proceeding will have a material impact upon its financial position or results of operations.

State Regulation

The intrastate long distance telecommunications of the Company are also subject to various state laws and regulations, including prior certification, notification and registration requirements. Generally, the Company must obtain and maintain certificates of public convenience and necessity from regulatory authorities in most states in which it offers intrastate long distance services. In most of these jurisdictions the Company must also file and obtain prior regulatory approval of tariffs for its intrastate offerings. Currently, the Company is certified and tariffed where required to provide intrastate service to customers in the continental United States.

There can be no assurance that the regulatory authorities in one or more of the states will not take action having an adverse effect on the business or financial condition of the Company.

Risk Factors

Current and prospective investors should carefully consider the following risk factors, together with the other information contained in this Form 10-K, in evaluating the Company and its business. In particular, readers should note that this Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and that actual results could differ materially from those contemplated by such statements. The factors listed below represent certain important factors the Company believes could cause such results to differ. These factors are not intended to represent a complete list of the general or specific risks that may affect the Company. It should be recognized that other risks may be significant, presently or in the future, and the risks set forth below may affect the Company to a greater extent than indicated.

Dependance on Carriers and the Availability of Transmission Facilities not Assured

The Company's long distance business is dependent upon lease or resale arrangements with fiber-optic and digital microwave carriers for the transmission of calls. The future profitability of the Company is based upon its ability to transmit long distance telephone calls over transmission facilities leased from others on a cost-effective basis. The Company is currently dependent on three primary carriers, Frontier Communications Services, Inc., WorldCom Network Services, Inc. ("WilTel") and Sprint. The Company utilizes other fiber-optic carriers to a lesser extent to supplement communication transport services, however, there can be no assurance that in the future the Company will continue to have access on an ongoing basis, to transmission facilities at favorable rates.

Adverse Effect of Service Interruption

The Company's business requires that transmission and switching facilities and other equipment be operational 24 hours per day, 365 days per year. Long distance telephone companies, including the Company, have on occasion and may in the future experience temporary service interruption or equipment failure, in some cases resulting from causes beyond their control. Any such event experienced by the Company would impair the Company's ability to service its customers and could have a material adverse effect on the Company's business.

Recent Losses from Operations

The Company incurred a loss of ($7,854,000) for the fiscal year ended March 31, 1997. The loss for the fiscal 1997 was primarily due to the reduction in the carrying value of certain assets, an increase in selling, general and administrative expenses, and the provision for losses on accounts receivable. Although the Company will attempt to attain profitability as its recent acquisitions are integrated more fully into the Company's operations, there is no assurance that this will occur or that the Company will achieve, or be able to sustain profitable operations.

Competition Risks

The Company faces excess competition in providing long distance telecommunications services. The Company competes for interLATA and InterLATA services with AT&T, MCI, Sprint and WorldCom, the LECs and other national and regional IXCs, where permissible. Certain of these companies have substantially greater market share and financial resources than the Company, and some of them are the source of communications capacity used by the Company to provide its own services.

The Company expects to encounter continued competition from major domestic communications companies, including AT&T, MCI, Sprint and WorldCom. In addition, the Company may be subject to additional competition due to the enactment of the Telecom Act, the development of new technologies and increased availability of domestic transmission capacity.

For example, even though fiber-optic networks are now widely used for long distance transmission, it is possible that the desirability of such networks could be adversely affected by changing technology. The telecommunications industry is in a period of rapid technological evolution, marked by the introduction of new product and service offerings and increasing satellite and fiber-optic transmission capacity for services similar to those provided by the Company. The Company cannot predict which of many possible future product and service offerings will be important to maintain its competitive position or what expenditures will be required to develop and provide such products and services.

Virtually all markets for telecommunications services are extremely competitive, and the Company expects that competition will intensify in the future. In each of the markets in which it offers telecommunications services, the Company faces significant competition from larger, better financed incumbent carriers. The Company competes with incumbent providers, which have historically dominated their local telecommunications markets, and long distance carriers, for the provision of long distance services. In certain markets the incumbent provider offers both local and long distance services. The incumbent LESS presently have numerous advantages as a result of their historic monopoly control of the local exchange market. A continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors to the Company. Many of the Company's existing and potential competitors have financial, personnel and other resources significantly greater than those of the Company. The Company also faces competition in most markets in which it operates from one or more competitors, including competitive access providers ("CAPS") operating fiber-optic networks, in some cases in conjunction with the local cable television operator. Each of AT&T, MCI, Sprint and WorldCom has indicated its intention to offer local telecommunications services in major U.S. markets using its own facilities or by resale of the LESS' or other providers' services. Other potential competitors include cable television companies, wireless telephone companies, electric utilities, microwave carriers and private networks of large end users. In addition, the Company competes with telecommunications management companies with respect to certain portions of its business.

Under the Telecom Act and ensuing federal and state regulatory initiatives, barriers to local exchange competition are being removed. The introduction of such competition, however, also establishes the predicate for the RBOCs to provide in-region interexchange long distance services. The RBOCs are currently allowed to offer certain "incidental" long distance services in-region and to offer out-of-region long distance services. Once the RBOCs are allowed to offer in-region long distance services, both they and the four largest long distance carriers (AT&T, MCI, Sprint and WorldCom) will be in a position to offer single source local and long distance service similar to that being offered by the Company. The Company expects that the increased competition made possible by regulatory reform will result in certain pricing and margin pressure in the domestic telecommunications services business.

Rapid Technological Changes; Dependence upon Product Development

The telecommunications industry is subject to rapid and significant changes in technology. While the Company does not believe that, for the foreseeable future, these changes will either materially and adversely affect the continued use of fiber optic cable or materially hinder its ability to acquire necessary technologies, the effect of technological changes, including changes relating to emerging wireless and wireless transmission and switching technologies, on the businesses of the Company cannot be predicted.

Risks of Financial Leverage; Debt Service, Interest Rate Fluctuations, Possible Reductions in Liquidity and Restrictive Covenants

In May 1996, the Company entered into a $14,250,000 credit facility (1997 Facility) with a bank which includes a revolving credit facility and term loan facility. Borrowings under the 1997 Facility were used to repay an existing debt facility. Borrowings under the revolving credit portion of the 1997 Facility may not exceed the lesser of $11,000,000 minus any reduction in amount the lender may deem required or 85% of eligible receivables. Borrowings under the revolving facility bear interest at the prime rate plus [illegible]% ([illegible]% at March 31, 1997). Borrowings and unpaid interest on the revolving facility are repayable in full at maturity of the facility on June 1999. At March 31, 1997, borrowings outstanding under the revolving facility were $4[illegible],000. Unused borrowing capacity under the revolving facility at March 31, 1997 was $6,8[illegible],000. As part of the 1997 Facility, the Company was also allowed to borrow $3,250,000 under a term loan facility. The term loan is repayable in [illegible] equal monthly installments of $90,278 plus accrued interest. The term loan bears interest at the prime rate plus [illegible]% ([illegible]% at March 31, 1997). At March 31, 1997, the balance outstanding under the term facility was [illegible]. Substantially all of the assets of the Company including tangible assets, receivables and general intangibles, the definition of which includes but is not limited to intellectual property, business plans, business records and licenses, are pledged as collateral under the 1997 Facility. The 1997 Facility requires compliance with certain financial and operating covenants which include minimum leverage and fixed charge coverage ratios.

Because of the operating loss and resulting decline in stockholders' equity reported by the Company for the year ended March 31, 1997, the Company was not in compliance with certain financial covenants contained in its bank credit facility. Accordingly, the Company received a waiver with respect to certain of such covenants from its lender as of March 31, 1997. As a result of and in connection with the merger transactions consummated in May 1997, the Company complied with certain of the financial covenants, and has negotiated certain amendments to the credit facility to reflect changes in financial position and anticipated changes in business strategies and operating results associated with such transactions. While management believes that the Company will be able to comply with the renegotiated loan agreement, there can be no assurance that the Company will not require additional waivers in the future or, if such waivers are required, that the lender will grant them.

Dividend Policy

The Company has paid no cash dividends on its Common Stock and has no present intention of paying cash dividends in the foreseeable future. It is the present policy of the Board of Directors to retain all earnings to provide for the growth of the company. Payment of cash dividends in the future will depend, among other things, upon the Company's future earnings, requirements for capital improvements, and operating and financial conditions of the Company and other factors deemed relevant by the Board of Directors.

Acquisition Integration

A major portion of the Company's growth in recent years has resulted from acquisitions, which involve certain operational and financial risks. Operational risks include the possibility that an acquisition does not ultimately provide the benefits originally anticipated by management of the acquirer, while the acquirer continues to incur operating expenses to provide the services formerly provided by the acquired company. Financial risks involve the occurrence of indebtedness by the acquirer in order to effect the acquisition and the subsequent need to service that indebtedness. In addition, the issuance of stock in connection with acquisitions dilutes the voting power and may dilute certain other interests of existing shareholders. In carrying out its acquisition strategy, the Company attempts to minimize the risk of unexpected liabilities and contingencies associated with acquired businesses through planning, investigation and negotiation, but such unexpected liabilities may nevertheless accompany acquisitions. There can be no assurance that the Company will be successful in identifying attractive acquisition candidates or completing additional acquisitions on favorable terms.

Additionally, achieving the expected benefits of the Subsequent Mergers will depend in part upon the integration of the businesses of the Company, NTI and ETI, in an efficient manner, and there can be no assurance that this will occur. The transition to a combined company will require substantial attention from management. The division of management activities and any difficulties encountered in the transition process could have an adverse effect on revenues and operating results of the combined company. In addition, the process of combining the various organizations could cause the interruption of, or a disruption in, the activities of any or all of the companies' businesses, which could have a material adverse effect on their combined operations. There can be no assurance that the Company will realize any of the anticipated benefits of the Subsequent Mergers.

Based on the foregoing, during fiscal 1997, the Company incurred impairment losses of approximately $6,291,000 on the carrying value of certain intangible assets.

Contingent Liabilities

The Company is subject to a number of legal and regulatory proceedings. While the Company believes that the possible outcome of these matters, or all of them combined, will not have a material adverse effect on the Company's consolidated results of operations or financial position, no assurance can be given that a contrary result will not be obtained. See Item 3 - "Legal Proceedings".

Employees

As of June 25, 1997, the Company had 303 full-time employees. None of the Company's employees are represented by a union.

ITEM 2. PROPERTIES

The Company owns a 4,500 square foot building and leases three floors containing approximately 22,000 square feet of a building located at 525 Florida Street, Baton Rouge, Louisiana 70801. Its primary telephone number is (504) 343-3125. In June, 1997, the Company moved its principal executive offices to Newport News, Virginia and reduced its leased space in Baton Rouge to approximately 15,000 square feet.

