

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF FLORIDA

JOINT APPLICATION FOR APPROVAL
OF MERGER BETWEEN NETWORK
LONG DISTANCE, INC., NETWORK
ACQUISITION CORP. AND EASTERN
TELECOM INTERNATIONAL

CASE NO. _____

APPLICATION

Network Long Distance, Inc. ("Network") and Eastern Telecom International Corporation ("Eastern")(referred to jointly as "Applicants"), pursuant to the applicable Statutes of Florida and the Commission's Rules and Regulations currently in effect and/or subsequently enacted, hereby request Commission approval of a proposed Agreement and Plan of Merger (the "Agreement")¹. As will be described in more detail below, the Agreement sets forth a merger of Eastern and Network Acquisition Corp. ("Acquisition"), following which Eastern will be the surviving entity, Acquisition will cease to exist, and Eastern will continue to operate its business in all respects as it currently operates. As a further result of the Agreement, Eastern will become a wholly owned subsidiary of Network. As regulated telecommunications providers, Network and Eastern hereby seek Commission approval of the Agreement.

Commission approval of the proposed Agreement will be beneficial to the involved companies as well as their customers. Following consummation of the Agreement, both Network and Eastern

¹ A draft copy of the Agreement and Plan of Merger is attached as Exhibit "A". Note that in Exhibit "A", Network is referred to as Water, Eastern is referred to as Steam and Acquisition is referred to as Acquisition. Should the Commission so request, a copy of the final Agreement will be substituted following its preparation.

will be able to provide communications services to its customers in a more efficient manner. Approval of the proposed Agreement will not in any way be detrimental to the public interests of the State of Florida. The customers of Eastern will continue to receive the same high quality service presently rendered to them. Additionally, no party to the Agreement will be given undue advantage over any other party.

In support of this Application, Applicants show the following:

I. THE PARTIES

1. Network Long Distance, Inc. is a publicly held Delaware corporation with principal offices located at 525 Florida Street, Baton Rouge, Louisiana 70801. Network is a non-dominant carrier which resells domestic and international long distance service purchased from various facilities based carriers pursuant to the FCC's *Competitive Carrier* policies.

2. 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-nine (49) states, and provides intrastate service, pursuant to certification, registration or tariff requirements, or on an unregulated basis, in forty-nine (49) states. Network is a certified carrier in the State of Florida.²

3. Eastern Telecom International Corporation is a privately held Virginia corporation with principal offices located at 11817 Canon Boulevard, Suite 600, Newport News, Virginia 23606. Eastern is a non-dominant carrier which resells domestic and international long distance service purchased from various facilities based carriers pursuant to the FCC's *Competitive Carrier* policies.

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; Order Number PSC-93-0857-FOF-TI, effective date June 30, 1993.

4. Eastern 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. Eastern currently originates interstate traffic in twenty-six (26) states, and provides intrastate service, pursuant to certification, registration or tariff requirements, or on an unregulated basis, in twenty-six (26) states. Eastern is a certified carrier in the State of Florida, where it does business under the trade name of Eastern Telecom Corp. of Virginia.³

5. Network Acquisition Corporation is a wholly owned subsidiary of Network which was formed solely to effect the merger of Acquisition with and into Eastern in accordance with the Agreement, upon consummation of which Eastern will become a wholly owned subsidiary of Network and Acquisition will cease to exist. Acquisition has otherwise conducted no prior activities.

II. DESIGNATED CONTACT

6. The designated contact for questions concerning this Application is:

Edward P. Gothard, Esquire
Nowalsky & Bronston
3500 North Causeway Boulevard
Suite 1442
Metairie, Louisiana 70002
(504) 832-1008
(504) 832-1984

7. Copies of any correspondence related to this filing should be sent to:

Tim Barton, President
Network Long Distance, Inc.
7000 Squibb, Suite 310
Mission, Kansas 66202
(913) 262-3730

³ In Florida, Eastern provides intrastate telecommunications services using the trade name Eastern Telecom Corp. of Virginia pursuant to Certificate of Public Convenience and Necessity bearing Certificate Number 2966, issued in matter entitled "Application for Authority to Provide Interexchange Telecommunications Service in Florida," Docket Number 920110-TI; Order Number PSC-92-0394-FOF-TI, effective date June 17, 1992.

and

Janet Moore, Regulatory Affairs Officer
Eastern Telecom International Corporation
11817 Canon Boulevard
Suite 600
Newport News, Virginia 23606
(804) 873-1040

III. REQUEST FOR APPROVAL OF THE AGREEMENT AND PLAN OF MERGER

8. In the past several years, Network has acquired the assets and/or merged with several companies which provide intrastate telecommunication services pursuant to Certificates of Public Convenience and Necessity in various states. In this instance, Network proposes to continue to operate the acquired entity as an independent, but wholly owned, subsidiary. By virtue of these transactions, Network will realize significant economic, marketing and administrative efficiencies, allowing Network to serve its customers, including those in the State of Florida, in a more efficient and cost effective manner.

9. As a company providing intrastate telecommunications service directly in forty-nine (49) states, with annual operating revenues of approximately sixty million (\$60,000,000) dollars, Network is well-qualified to consummate the transaction which is the subject of this Application. Current financial information for Network is attached hereto as Exhibit "B".⁴

10. Eastern, which provides intrastate telecommunications service directly in twenty-six (26) states, has annual operating revenues of approximately sixteen million, one hundred twenty one

⁴ Exhibit "B" is the Form 10-Q submitted to the SEC by Network for the quarter ended December 31, 1996.

thousand (\$16,121,000) dollars based upon information for the fiscal year ended April 30, 1996.

Current financial information for Eastern is attached hereto as Exhibit "C".⁵

11. Applicants accordingly propose a transaction which will accomplish the following:

- a. Acquisition will merge with and into Eastern;
- b. As a result of the merger, the separate corporate existence of Acquisition shall cease and Eastern shall continue as the surviving corporation;
- c. Eastern shall continue to operate as a regulated entity pursuant to its present certifications, registrations, tariff requirements and rate structures, or on an unregulated basis, as provided by and pursuant to applicable law;
- d. As a result of the merger Network will own all of the issued and outstanding shares of the common stock of Eastern; and
- e. The stockholders of Eastern will receive a designated number of shares of the common stock of Network as provided for in the Agreement.⁶

12. It is respectfully represented herein that the transfer of stock as outlined above represents transactions made for fair and due consideration to the stockholders of both Network and Eastern, and that no party to the Agreement, including the stockholders of the participating companies, will be given undue advantage over any other party