In addition to the above properties, the Company leases approximately 7,500 square feet of office space in Mission, Kansas and approximately 3,800 square feet of office space in Culpeper, Virginia in which United Wats and Blue Ridge operate, respectively. Pursuant to recent mergers, the Company acquired leased office and switch facilities from ETI and NTI (see "Recent Developments").

ITEM 3. LEGAL PROCEEDINGS.

After the end of the fiscal year, on May 21, 1997, the Company was notified that a Director/Shareholder of the Company has brought suit against the Company. The suit is related to a certain escrow agreement previously entered into with two major shareholders of the Company. The suit seeks the release of common stock in the Company which was placed into escrow by the Director in relation to the Company's initial public offering completed in February of 1994. The number of shares in dispute is 313,344. The outcome of the suit and its impact on the operations and financial condition of the Company can not be determined at this time. However, the Company believes that the specific criteria under which the common stock was to be released were not met and therefore believes that the shares should be returned to the Company and cancelled according to the provisions of the escrow agreement.

The Company is involved in other legal proceedings generally incidental to its business. While results of these various legal matters contain an element of uncertainty, the Company believes that the probable outcome of any of these matters, or all of them combined, should not have a material adverse effect on the Company.

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

None

PART II

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

(a) PRINCIPAL MARKET OR MARKETS. Since February 24, 1994, the Company's Common Stock has traded in the over-the-counter market and listed in the NASDAQ Small-Cap Market System under the symbol "NTWK". The following table sets forth the high and low sales prices per share of Network Common Stock as reported on the Nasdaq Small-Cap Market System for the periods indicated.

	High	Low
1995		
First Quarter	$8.00	$5.50
Second Quarter	8.25	7.38
Third Quarter	8.00	7.38
Forth Quarter	9.00	7.63
1996		
First Quarter	$12.38	$7.25
Second Quarter	[illegible]	7.63
Third Quarter	[illegible]	9.13
Fourth Quarter	10.00	8.88
1997		
First Quarter	$12.13	$9.13
Second Quarter	[illegible]	[illegible]
Third Quarter	[illegible]	[illegible]
Fourth Quarter	[illegible]	

[illegible] 1997 the closing price for the Common Stock as reported by the NASDAQ Small-Cap Market [illegible] per share.

(b) APPROXIMATE NUMBER OF HOLDERS OF COMMON STOCK. The number of record owners of the Company's common stock at March 31, 1997, was approximately 225. This does not include shareholders who hold stock in their accounts at broker/dealers.

(c) DIVIDENDS. Holders of common stock are entitled to receive such dividends as may be declared by the Company's Board of Directors. No dividends have been paid with respect to the Company's common stock and no dividends are anticipated to be paid in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

Selected Financial Data:

	Fiscal Years Ended March 31				
	1997	1996	1995	1994	1993
Operating Results:					
Revenues	$59,609,135	$45,083,191	$29,374,853	$13,134,620	$6,067,903
Operating Income (Loss)	(8,033,833)	755,720	1,099,130	452,268	(43,980)
Income (Loss) before extraordinary item and cumulative effect of a change in accounting principle	(7,854,429)	374,497	867,514	173,886	304,969
Income (Loss) before cumulative effect of a change in accounting principle	(7,854,429)	374,497	867,514	173,886	304,969
Net Income (Loss)	(7,854,429)	374,497	867,514	173,886	304,969
Preferred dividend requirement	-			31,984	[illegible]
Earnings per common share:					
Income (Loss) before extraordinary item and cumulative effect of a change in accounting principle	(1.30)	0.07	0.19	0.04	0.07
Income (Loss) before cumulative effect of a change in accounting principle	(1.30)	0.07	0.19	0.04	0.07
Net Income (Loss)	(1.30)	0.07	0.19	0.04	0.07
Weighted average shares	6,064,164	5,079,938	4,587,620	3,827,889	4,088,767
Financial position data:					
Total assets	$18,953,712	$25,311,116	$11,762,262	$1,885,81[illegible]	$2,366,280
Long-term debt (excluding current maturities)	1,454,256	3,015,615	408,031	296,783	581,447
Stockholders' investment	8,112,189	13,966,066	7,372,272	6,036,012	455,529

ITEM 7.

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

The following discussion and analysis relates to the financial condition and results of operations of the Company for the three years ended March 31, 1997. This information should be read in conjunction with the "Selected Financial Data" and the Company's Consolidated Financial Statements appearing elsewhere in this document.

GENERAL

The Company's predecessor corporations commenced operations in 1979, and since its initial public offering in 1994, the Company has expanded substantially through mergers, acquisitions and internal growth in its efforts to become a nationwide telecommunications provider.

On June 30, 1996, Network Long Distance, Inc. (Network), merged with Long Distance Telecom [illegible] dba Blue Ridge Telephone (Blue Ridge) and in connection therewith issued [illegible] shares of common stock [illegible] of Blue Ridge's common stock. On November 15, 1996, Network merged with United Wats, Inc. (United Wats) and in connection therewith issued 2,2[illegible],780 shares of common stock for all of United Wats' common stock. (Both transactions will be collectively referred to as the "Mergers.") The Mergers were both accounted for as poolings of interests.

Subsequent to March 31, 1997, the Company made several strategic moves towards accomplishing its goals and to better position itself to remain competitive in the telecommunications industry.

During May of 1997, the Company completed two mergers: Eastern Telecom, International (ETI) for $1.5 million cash and the issuance of approximately 3,633,000 shares of common stock and National Teleservices, Inc (NTI) by issuing approximately 3,274,000 shares of common stock. As a result of these transactions, the Company positioned itself within the second tier (over $100 million in annual sales) of the industry based on pro forma fiscal 1997 revenues. The acquisition of ETI will be accounted for as a purchase while the merger with NTI will be accounted for as a pooling-of-interests.

ETI is a switch-based inter-exchange carrier located in Newport News, Va and operates primarily along the east coast of the United States. It has expanded rapidly through the deployment of an aggressive direct sales program. It operates a Northern Telecom DMS 250 digital switch which is located in Washington D.C. and offers "1" plus direct dialing, "0" plus operator assisted calls, 800/888 toll free service, dedicated lines, calling cards, international service, prepaid calling cards, paging, internet access, and conference calling.

NTI is a switch-based inter-exchange carrier located in Winona, Minnesota and operates primarily in the mid-western United States. As with ETI, it has also expanded rapidly through direct sales. It operates a DEC 600 digital switch located in Winona and offers a full range of telecommunication products and services.

After completion of the above two transactions, subsequent to the fiscal year end, the Company was made up of five independent operating entities: Network Long Distance, Inc., United Wats, Blue Ridge, ETI and NTI. The Company has determined to consolidate the operations of these entities subsequent to the fiscal year end.

Included in this plan is the consolidation of all corporate functions including management, accounting and finance, billing and networking functions, and certain customer service and support functions. The consolidation of these functions is scheduled to take place during the first two quarters of fiscal year 1998.

Certain statements set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and are subject to the safe harbor created by such section. When appropriate, certain factors that could cause results to differ materially from those projected in the forward looking statements are enumerated. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto appearing elsewhere in this Annual Report.

Results of Operations

The Company's operations have grown significantly over the last three years as a result of its mergers and acquisitions program and internal growth. Total revenues, including excise taxes and fees, increased to $59,690,135 in 1997, from $45,083,191 in 1996, representing a 32.4% increase. Total revenues in 1996 increased by 53.5% from $29,374,853 in 1995. The Company has financed this growth primarily through cash flow from operations, equity financing, and bank borrowings.

Billable minutes were approximately 348.0 million in 1997, an increase from approximately 278.5 million minutes in 1996, and approximately 155.4 million minutes in 1995. Revenue per minute (RPM), representing the ratio of total revenue to total minutes, was approximately $0.172, $0.162 and $0.189 in fiscal 1997, 1996, and 1995, respectively. In 1996, the Company de-emphasized its reseller channel. This traffic typically carries a lower RPM than other types of traffic. As a result of the reduction in reseller business in 1997, the overall RPM increased. The decrease in fiscal 1996 when compared to 1995 reflects rate reductions made to remain competitive in the market and wholesale rates provided to resellers. While rate fluctuations have affected the Company's revenues on a per minute basis, billable minutes have increased by 25.0% over 1996 billable minutes, while billable minutes from 1996 to 1995 increased approximately 79.2%.

To maintain and improve the Company's competitive position, it may be necessary to change the Company's rate structure. The Company is unable to predict with accuracy whether or when AT&T or other competitors will implement future rate reductions or the effect of any such rate reductions on the Company's profit margins. The Company anticipates increased billable minutes from its various sales distribution channels to offset the effects of any price reductions.

In addition to the switch-based network, the Company operates under negotiated contracts with other carriers to provide a nationwide platform to originate and terminate traffic. The Company has contracted with marketing companies, switchless resellers and agents throughout the United States and provides transport, billing, customer service, and other support services. Marketing to these types of organizations will continue in the upcoming fiscal year. Gross margin percentage, defined as the ratio of the excess of revenues over transmission costs, is expected to increase along with billable minutes as the percentage of wholesale traffic decreases. As of June 15, 1997, the Company is certified and tariffed to provide service subject to jurisdictions as required in the continental United States including the District of Columbia.

The Company and other long distance telecommunications companies are affected by the FCC's direct regulation of the rates and operations of AT&T and certain other interexchange carriers with which the Company competes and from which the Company leases or may lease transmission facilities or may have underlying contracts in place. Consequently, reductions in the Company's rate structure, as well as the regulatory matters affecting the telecommunications industry as a whole, may impact the Company's future revenues and expenses.

The Company's gross margin percentage in 1997 increased over the prior year with the transmission costs as a percent of revenues decreasing to 68.2% or \$0.117 per minute in 1997, resulting in a gross margin percentage of 31.8%. In 1996, transmission costs were 72.2% of revenues or \$0.117 per minute, resulting in a gross margin percentage of 27.8%. The Company's transmission costs as a percent of revenue in 1995 were 74.3% or \$0.140 per minute, which resulted in a gross margin percentage of 25.7%. The Company has been able to improve its gross margin during the last three years due to its continued growth in revenues. The increase in revenues has allowed the Company to negotiate higher volume discounts from its underlying carriers thereby reducing its transmissions costs as a percent of revenues.

General and administrative and selling expenses were \$15,770,990 representing 26.4% of revenues, \$9,420,273 representing 20.9% of revenues, and \$5,662,103 representing 19.2% of revenues for the years ended March 31, 1997, 1996, and 1995, respectively. The increase in general and administrative and selling expenses as a percentage of revenues is primarily related to increases in personnel costs, commissions, taxes and professional fees. The operations of Blue Ridge and United Wats were not consolidated during fiscal 1997 resulting in the duplication of certain general, administrative and selling functions. Subsequent to March 31, 1997, the Company implemented a plan to consolidate all corporate functions of these entities including accounting and finance, billing and networking functions, and certain customer service and support functions. The consolidation of these functions is scheduled to take place during the first two quarters of fiscal 1998.

Provision for losses on Accounts Receivable was \$3,041,617 representing 5.1% of revenues, \$1,112,151 representing 2.5% of revenues, and \$403,314 representing 1.4% of revenues for the years ended March 31, 1997, 1996, and 1995 respectively. During the year ended March 31, 1997, the Company determined that losses on certain accounts receivable acquired through acquisition transactions were greater than expected at the time of acquisition. As a result, the Company charged-off or made provision for such accounts receivable to reduce the carrying amount to the estimated realizable value. During fiscal year 1996, the Company reevaluated its reseller/wholesale activities generally and specifically its relationship with certain resellers. As a result, the Company has chosen to de-emphasize its resellers marketing activities by reducing the number of wholesale customers and the related wholesale accounts receivable. In addition, certain wholesale customers have experienced financial difficulties which impede their ability to pay the Company on a timely basis. Wholesale customers with slow payment histories have been placed on specific payment plans or under lock box agreements. The Company has specifically evaluated its allowance for doubtful accounts, which it provides for through its provision for losses on accounts receivable and believes the allowance to be adequate to absorb probable losses on the accounts receivable at March 31, 1997. However, the actual losses on accounts receivable could differ from management's evaluation at March 31, 1997.

Depreciation and amortization expense was \$1,902,942 representing 3.2% of revenues, \$1,246,826 representing 2.8% of revenues, and \$396,661 representing 1.4% of revenues for the years ended March 31, 1997, 1996, and 1995, respectively. The increase, both in dollars and as a percent of revenues is primarily associated with the amortization of the customer bases and goodwill acquired through the Company's mergers and acquisition activities.

During the year ended March 31, 1997, the Company incurred non-cash charges, provision to reduce carrying value of certain assets, of approximately $8.3 million related to a writedown in the carrying value of certain assets including goodwill and customer base acquisition costs associated with certain acquisitions. The Company determined during the settlement process called for in the certain acquisition agreements that attrition rates for certain customer bases and businesses acquired were significantly greater than originally anticipated. Consequently, the Company determined that future cash flows would be less than that required to realize these assets. The Company reassessed the fair value of these assets by estimating the present value of the future cash flows through updating with historical results the cash flow models utilized to initially allocate the intangibles acquired.

Due to the impairment of various intangibles, the Company analyzed the lives of its intangibles in accordance with SFAS 121. Consequently, the Company has established new periods for amortizing certain customer base intangible assets that it believes to be reasonable estimates of the remaining lives of these customer base intangibles assets. The revised remaining useful lives assigned by the Company, range from 4 to 6 years for acquired customer bases.

Other Income and Expenses

Operating income (loss) was ($8,033,833) representing (13.5%) of revenue for the year ended March 31, 1997. Operating income was $755,720 representing 1.7% of revenues for the year ended March 31, 1996. For the year ended March 31, 1995, operating income was $1,099,130 representing 2.7% of revenues.

Net interest expense for the year ended March 31, 1997 was $517,596 as compared to net interest expense for the year ended March 31, 1996 of $198,897, an increase of 160.2%. In May 1996, the Company entered into a $14,250,000 credit facility (1997 Facility) with a bank which includes a revolving credit facility and term loan facility. The proceeds of the term loan of approximately $3,250,000 was used to finance the May 1996 acquisition of Universal Network Services, Inc. The revolving credit facility was used for general operating purposes. Net interest income for the year ended March 31, 1995 was $65,480. In December 1995, the Company renewed its line of credit (1996 Facility) with a bank with proceeds used for general operating purposes. Net interest income during fiscal year 1995 resulted primarily from the investment of the proceeds from the Company's secondary public offering.

Income Taxes

The Company reported a net loss in fiscal 1997, and accordingly, recorded an income tax benefit of approximately $697,000 or 8.2% of the pre-tax loss. A significant portion of the pre-tax loss was related to a writedown in the carrying value of certain assets including goodwill and customer base acquisition costs. These assets must continue to be amortized for tax purposes and the Company believes that only a portion of this writedown should be utilized for income tax purposes under a "more likely than not" criteria. Accordingly, the Company established a valuation allowance of $1,227,000 related to the associated deferred tax assets of approximately $3,300,000. For the year ended March 31, 1996, $223,273 was provided for income taxes resulting in net income of $374,497. For the year ended March 31, 1995, $266,954, or 23.5% of pre-tax income, was attributed to income tax resulting in net income of $867,514.

Liquidity and Capital Resources

Net cash provided by operations for 1997 was $3,121,310, an increase from net cash used by operations of $182,303 in 1996, and net cash provided by operations of $1,054,082 in 1995. The increase in cash flow from operations was primarily attributable to the increased gross margin and the timing of collection of accounts receivable and payment of accounts payable.

Cash flows used in operations resulted in a negative impact on cash during 1996 due primarily to the impact of growth in accounts receivable and other current assets that were not offset by similar increases in accounts payable and other current liabilities.

The Company's accounts receivable are anticipated to continue to grow due to higher sales volume and acquisitions. Growth will require cash disbursements for acquisitions, installation costs of lines and equipment to expand networking capability. In addition, the growth will require cash payments to vendors prior to receipt of payment by its customers.

The Company's growth will also require continued expansion of the telecommunications equipment and related capital items. The Company used net cash of $3,316,998, $807,[illegible] and $568,837 for investing activities for the years 1997, 1996 and 1995, respectively. The primary use of cash in 1997, 1996, and 1995 was for the acquisition of customer bases resulting in acquisition costs of $3,807,004, $[illegible] and $[illegible], respectively.

Cash used in financing activities in 1997 was $578,336 as compared to cash provided by financing activities of $1,339,585 in 1996, and cash used in financing activities of $770,694 in 1995. In 1997 the Company made principal payments on debt of $3,743,031 and received cash of $3,250,000 from the issuance of debt. In 1996 the Company borrowed $2,532,235 under its line of credit and made principal payments on its debt of $1,243,[illegible]. In 1995 the Company redeemed all of its outstanding preferred stock for $55,527, made payments against costs of the secondary public offering of $53,585, reduced debt principal by $454,680, and received $204,695 from the issuance of common stock.

The Company experienced a net cash decrease of $237,436 in 1997, a net cash increase of $369,30[illegible] in 1996, and $114,551 in 1995. Stockholders' equity was $8,112,169 and $13,986,068 as of March 31, 1997 and 1996, respectively.

In May 1996, the Company entered into a $14,250,000 credit facility with a bank (the 1997 Facility) which includes a revolving credit facility and term loan facility. Borrowings under the revolving credit portion of the 1997 Facility may not exceed the lessor of $11,000,000 minus any reserves the lender may deem eligible or 85% of eligible receivables. Borrowings under the revolver will bear interest at the prime rate plus 0.75%. Borrowings and unpaid interest on the revolving facility are repayable in full at maturity of the facility on June 1, 1999. The Company is allowed to borrow $3,250,000 under the term loan facility. The term loan is repayable in 36 equal monthly installments of $90,278 plus accrued interest. The term loan bears interest at the prime rate plus 3%. Substantially all of the assets of the Company are pledged as collateral under the credit facility. At March 31, 1997, $40,000 and $2,437,000, were outstanding under the revolving and the term loan, respectively.

Substantially all of the assets of the Company including tangible assets, receivables and general intangibles, the definition of which includes but is not limited to intellectual property, business plans, business records and licenses, are pledged as collateral under the 1997 Facility. The 1997 Facility requires compliance with certain financial and operating covenants which include minimum leverage and fixed charge coverage ratios. As of March 31, 1997, the Company was not in compliance with certain financial covenants enumerated in the 1997 Facility. Accordingly, the Company received a waiver with respect to certain of such covenants from its lender as of March 31, 1997. As a result of and in connection with the merger transactions consummated in May 1997, the Company complied with certain of the financial covenants, and has currently negotiated certain amendments to the credit facility to reflect changes in financial position and anticipated changes in business strategies and operating results associated with such transactions. While management believes that the Company will be able to comply with the renegotiated loan agreement, there can be no assurance that the Company will not require additional waivers in the future or, if such waivers are required, that the lender will grant them.

Absent significant capital requirements for other acquisitions, the Company believes that cash flow from operations and funds available under existing credit facilities will be adequate to meet the Company's capital needs for the remainder of fiscal 1998.

Recently Issued Accounting Pronouncements

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings per Share". This statement established accounting standards for computing and presenting earnings per share and applies to entities with publicly held common stock. This statement is effective for periods ending after December 15, 1997, including interim periods.

Early application of SFAS No. 128 is not permitted, however, upon adoption, all prior periods must be restated. Based on the standards to be adopted, basic earnings (loss) per share would be $[illegible], $[illegible] and $[illegible] for the years ended March 31, 1997, 1996, and 1995, respectively, and diluted earnings per share would be $[illegible], $[illegible] and $0.19, respectively.

In February 1997, the FASB issued SFAS No. 129, "Disclosure of Information About Capital Structure". This statement establishes standards for disclosing information about an entity's capital structure. This statement is effective for financial statements for periods ending after December 15, 1997 and will not materially change the disclosures currently included in the Company's financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Please see pages F-1 through F-8.

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.

Incorporated by reference to the Company's definitive proxy statement for 1997 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after March 31, 1997.

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated by reference to the Company's definitive proxy statement for 1997 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after March 31, 1997.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Incorporated by reference to the Company's definitive proxy statement for 1997 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after March 31, 1997.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference to the Company's definitive proxy statement for 1997 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after March 31, 1997.

PART IV

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

(a) 1. The following Financial Statements are filed as part of this Report:

(a) 2. None.

(a) 3. Exhibits:

27.1 Financial Data Schedule (Filed herewith)

(b) 1) The Company filed Form 8-K/A dated November 15, 1996 on January 14, 1997 which included the Supplemental Consolidated Balance Sheets of the Company and its subsidiaries as of March 31, 1996 and 1995 and the related Supplemental Consolidated Statements of Operations, Stockholders' Equity and Cash Flows associated with its merger with United Wats, Inc.

SIGNATURES

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

NETWORK LONG DISTANCE, INC.

Dated: June 27, 1997

By: /s/ Thomas G. Keefe
Thomas G. Keefe, Chief Financial Officer

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

Signature	Capacity	Date
/s/ John D. Crawford John D. Crawford	Chairman, Chief Executive Officer and Director	June 27, 1997
/s/ Timothy A. Barton Timothy A. Barton	President and Director	June 27, 1997
/s/ John V. Leaf John V. Leaf	Secretary and Director	June 27, 1997
/s/ Thomas G. Keefe Thomas G. Keefe	Principal Financial Officer, Principal Accounting Officer and Director	June 27, 1997
/s/ Leon L. Nowalsky Leon L. Nowalsky	Director	June 27, 1997
/s/ Russell J. Page Russell J. Page	Director	June 27, 1997
/s/ Timothy J. Sledz Timothy J. Sledz	Director	June 27, 1997
/s/ Albert A. Woodward Albert A. Woodward	Director	June 27, 1997

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of
Network Long Distance, Inc.

We have audited the accompanying consolidated balance sheets of Network Long Distance, Inc. (a Delaware Corporation) and subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three year period ended March 31, 1997. 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 did not audit the financial statements of Long Distance Telecom, Inc. included in the consolidated financial statements of Network Long Distance, Inc. which statements constitute total assets of 4.6% as of March 31, 1996 and total revenues of 7.7% for the year ended March 31, 1996, and total revenues of 9.5% for the year ended March 31, 1995 of the related consolidated totals. We also did not audit the financial statements of United Wats, Inc., included in the consolidated financial statements of Network Long Distance, Inc. which statements constitute total assets of 10.3% as of March 31, 1996 and total revenues of 23.9% for the year ended March 31, 1996 and total revenues of 8.0% for the year ended March 31, 1995 of the related consolidated totals. The financial statements of Long Distance Telecom, Inc. and United Wats, Inc. were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Long Distance Telecom, Inc. and United Wats, Inc., is based solely upon the reports of other auditors.

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

In our opinion, based upon our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Network Long Distance, Inc. and subsidiaries as of March 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three year period ended March 31, 1997, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Jackson, Mississippi,
June 26, 1997

INDEPENDENT AUDITOR'S REPORT

To the General Partner
Telecommunications Ventures Limited Partnership No. 1
T/A Blue Ridge Telephone
Culpeper, VA 22701

We have audited the balance sheet of Telecommunications Ventures Limited Partnership No. 1, T/A Blue Ridge Telephone, as of December 31, 1995 and the related statements of operations, partners' equity (deficit) and cash flows for the years ended December 31, 1995 and 1994. These financial statements are the responsibility of the Partnership'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 Telecommunications Ventures Limited Partnership No. 1, T/A Blue Ridge Telephone as of December 31, 1995 and the results of its operations and its cash flows for the years ended December 31, 1995 and 1994 in conformity with generally accepted accounting principles.

Yount, Hyde & Barbour, P.C.

Culpeper, Virginia
May 10, 1996

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

UNITED WATS, INC.

We have audited the balance sheet of United Wats, Inc. as of December 31, 1995, and the related statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 1995 and 1994. 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 in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 United Wats, Inc. as of December 31, 1995, and the results of its operations and its cash flows for the years ended December 31, 1995 and 1994 in conformity with generally accepted accounting principles.

Mayer Hoffman McCann L.C.

Kansas City, Missouri
March 11, 1996

NETWORK LONG DISTANCE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	[illegible]	[illegible]
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	[illegible]	[illegible]
Accounts receivable, net of allowance for doubtful accounts of $2,358,000 and $1,573,000 at March 31, 1997 and 1996, respectively	[illegible]	[illegible]
Other receivables	362,96[illegible]	706,4[illegible]
Deferred income tax asset	148,600	
Other current assets	[illegible]	668,[illegible]
Total current assets	[illegible]	[illegible]
PROPERTY AND EQUIPMENT		
Land	75,000	75,000
Building and improvements	465,575	697,285
Telecommunications equipment	1,563,949	2,338,866
Furniture and fixtures	1,581,979	1,371,19[illegible]
	3,706,503	4,482,346
Less: accumulated depreciation	(2,081,992)	(1,758,936)
	1,624,511	2,723,412
CUSTOMER BASE ACQUISITION COSTS, NET	5,645,730	5,073,146
GOODWILL, NET	450,020	3,287,637
OTHER INTANGIBLES, NET	764,221	412,220
OTHER ASSETS	490,715	218,940
Total assets	$18,953,712	$23,311,116
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 390,315	$1,657,423
Accrued telecommunications cost	5,850,844	2,736,999
Other accrued liabilities	1,808,959	1,152,591
Customer deposits	128,960	176,210
Deferred income tax liability	-	242,872
Current maturities of long-term debt and capital lease obligation	1,208,209	285,135
Total current liabilities	9,387,287	6,251,230
DEFERRED INCOME TAX LIABILITY	-	58,201
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	1,454,256	3,015,619
COMMITMENTS AND CONTINGENCIES		
Series A convertible preferred stock - $.01 par value 25,000,000 shares authorized; no shares issued and outstanding at March 31, 1997 and 1996 (redemption value $3 per share)	-	-
STOCKHOLDERS' EQUITY		
Common stock - $.0001 par value 20,000,000 shares authorized 6,718,908 and 6,523,902 shares issued and outstanding at March 31, 1997 and 1996, respectively	672	652
Additional paid-in capital	14,828,040	12,9[illegible],833
Retained earnings (deficit)	(6,624,253)	1,106,671
Treasury Stock	(92,290)	(92,290)
Total stockholders' equity	8,112,189	13,986,066
Total liabilities and stockholders' equity	$18,953,712	$23,311,116

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

NETWORK LONG DISTANCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended March		
	1997	1996	1995
Revenues (including excise taxes of $2,863,000, $1,230,000 and $219,000 in 1997, 1996 and 1995, respectively)	[illegible]	[illegible]	[illegible]
Operating expenses:			
Transmission costs	40,717,419	32,548,221	21,823,845
Selling, general and administrative	15,770,890	9,420,273	5,652,133
Provision for losses on accounts receivable	3,041,617	1,112,151	403,714
Depreciation and amortization	1,902,942	1,246,826	396,661
Provision to reduce carrying value of certain assets	6,291,000	—	—
Total operating expenses	67,723,868	44,327,471	28,275,723
Operating income (loss)	(8,033,833)	725,720	1,099,130
Interest (income) expense, net	517,596	198,897	(65,480)
Other (income) expense	—	(40,947)	30,142
Income (loss) before income taxes	(8,551,429)	597,770	1,134,468
Provision (benefit) for income taxes	(697,000)	223,273	266,954
Net income (loss)	(7,854,429)	374,497	607,514
Pro forma adjustment (Note 1): Income tax provision	4,700	126,375	28,685
Pro forma net income (loss) applicable to common stockholders	$(7,859,129)	$248,122	$838,829
Earnings (loss) per common share	$ (1.30)	$ 0.07	$ 0.19
Pro forma earnings (loss) per common share	$ (1.30)	$ 0.05	$ 0.18

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

NETWORK LONG DISTANCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock $.0001 Par Value		Additional Paid in Capital	Retained Earnings	Treasury Stock	
	Number	Amount			Number	Amount
BALANCE, MARCH 31, 1994	5,418,179	$ 542	$6,129,916	[illegible]	[illegible]	[illegible]
Issuance of common stock to former holders of Series A Convertible Preferred Stock	83,502	8	190,500			
Issuance of common stock for acquisitions	29,038	3	232,120			
Issuance of common stock (net of direct costs of $53,585)	728,773	73	151,038			
Retirement of treasury stock	(632,527)	(63)	(18,339)	[illegible]	[illegible]	[illegible]
Dividends on common stock, $0.02 per share	–	–		(105,000)		
Net income	–	–	–	807,514		
BALANCE, MARCH 31, 1995	5,606,965	561	6,695,241	768,760	390,390	(92,200)
Issuance of common stock for acquisitions	916,937	91	6,275,592			
Dividends on common stock, $0.006 per share	–	–	–	(36,386)		
Net income	–	–	–	374,497	–	
BALANCE, MARCH 31, 1996	6,523,902	652	12,970,833	1,106,871	390,390	(92,200)
Issuance of common stock for acquisition	195,006	20	1,857,207			
Net loss	–	–	–	(7,854,429)		
Effect of change in fiscal year end of merged entities	–	–	–	123,305		
BALANCE, MARCH 31, 1997	6,718,908	$ 672	$14,828,040	$(6,624,253)	390,390	$ (92,200)

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

NETWORK LONG DISTANCE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended March 31,		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$(7,254,429)	$ [illegible]	$ [illegible]
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation	530,338	623,845	[illegible]
Amortization	1,272,604	622,981	[illegible]
Provision for losses on accounts receivable	[illegible]	[illegible]	[illegible]
Provision to reduce carrying value of certain assets	6,291,000	—	—
Provision (benefit) for deferred income taxes	(724,275)	[illegible]	[illegible]
Provision for employee stock incentive plan	30,835	53,752	42,350
(Gain) loss on disposal of equipment	-	(17,000)	62,319
Changes in assets and liabilities, net of effect of business combinations:			
Accounts receivable	(1,516,201)	(3,997,138)	(2,888,943)
Other receivables and current assets	347,997	(1,206,250)	34,408
Accounts payable and other current liabilities	1,664,274	1,943,120	2,223,200
Other	(62,450)	122,232	(158,175)
Net cash provided by (used in) operating activities	3,121,310	(162,903)	1,054,082
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(304,798)	(1,081,983)	(1,423,988)
Sale of short-term investments	-	1,558,562	2,751,238
Acquisitions and related costs	(3,801,004)	(1,101,173)	(1,781,055)
Decrease (increase) in other intangible assets	24,441	(195,321)	(110,853)
Proceeds from sale of equipment	764,363	17,000	-
Other	-	(4,462)	(4,179)
Net cash used in investing activities	(3,316,998)	(807,377)	(588,837)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings (repayments) under line of credit	(2,492,731)	2,532,235	-
Principal payments on debt	(1,250,300)	(1,243,018)	(454,680)
Proceeds from issuance of debt	3,250,000	85,754	123,000
Decrease in capital lease obligation	(85,305)	-	-
Proceeds from issuance of common stock	-	-	204,695
Redemption of preferred stock	-	-	(55,527)
Dividends on common stock	-	(36,386)	(134,597)
Offering costs	-	-	(53,585)
Net cash provided by (used in) financing activities	(578,336)	1,339,585	(370,694)
Effect of change in fiscal year end of merged entities	536,588	-	-
Net increase (decrease) in cash and cash equivalents	(237,436)	369,305	114,551
Cash and cash equivalents at beginning of period	892,572	523,267	[illegible]
Cash and cash equivalents at end of period	$ 655,135	$ 892,572	$ 523,267

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

1. NATURE OF BUSINESS, MERGERS, ACQUISITIONS AND RELATED MATTERS

Description of Business

Network Long Distance, Inc. (the "Company" or "Network") provides long distance telecommunications services to commercial and residential customers throughout most of the United States with a primary concentration on small to medium-sized businesses. The Company provides these services primarily through three customer service channels - business retail, agents and association programs. The business retail channel involves the sale of long distance services directly to end-users. The agents channel involves the sale of long distance services directly to end-users through master agents of the Company. The association program channel establishes exclusive marketing agreements with various trade or business associations to market the Company's products and services to members of the associations. Previously, the Company operated a switchless reseller channel which involved the sale of long distance services to other entities who resell the services to end users. The Company began to de-emphasize its switchless reseller channel during the year ended March 31, 1996. See Note 2.

Calls are transmitted over circuits leased from other telecommunications carriers at fixed or variable rates. Calls are switched through the Company's switching center or by other carriers on the Company's behalf. The Company furnishes its end user customers, as well as its reseller customers, with various long distance products including 1+ dialing, WATS, private line, calling cards and 800 services. Billing, collection and customer service are available, at additional costs to reseller customers.

The Company has four wholly-owned subsidiaries, Network Advanced Services, Inc., Network Acquisition Corp., United Wats, Inc. and Long Distance Telecom, Inc. All references to the Company include its subsidiaries except as stated otherwise. The Company's principal offices are located in Baton Rouge, Louisiana.

Mergers

On June 30, 1996, Network merged with Long Distance Telecom, Inc. dba Blue Ridge Telephone ("Blue Ridge") and in connection therewith issued 337,079 shares of common stock for all of Blue Ridge's common stock. On November 15, 1996, Network merged with United Wats, Inc. ("United Wats") and in connection therewith issued 2,277,780 shares of common stock for all of United Wats' common stock. (Both transactions are collectively referred to as the "Mergers.") Each of the Mergers was accounted for as a pooling-of-interests and, accordingly, the Network financial statements for periods prior to the Mergers have been restated to include the results of Blue Ridge and United Wats for all periods presented. The combined companies of Network, Blue Ridge and United Wats are hereinafter referred to as the Company. Separate and combined results of operations are as follows: (Note that for the six months ended September 30, 1996, balances for Blue Ridge have been included in the balances for Network.):

	Three months ended June 30, 1996	Six months ended September 30	Year Ended March 31, 1996	Year Ended March 31, 1995
Revenues				
Network	$8,375,000	$20,197,000	$30,810,000	$24,217,000
Blue Ridge	994,000	—	3,463,000	2,790,000
United Wats	4,446,000	9,448,000	10,810,000	2,368,000
Combined	$14,415,000	$29,645,000	$45,083,000	$29,375,000
Income (loss) before income tax				
Network	$ (32,000)	$ (166,000)	$ (442,000)	$ 609,000
Blue Ridge	45,000	—	313,000	62,000
United Wats	83,000	414,000	727,000	463,000
Combined	$ 96,000	$248,000	$598,000	$ 1,134,000

Prior to the Mergers, Blue Ridge operated in the form of a partnership under the name Telecommunications Ventures Limited Partnership N [illegible] T/A Blue Ridge Telephone [illegible] June [illegible] 199[illegible] Blue Ridge changed to a corporate form of organization. Blue Ridge did not recognize income tax expense for the periods presented because its tax attributes flowed to its partners. The consolidated statements of operations include an unaudited pro forma adjustment to reflect results as if Blue Ridge had been subject to income tax for all periods presented.

Prior to the Mergers, both Blue Ridge and United Wats utilized a December 31 fiscal year end. For purposes of the combined results of operations for the year ended March 31, 1997, the amounts include Network, Blue Ridge and United Wats historical results of operations for the twelve months ended March 31, 1997. For purposes of the combined results of operations for the years ended March 31, 1996 and 1995, the Blue Ridge and United Wats amounts reflect Blue Ridge and United Wats historical results of operations for the years ended December 31, 1995 and 1994, respectively, and the Network amounts reflect Network's historical results for the years ended March 31, 1996 and 1995, respectively. Therefore, the Blue Ridge and United Wats historical results of operations for the three months ended March 31, 1996 are not contained in the Company's consolidated statements of operations and cash flows for any period presented. There were no significant intercompany transactions among Network, Blue Ridge and United Wats.

The following are condensed statements of operations and cash flows for Blue Ridge and United Wats for the three months ended March 31, 1996:

Condensed Statements of Operations
Three Months Ended March 31, 1996

	Blue Ridge	United Wats
Revenue	$926,000	$3,855,000
Operating expenses	852,000	3,636,000
Operating income	74,000	219,000
Other income (expenses)	(4,000)	-
Income before tax	70,000	219,000
Provision for income tax	-	79,000
Net income	$ 70,000	$ 140,000

Condensed Statements of Cash Flows
Three Months Ended March 31, 1996

	Blue Ridge	United Wats
Net income	$ 70,000	$ 140,000
Depreciation	31,000	8,000
Change in current assets and liabilities	(2,000)	475,000
Cash provided by operating activities	99,000	623,000
Cash provided by (used in) investing activities	10,000	(37,000)
Cash used in financing activities	(138,000)	(20,000)
Increase (decrease) in cash and cash equivalents	$(29,000)	$ 566,000

Merger and Acquisition Activity and Related Matters

The Company has been actively engaged in an acquisition program, focusing on companies primarily in the long distance industry. See Note 3. Certain of the acquisitions have resulted in the Company's acquiring significant intangible assets, primarily customer base acquisition costs and goodwill. As explained in Note 3, during the year ended March 31, 1997, primarily pursuant to certain contractual reevaluation criteria, management determined that the Company's ability to realize the unamortized balance of intangible assets related to certain prior acquisitions was uncertain. As a result, the Company incurred $6,291,000 in non-cash provisions to reduce the carrying value of such intangibles to their estimated fair value. As of March 31, 1997, the Company [illegible] approximately $[illegible] of remaining unamortized intangible assets related to acquisition transactions. Management believes that its investment in such intangible assets is realizable based on the estimated future net cash flows expected to be generated from the acquired entities or customer bases. However, management's estimates of future net cash flows may change in the future and such changes could be material.

The Company incurred a net loss of $7,354,000 for the year ended March 31, 1997. Factors that contributed significantly to the loss were the provision to reduce the carrying value of intangible assets, an increased provision for losses on accounts receivable and increased selling, general and administrative expenses. As a result of the loss stockholders' equity declined from $13,986,000 at March 31, 19[illegible] to $[illegible] at March 31, 1997. Because of the operating loss and resulting decline in stockholders' equity reported by the Company for the year ended March 31, 1997, the Company was not in compliance with certain financial covenants contained in its bank credit facility (See Note 5). Accordingly, the Company received a waiver with respect to certain of such covenants from its lender as of March 31, 19[illegible]. As a result of and in connection with the merger transactions consummated in May 1997 (See Note 13), the Company complied with certain of the financial covenants, and has negotiated certain amendments to the credit facility to reflect changes in financial position and anticipated changes in business strategies and operating results associated with such transactions. While management believes that the Company will be able to comply with the renegotiated loan agreement, there can be no assurance that the Company will not require additional waivers in the future or, if such waivers are required, that the lender will grant them.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances have been eliminated in consolidation.

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, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Estimates are used primarily when accounting for allowance for doubtful accounts, depreciation and amortization, and taxes. In addition, estimates are used by management in estimating future net cash flows when evaluating the Company's ability to realize its investments in long-lived assets, and in determining estimated fair value of assets which are deemed to have been impaired. See "Accounts Receivable" and "Intangible Assets," and Note 3.

Fair Value of Financial Instruments

The carrying amounts for cash, accounts receivable, other receivables, accounts payable, accrued liabilities and long-term debt approximate their fair value.

Accounts Receivable

Accounts receivable represent amounts due on monthly billings for long distance and other telecommunications costs incurred by customers.

The allowance for doubtful accounts is established through a provision for losses on accounts receivable which is charged to expense. Accounts receivable are written off against the allowance for doubtful accounts when management believes the collectibility of the receivable is unlikely. The allowance, which is based on evaluations of the collectibility of the receivables and prior bad debt experience, is an amount that management believes will be adequate to absorb probable losses on accounts receivable existing at the reporting date. The evaluations take into consideration such factors as changes in the aging and volume of the accounts receivable, overall quality, review of specific problem receivables and current industry conditions that may affect a customer's ability to pay. Actual results could differ from management's estimates. Write-offs during the fiscal years 1997, 1996 and 1995 were approximately $2,010,000, $780,000, and, $179,000, respectively.

During the year ended March 31, 1996, the Company began reevaluating its switchless reseller channel activities generally and, specifically its relationship with certain resellers. As a result, the Company chose to de-emphasize its reseller marketing activities by reducing the number of reseller customers and the related wholesale accounts receivable. In addition, certain reseller customers experienced financial difficulties which impeded their ability to pay the Company on a timely basis. Reseller customers with slow payment histories have been placed on specific payment plans or under lock box agreements.

During the year ended March 31, 1997, the Company determined that losses on certain accounts receivable acquired through acquisition transactions were greater than expected at the time of acquisition. As a result, the Company has written-off or made provision for such accounts receivable to reduce the carrying amount to the estimated realizable value.

Management has specifically evaluated the allowance for doubtful accounts and believes the allowance to be adequate to absorb probable losses on the accounts receivable at March 31, 1997. However, the actual losses on accounts receivable could differ from management's evaluation at March 31, 1997 and such difference could be material.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided for financial reporting purposes using primarily the straight-line method over the following estimated useful lives:

Building	30 years
Building improvements	7 years
Telecommunications equipment	3-10 years
Office equipment	5-7 years

Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the property accounts, and any resulting gain or loss is reflected in results of operations.

Intangible Assets

The Company's intangible assets include customer base acquisition costs and non-compete agreements incurred as a result of purchased customer bases; goodwill, customer base acquisition costs and non-compete agreements resulting from acquisitions of businesses; and software development costs attributable to telecommunications service activities.

In allocating the excess of the purchase price over tangible assets acquired in business combinations, the Company utilizes cash flow models and projected attrition rates to quantify the values allocated to the various intangibles as well as the related useful lives. While management believes that the cash flow models are achievable and the attrition rates are reasonable, management regularly reassesses the realization of the acquisition-related intangibles through periodic updates of the cash flow models. Additionally, certain acquisition agreements call for a comparison, at a specified date, of actual customer attrition rates experienced to those expected at the time of the acquisition agreement (the "True-Up"). If actual attrition rates differ from expected rates, certain adjustments to the acquisition price may be required. If at the time of the True-Up, actual attrition rates are significantly greater than expected by the Company, the Company makes a determination, based on estimated future net cash flows, whether the intangible asset related to the acquisition has been impaired. If an impairment has occurred, a provision for reduction in the carrying value is made to reduce the carrying amount of the intangibles to the estimated fair value of the related customer base. Such provisions are applied first to any goodwill attributable to the impaired assets until goodwill is eliminated and then to the customer base acquisition costs. See Note 3.

Customer base acquisition costs include the excess of the purchase price over any tangible assets acquired as well as specific costs incurred to consummate the transaction such as attorney's fees, accountant's fees and due diligence costs. Customer base acquisition costs are recorded based upon the estimated value (primarily based on estimated future net cash flows) of the customer base acquired and are amortized over 6 to 7 years using the straight-line method. Accumulated amortization at March 31, 1997 and 1996, was approximately $1,607,000 and $418,000, respectively.

Goodwill is recorded in connection with business combinations to the extent the purchase price exceeds the estimated fair value of specifically identifiable tangible and intangible assets. The Company periodically evaluates the realizability of goodwill based primarily on expected cash flows from the acquired assets or business. Goodwill is amortized over 30 years using the straight-line method. Accumulated amortization at March 31, 1997 and 1996 was approximately $75,000 and $115,000, respectively.

Other intangibles include software costs of approximately $235,000 and $296,000 as of March 31, 1997 and 1996, respectively, and non-compete agreements of approximately $231,000 at both March 31, 1997 and 1996. The Company capitalizes external costs related to software development while internal costs are expensed. Software costs are amortized using the straight-line method over lives ranging from 4 to [illegible] years. Non-compete agreements are amortized using the straight-line method over the lives of the agreements, currently 5 years. Accumulated amortization of other intangibles as of March 31, 1997 and 1996 was approximately $[illegible] and $[illegible], respectively.

See Note 3 for discussion related to the application of Statement of Financial Accounting Standards ("SFAS") No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of".

Other Receivables

Other receivables consist of current amounts due from customers and entities that are providing or have formerly provided billing and collection services for a portion of the Company's customer base.

Other Current Assets

At March 31, 1997 and 1996, other current assets consisted of costs of direct response advertising and other prepaid expenses. Direct response advertising costs are capitalized and amortized over the expected life of the customer. The Company has determined that the expected life of a customer obtained through direct response advertising is one year. At March 31, 1997 and 1996, approximately $9,000 and $183,000, net of accumulated amortization of approximately $368,000 and $194,000, respectively, was included in other current assets related to direct response advertising.

Other Assets

Other assets consist primarily of long-term notes receivable from employees of approximately $211,000 and $262,000 at March 31, 1997 and 1996, respectively, deferred tax assets of $179,000 at March 31, 1997 and deferred financing costs of $100,000, net of accumulated amortization of $83,000 at March 31, 1997.

Income Taxes

Income taxes are provided using an asset and liability approach. The current provision for income taxes represents actual or estimated amounts payable or refundable on tax returns filed or to be filed for each year. Deferred tax assets and liabilities are recorded for the estimated future tax effects of (a) temporary differences between the tax basis of assets and liabilities and amounts reported in the balance sheets, and (b) operating loss and tax credit carryforwards. The overall change in deferred tax assets and liabilities for the period measures the deferred tax expense for the period. Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to tax expense in the period of adjustment. The measurement of deferred tax assets may be reduced by a valuation allowance based on judgmental assessment of available evidence if deemed more likely than not that some or all of the deferred tax assets will not be realized.

Recognition of Revenue

Customer long distance calls are routed through switching centers owned by the Company or others over long distance telephone lines provided by others. The Company records revenues at the time of customer usage primarily on a measured time basis.

Transmission Costs

Transmission costs include all payments to local exchange carriers and interexchange carriers primarily for access and transport charges. The Company primarily utilizes long-term fixed cost contracts with other carriers in order to carry customer calls.

Earnings per Share

For the year ended March 31, 1997, earnings per share were based on the weighted average number of shares outstanding during the period. No common stock equivalents were utilized in the calculation as their effect would be anti-dilutive. For the years ended March 31, 1996 and 1995, earnings per share were calculated based on the weighted average number of shares outstanding during the year plus the dilutive effect of stock options and warrants determined using the treasury method. Average common and common equivalent shares utilized were [illegible], 5,079,336 and 4,587,620, respectively, for the years ended March 31, 1997, 1996 and 1995. In each year, there were no differences in primary and fully diluted earnings per share.

Common Stock Escrow Agreement

As part of its public offering of common stock in March 1994, the Company transferred 626,586 shares of common stock, owned by two officers, into an escrow account. The common stock could have been released from escrow in three annual increments of 208,896 shares if the Company either had met earnings per share requirements, on a fully diluted basis as defined in the agreement, or had consummated an offering of the Company's common stock considering certain conditions defined in the agreement. The stipulated earnings per share ("EPS") amounts were as follows:

Year Ended March 31	EPS
1995	$0.375
1996	0.60
1997	1.00

As the Company failed to meet EPS requirements, pursuant to the terms of the agreement, the common stock held in escrow will be forfeited and canceled to the Company's treasury by July 15, 2000. The escrowed shares have been excluded from the weighted average number of shares outstanding for the years ended March 31, 1997, 1996 and 1995. As discussed in Note 9, one of the officers subject to the escrow agreement has initiated litigation against the Company seeking the release of the escrowed shares or other compensation. If the escrowed shares are released, future per share earnings (loss) would be reduced.

Statement of Cash Flows

For purposes of the statement of cash flows, cash on hand and on deposit are considered to be cash and cash equivalents.

Reclassifications

Certain items for 1996 and 1995 have been reclassified to conform with the 1997 presentation.

Recently Issued Accounting Pronouncements

In February 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings per Share." This statement establishes accounting standards for computing and presenting earnings per share and applies to entities with publicly held common stock. This statement is effective for periods ending after December 15, 1997, including interim periods.

Early application of SFAS No. 128 is not permitted, however, upon adoption, all prior periods must be restated. Based on the standards to be adopted, basic earnings (loss) per share would be $(1.30), $0.08, and $0.19 for the years ended March 31, 1997, 1996, and 1995, respectively, and diluted earnings per share would be $(1.30), $0.07, and $0.19, respectively.

In February 1997, the FASB issued SFAS No. 129, "Disclosure of Information about Capital Structure." This statement establishes standards for disclosing information about an entity's capital structure. This statement is effective for financial statements for periods ending after December 15, 1997 and will not materially change the disclosures currently included in the Company's financial statements.

3. MERGERS AND ACQUISITIONS.

The Company has completed several acquisitions of customer bases of other long distance companies and business combinations with other long distance companies. The following is a discussion of those transactions which have been material.

Customer Base Acquisitions

The Company has completed a series of acquisitions of segments of other long distance providers' customer bases. Such acquisitions have been accomplished through the purchase of the customer base and related accounts receivable for cash, shares of the Company's common stock, issuance of notes payable and forgiveness of accounts receivable or a combination thereof. All acquisitions have been accounted for as purchases.

The table below sets forth information concerning significant customer base acquisitions by the Company.

Acquired Entity	Acquisition Date	Purchase Price: Cash and Notes Payable	Purchase Price: Value of Shares Issued	Assets Acquired: Accounts Receivable	Assets Acquired: Customer Base	Assets Acquired: Other Intangibles
Quantum Communications, Inc. (Quantum)	Jan-96	$814,000	$580,000	$151,000	$827,000	$ —
Network Services, Inc. (NSI)	May-95	758,000	55,000	259,000	368,000	—
Colorado River Communications (CRC)	Nov-94	1,742,000	232,000	336,000	692,000	870,000

Business Combinations

In May 1996, the Company purchased substantially all of the customer base of Universal Network Services, Inc. ("UniNet"), a provider of long distance telecommunication services, in a transaction accounted for as a purchase. The results of operations of the UniNet customer base acquired are included in the results of operations of the Company from the date of acquisition. Consideration for the purchase included 243,758 shares of the Company's common stock with an assigned value of approximately $1,862,000 and approximately $3,050,000 cash. The Company acquired the outstanding accounts receivable related to the customer base which were valued at approximately $776,000. Intangible assets acquired were allocated to customer base acquisition cost at approximately $2,115,000 and goodwill at approximately $2,772,000. The Company originally amortized customer base acquisition cost over 7.5 years and goodwill over 30 years using the straight-line method based primarily on expected customer attrition rates, estimated net cash flows, and industry practices. Of the 243,758 shares of the Company's common stock issued, 48,752 shares are held in escrow pending resolution of purchase price contingencies. The escrowed shares have not been considered as part of the purchase price.

In October 1995, the Company acquired substantially all of the assets of ValueTel, Inc. ("ValueTel"), a long distance reseller whose customer base was located primarily in Illinois, in a transaction accounted for as a purchase. Results of operations of ValueTel are included in the Company's results of operations for the year ended March 31, 1996 from the date of acquisition. As consideration for the purchase, the Company issued 890,915 shares of its common stock with an assigned value of approximately $5,955,000, assumed liabilities of ValueTel of approximately $696,000 and forgave a ValueTel payable to the Company of approximately $608,000. The Company acquired substantially all of ValueTel's accounts receivable which were valued at approximately $1,610,000. Intangible assets acquired were allocated to customer base at approximately $3,334,000 and goodwill at approximately $2,315,000. The Company originally amortized customer base acquisition costs over 7.5 years and goodwill over 30 years using the straight-line method based primarily on expected customer attrition rates, estimated net cash flows, and industry practices. Of the 890,915 shares of the Company's common stock issued, 16,500 shares are held in escrow pending resolution of purchase price contingencies. The escrowed shares have not been considered as part of the purchase price. The purchase agreement with ValueTel calls for a re-evaluation of customer attrition rates one year from the acquisition date. As of March 31, 1997, such re-evaluation was in progress; however, management of the Company believes that, as a result of the re-evaluation, the escrowed shares will not be released.

The following unaudited pro forma combined results of operations for the Company assume that the UniNet and ValueTel acquisitions were completed on April 1, 1995:

	[illegible]	[illegible]
Revenues	[illegible]	[illegible]
Loss applicable to common shareholders	[illegible]	[illegible]
Loss per share	[illegible]	[illegible]

These pro forma amounts represent the historical operating results of the acquired entities combined with those of the Company with appropriate adjustments which give effect to interest expense, amortization and common shares issued. These pro forma amounts are not necessarily indicative of operating results which would have occurred if UniNet and ValueTel had been operated by current management during the periods presented.

Provision to Reduce the Carrying Value of Certain Assets

During the fiscal quarter ended December 31, 1996, as part of the re-evaluation called for in the ValueTel agreement, the Company determined that the attrition rates for the customer base acquired were greater than originally anticipated. As a result, management determined that it was appropriate to re-evaluate attrition rates of all customer bases acquired prior to the beginning of fiscal year 1997. In March, 1997, management determined that attrition rates related to the customer base acquired in connection with the UniNet acquisition were also greater than expected. Consequently, management, applying the requirements of SFAS 121, determined that future cash flows from the acquired customer bases would be less than that required to realize these assets. Management then reassessed the fair value of these assets by estimating the present value of the future cash flows through updating with historical results the cash flow models utilized to initially allocate the intangibles acquired. As a result, the Company incurred non-cash expense related to the provision to reduce the carrying value of customer base acquisition costs and goodwill to their respective estimated fair values.

The following table details the transactions which resulted in provisions:

Acquisition	Total Unamortized Intangibles Prior to Provision	Provision to Reduce Carrying Value	Balance After Provision	
			Customer Base	Goodwill
CRC	$1,588,000	$ 950,000	$ 638,000	$ –
ValueTel	6,018,000	2,800,000	3,218,000	–
Quantum	834,000	300,000	534,000	–
UniNet	4,887,000	2,241,000	2,115,000	531,000

Because of the higher than expected attrition rates, the Company analyzed the expected remaining lives of its intangibles in accordance with SFAS 121. Consequently, the Company has established new periods for amortizing its customer base acquisition costs that it believes to be reasonable estimates of the remaining lives of these intangibles. After the Company's reassessment of amortization periods for its customer base acquisition costs, the remaining useful lives assigned by the Company range from 4 to 6 years.

4. INCOME TAXES

The Company follows the asset and liability method of accounting for deferred income taxes prescribed by SFAS No. 109 "Accounting for Income Taxes." Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. A valuation allowance is provided for that portion of any deferred tax asset for which it is deemed more likely than not that it will not be realized. A valuation allowance of $1,227,000 has been established related to deferred tax assets resulting from the provision to reduce the carrying value of intangibles due to the uncertainty of realizing the full tax benefit of amortization of such intangible assets for tax purposes over 15 years.

The provision (benefit) for income taxes is composed of the following:

	1997	1996	1995
Current provision (benefit)	$ 27,000	$ 15,000	$ 96,000
Deferred provision (benefit)	[illegible]	[illegible]	[illegible]
Total provision (benefit) for income taxes	$[illegible]	$[illegible]	$[illegible]

The following is a reconciliation of the actual provisions for income taxes to the expected amounts which are derived by applying the statutory rate to reported pretax income. The expected statutory amount does not consider income (loss) related to Blue Ridge prior to June 17, 1995 because Blue Ridge was a partnership prior to that date.

	1997	1996	1995
Expected statutory provision (benefit)	$(3,190,000)	$140,000	$392,000
Usage of net operating loss carryforwards	–	–	(75,000)
Effect of officer's life insurance	3,000	2,000	(10,000)
Effect of revocation of United Wats S Corporation Status	–	–	(26,000)
Reclassification from current taxes payable	(45,000)	69,000	–
Effect of merger expenses	63,000	–	–
Effect of intangibles amortization and provisions	1,235,000	–	
Other	10,000	12,000	(14,000)
	(1,924,000)	223,000	267,000
Valuation allowance on deferred tax asset	1,227,000	–	–
Actual tax provision (benefit)	$(697,000)	$223,000	$267,000

The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of March 31, 1997 and 1996:

	March 31			
	1997		1996	
	Assets	Liabilities	Assets	Liabilities
Allowance for doubtful accounts	$ 518,000	–	$ 419,000	$ –
Depreciation	–	149,000		120,000
Amortization	240,000	–	41,000	–
Effect of sale-leaseback	–	72,000	–	–
Provision to reduce carrying value of certain assets	1,294,000	–	–	–
Effect of conversion from cash basis for income tax purposes	–	284,000	–	240,000
Accounts receivable	–	–	–	929,000
Prepaid expenses	–	–	–	83,000
Accrued liabilities	19,000	–	628,000	–
Other	–	9,000	–	16,000
	2,069,000	514,000	1,088,000	1,388,000
Valuation allowance	(1,227,000)	–	–	–
Total	$ 842,000	$514,000	$1,088,000	$1,388,000

5. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS.

In December 1995, the Company renewed its line of credit ("1996 Facility") with a bank with $6,000,000 being available under the 1996 Facility. Borrowings under the 1996 Facility were scheduled to mature on April 30, 1997 and bore interest at 1% above the prime rate (9.25% at March 31, 1996). At March 31, 1996, $2,532,000 was outstanding under the 1996 Facility. The 1996 Facility was secured by certain accounts receivable of the Company and required compliance with certain financial and operating covenants which include minimum leverage and fixed charge coverage ratios. At March 31, 1996, the Company was in compliance with those covenants.

In May 1996, the Company entered into a $14,250,000 credit facility ("1997 Facility") with another bank which includes a revolving credit facility and term loan facility. Borrowings under the 1997 Facility were used to repay and retire the 1996 Facility. Borrowings under the revolving credit portion of the 1997 Facility may not exceed the lesser of $11,000,000 less any reductions the lender may establish against such amount or 85% of eligible receivables. Borrowings under the revolving facility bear interest at the prime rate plus 0.75% (9.0% at March 31, 1997). Borrowings and unpaid interest on the revolving facility are repayable in full at maturity of the facility in [illegible] 1999.

At March 31, 1997 borrowings outstanding under the revolving facility were $42[illegible]. Unused borrowing capacity under the revolving facility at March 31, 1997 was $6,522,000. As part of the 1997 Facility, the Company was also allowed to borrow $3,250,000 under a term loan facility. The term loan is repayable in 36 equal monthly principal installments of $90,278 plus accrued interest. The term loan bears interest at the prime rate plus 1% (9.25% at March 31, 1997). At March 31, 1997 the balance outstanding under the term facility was $2,43[illegible]. Substantially all of the assets of the Company including tangible assets, receivables and general intangibles, the definition of which includes but is not limited to intellectual property, business plans, business records and licenses are pledged as collateral under the 1997 Facility. The 1997 Facility requires compliance with certain financial and operating covenants which include minimum leverage and fixed charge coverage ratios. As of March 31, 1997 the Company was not in compliance with certain financial covenants enumerated in the 1997 Facility. Accordingly, the Company received a waiver with respect to certain of such covenants from its lender as of March 31, 1997. As a result of and in connection with the merger transactions consummated in May 1997 (See Note 13), the Company complied with certain of the financial covenants, and has currently negotiated certain amendments to the credit facility to reflect changes in financial position and anticipated changes in business strategies and operating results associated with such transactions. While management, believes that the Company will be able to comply with the renegotiated loan agreement, there can be no assurance that the Company will not require additional waivers in the future or, if such waivers are required, that the lender will grant them.

At March 31, 1997 and 1996, $68,000 and $343,000, respectively, remained outstanding on notes payable primarily to sellers of acquired entities incurred in connection with acquisition of customer bases. Borrowings under these notes payable are unsecured, bear interest at 8% and mature in February 2001.

At March 31, 1996, the Company had other notes payable outstanding to banks with aggregate balances of $109,000. Borrowings under these notes were fully repaid by the Company during the year ended March 31, 1997.

Future maturities of long-term debt are as follows:

1998	$1,112,000
1999	1,101,000
2000	329,000
2001	16,000
	$2,558,000

Certain telecommunications equipment is leased under a capital lease agreement expiring May 1998. The following is an analysis of the equipment under capital lease included in property and equipment:

	March 31, 1997	March 31, 1996
Communications equipment	$ 368,000	$ 368,000
Less accumulated depreciation	(171,000)	([illegible])
	$ 197,000	$ [illegible]

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the minimum lease payments as of March 31, 1997:

1998	$[illegible]
1999	[illegible]
Total minimum lease payments	[illegible]
Amounts representing interest	[illegible]
Present value of net minimum lease payments	[illegible]
Less current portion	([illegible])
Long-term portion	$ [illegible]

6. EMPLOYEE BENEFIT PLANS:

In May 1994, the Company adopted a stock incentive plan (the Plan) under which certain employees are eligible to receive 100 shares of the Company's common stock upon completion of their first anniversary of service. All shares issued under the Plan are held by the Company for a period of three years from the issue date, at which time the employee vests if they are still employed with the Company. In the event the Company is sold, all employees vest immediately. Approximately 15,000, 19,300 and 17,600 shares of common stock had been awarded under the Plan at March 31, 1997, 1996 and 1995, respectively. Compensation expense of $[illegible], $[illegible] and $[illegible] was recognized in the years ended March 31, 1997, 1996 and 1995, respectively, related to the Plan.

In March 1996, the Company adopted a Defined Contribution Retirement Plan for all eligible employees which qualifies under the provisions of Section 401(k) of the Internal Revenue Code and was retroactively effective to January 1, 1996. Employees are allowed to make tax deferred contributions ranging from 1% to 15% of their eligible compensation. The Company matches 50% of the first 6% of each employee's contribution and is eligible to make additional discretionary contributions. The Company recognized expense for contributions of $[illegible] during the fiscal year ended March 31, 1997.

United Wats operates a Defined Contribution Retirement Plan which qualified under the provisions of Section 401(k) of the Internal Revenue Code. Employees are allowed to make tax deferred contributions ranging from 1% to 15% of their eligible compensation. United Wats matches 25% of the first 6% of each employee's contribution and is eligible to make additional discretionary contributions. Total profit sharing expense was $13,000 and $8,000 for the years ended March 31, 1997 and 1996, respectively.

7. STOCK WARRANTS:

The Company grants warrants to various directors, officers, employees and nonemployees from time to time. The warrants vest in periods ranging from immediately following grant date to ten years from grant date. Terms and conditions of the Company's warrants, including exercise price and the period warrants are exercisable, generally are at the discretion of the Company's Board of Directors. Each warrant granted allows for the purchase of one share of the Company's common stock. No warrants are exercisable for a period of more than ten years.

The Company accounts for warrants issued under Accounting Principles Board Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined consistent with SFAS No. 123 "Accounting for Stock-Based Compensation," the Company's net income (loss) and earnings (loss) per common share would have been reduced to the following pro forma amounts:

		Year Ended March 31	
		1997	1996
Net income (loss):	As Reported	$(7,854,000)	$374,000
	Pro Forma	(8,052,000)	(2,056,000)
Primary and fully diluted earnings (loss) per share	As Reported	(1.30)	0.07
	Pro Forma	(1.40)	(0.42)

Because the method of accounting prescribed by SFAS No. 123 has not been applied to options granted prior to April 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

A summary of the status of the Company's stock warrants granted at March 31, 1997 and 1996 and changes during the years then ended is presented in the table and narrative below.

	1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,292,002	$ 8.15	120,000	$ 7.50
Granted	90,000	10.15	1,092,002	8.22
Exercised	–	–	–	–
Forfeited	(230,000)	9.00	(12,000)	7.78
Expired	–	–	–	–
Outstanding, end of year	1,062,002	$ 8.14	1,202,002	$ 8.15
Exercisable, end of year	895,334	$ 8.21	1,002,000	$ 8.22
Weighted average fair value of options granted	$ 4.22		$ 4.41	

The options outstanding at March 31, 1997 have exercise prices ranging from $7.50 to $10.4375 with a remaining weighted average contractual life of 6.73 years.

The fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions used for options granted during the years ended March 31, 1997 and 1996:

	Weighted Average Assumptions	
	1997	1996
Risk free interest rate	5.9%	5.5%
Expected life (years)	3.1	5.6
Expected volatility	47.8%	40.3%
Expected dividends	–	–

8. COMMITMENTS.

At March 31, 1997, the Company was committed under noncancellable, noncapitalizable agreements for fixed cost transmission facilities that require minimum payments of approximately $19,100,000 in 1998, $9,450,000 in 1999, $8,100,000 in 2000 and $3,375,000 in 2001.

The Company leases office facilities and certain equipment under noncancellable operating leases having initial or remaining terms of more than one year. Rent expense related to these leases was approximately $576,000, $375,000, and $81,000 for the years ended March 31, 1997, 1996 and 1995, respectively. Approximate minimum lease payments under these operating leases are as follows:

1998	$ 804,000
1999	605,000
2000	522,000
2001	241,000
2002	30,000

In April 1996, the Company entered into a sale-leaseback transaction whereby the Company sold communications equipment to a financial institution and obtained a lease for the communications equipment. The lease requires annual payments of $155,000 and expires in March 2000. No gain or loss was recognized upon consummation of the sale-leaseback transaction. The lease is accounted for as an operating lease.

Certain of the Company's facility leases include renewal options and all leases include provisions for rent escalation to reflect increased operating costs and/or require the Company to pay certain maintenance and utility costs.

9. CONTINGENCIES.

On February 8, 1996, President Clinton signed the Telecommunications Act of 1996 (the "Telecom Act") which permits, without limitation, the Regional Bell Operating Companies (RBOCs) to provide domestic and international long distance services to customers located outside of the RBOCs home regions; permits a petitioning RBOC to provide domestic and international long distance service to customers within its home regions upon a finding by the Federal Communications Commission (the "FCC") that a petitioning RBOC has satisfied certain criteria for opening up its local exchange network to competition and that its provision of long distance services would further the public interest; and remove existing barriers to entry into local service markets. Additionally, there are significant changes in the manner in which carrier-to-carrier arrangements are regulated at the federal and state level; procedures to revise universal service standards; and, penalties for unauthorized switching of customers. The FCC has instituted proceedings addressing the implementation of this legislation.

On August 8, 1996, the FCC released its First Report and Order in the Matter of Implementation of the Local Competition Provisions in the Telecom Act (the "FCC Interconnect Order"). In the FCC Interconnect Order, the FCC established nationwide rules designed to encourage new entrants to participate in the local service markets through interconnection with the incumbent local exchange carriers ("ILEC"), resale of the ILECs retail services and unbundled network elements. These rules set the groundwork for the statutory criteria governing RBOC entry into the long distance market. The Company cannot predict the effect such legislation or the implementing regulations will have on the Company or the industry. Motions to stay implementation of the FCC Interconnect Order have been filed with the FCC and federal courts of appeal. Appeals challenging, among other things, the validity of the FCC Interconnect Order have been filed in several federal courts of appeal and assigned to the Eighth Circuit Court of Appeals for disposition. The Eighth Circuit Court of Appeals has stayed the pricing provisions of the FCC Interconnect Order. The United States Supreme Court has declined to review the propriety of the stay. The Company cannot predict either the outcome of these challenges and appeals or the eventual effect on its business or the industry in general.

On December 24, 1996, the FCC released a Notice of Proposed Rulemaking seeking to reform the FCC's current access charge policies and practices to comport with a competitive or potentially competitive local access service market. On May 7, 1997, the FCC announced that it will issue a series of orders that reform Universal Services Subsidy allocations, adopt various reforms to the existing rate structure for interstate access that are designed to reduce access charges, over time, to more economically efficient levels and rate structures. In particular, the FCC adopted changes to its rate structures for Common Line, Local Switching and Local Transport rate elements. The FCC generally removed from minute-of-use access charges costs that are not incurred on a per-minute-of-use basis, with such costs being recovered through flat rate charges. Additional charges and details of the FCC's actions are to be addressed when Orders are released within the near future. Access charges are a principal component of the Company's transmission costs. The Company cannot predict whether or not the result of these proceedings will have a material impact upon its financial position or results of operations.

On May 21, 1997, the former Chief Executive Officer ("CEO") of the Company initiated litigation against the Company in an effort to obtain the release of shares subject to the common stock escrow agreement discussed in Note 2, or to be otherwise compensated. Based on the fair market value of freely tradable common shares of the Company, the fair market value of the shares subject to litigation at May 21, 1997 was approximately $2,850,000. The outcome of this litigation, which the Company is vigorously defending, is uncertain. However, if any of the escrowed shares of common stock are released, earnings (loss) per common share would be reduced. The fair value of any shares released from escrow or any cash payment made to the former officer in connection with the litigation would be charged to expense.

The Company is involved in legal proceedings generally incidental to its business. While the results of these various legal matters contain an element of uncertainty, the Company believes that the probable outcome of any of these matters, or all of them combined, should not have a material adverse effect on the Company's consolidated results of operations or financial position.

10. RELATED PARTY TRANSACTIONS.

The Company held notes receivable and related accrued interest from various employees of [illegible] and [illegible] as of March 31, 1997 and 1996, respectively. These notes, which are unsecured, include [illegible] bearing [illegible] and notes bearing interest at a rate of 8%.

The Company is indebted to shareholders under notes payable aggregating $[illegible] and $[illegible], respectively, at March 31, 1997 and 1996. The note payable outstanding at March 31, 1997 bears interest at [illegible] and matures October 1997. [illegible] notes are secured by communications equipment.

The Company leases office space and a retail facility from shareholders under two operating leases. Annual rentals under the leases totaled $33,000, $37,000, and $36,000, respectively, for the years ended March 31, 1997, [illegible] and 1995.

11. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION.

Interest paid by the Company during the years ended March 31, 1997, 1996 and 1995 amounted to $47[illegible], $261,000, and $88,000, respectively. Income taxes paid during the years ended March 31, 1997, 1996 and 1995 were $616,000, $115,000 and $25,000, respectively.

In conjunction with business combinations and customer base acquisitions during the years ended March 31, 1997, 1996 and 1995, assets acquired and non-cash consideration issued were as follows:

	March 31,		
	1997	1996	1995
Fair value of tangible assets acquired	$ 776,000	$2,135,000	$ 438,000
Excess of cost over tangible assets acquired	4,887,000	7,330,000	1,771,000
Accounts receivable forgiven	-	(893,000)	(196,000)
Liabilities assumed	-	(650,000)	-
Notes payable issued	-	(532,000)	-
Common stock issued	(1,862,000)	(6,289,000)	(232,000)
Cash paid	$3,801,000	$1,101,000	$1,781,000

For the year ended March 31, 1996, noncash transactions also included debt incurred for purchase of equipment of $29,000 and other noncash transactions of $8,000. For the year ended March 31, 1995, noncash transactions included retirement of treasury stock of $147,000, capital lease obligations incurred of $67,000, other noncash transactions of $25,000 and redemption of preferred stock of $191,000.

12. CONCENTRATIONS AND TELECOMMUNICATIONS INDUSTRY RISKS.

Four of the Company's switchless customers accounted for approximately 13% of revenues in 1996 and approximately 13% of gross accounts receivable at March 31, 1996. The Company's five largest switchless customers accounted for approximately 10% of revenues and approximately 9% of gross accounts receivable at March 31, 1997. The decrease in concentration of switchless customers results from the Company's de-emphasis of its switchless reseller division. The Company performs initial and ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts. Customers may be asked to provide personal guarantees and/or security deposits. If the financial condition and operations of these switchless customers deteriorate below critical levels, the Company's operating results could be adversely affected.

The Company faces intense competition in providing long distance telecommunications service. Domestically, the Company competes for services with AT&T, MCI, Sprint and WorldCom, the local exchange carriers ("LECs") and other national and regional interexchange carriers ("IXCs"), where permissible. Certain of these companies have substantially greater market share and financial resources than the Company, and some of them are the source of communications capacity used by the Company to provide its own services.

The Company's long distance telephone business is dependent upon lease or resale arrangements with fiber-optic and digital microwave carriers for the transmission of calls. The future profitability of the Company is based upon its ability to transmit long distance telephone calls over transmission facilities leased from others on a cost effective basis. The Company is currently dependent on three primary carriers: Frontier Communications Services, Inc., WorldCom Network Services, Inc. and Sprint. The Company utilizes other fiber optic carriers to a lesser extent to supplement communication transport services, however, there can be no assurance that in the future the Company will continue to have access, on an ongoing basis, to transmission facilities at favorable rates.

The telecommunications industry is subject to rapid and significant changes in technology. While the Company does not believe that, for the foreseeable future, these changes will either materially and adversely affect the continued use of fiber optic cable or materially hinder its ability to acquire necessary technologies, the effect of technological changes, including changes relating to emerging wireline and wireless transmission and switching technologies, on the businesses of the Company cannot be predicted.

13. SUBSEQUENT EVENTS:

In May 1997, the Company acquired Eastern Telecom International Corporation ("Eastern"), a provider of long distance telecommunications services, in a transaction to be accounted for as a purchase. The acquisition was consummated with the issuance of 3,633,272 shares of the Company's common stock and cash of $1,500,000. Of the 3,633,272 shares issued, 63,492 shares are held in escrow pending resolution of purchase price contingencies. At March 31, 1997, Eastern had total assets of $7,352,000 and shareholder's equity of $1,083,000. For the eleven month period ended March 31, 1997, Eastern had revenues of $20,429,000 and net income of $383,000.

In May 1997, the Company acquired National Teleservice, Inc. ("National"), a provider of long distance telecommunications services, in a transaction to be accounted for as a pooling-of-interests. In exchange for all of the outstanding common stock of National, the Company issued 3,274,188 shares of its common stock, of which 155,524 shares are held in escrow pending resolution of purchase price contingencies. As the merger will be accounted for under the pooling-of-interests method, the historical financial data of the Company will be restated to include National data. The following unaudited pro forma data summarizes the combined results of operations of the Company and National as though the merger had occurred at the beginning of the year ended March 31, 1995.

	Year Ended March 31, (Unaudited)		
	1997	1996	1995
Revenues	$86,000,000	$62,580,000	$48,315,000
Net income	(6,674,000)	965,000	1,630,000
Earnings per share	(0.73)	0.12	0.21

Subsequent to the acquisitions discussed above, four principals of Eastern and National were elected to be members of the Board of Directors. In addition, a new Chairman of the Board of Directors and CEO, Chief Financial Officer and Treasurer, and Secretary were elected. The newly elected Chairman and Chief Executive Officer and Chief Financial Officer and Treasurer formerly served in similar capacities for Eastern. The newly elected Secretary formerly served as President and Chief Executive Officer of National.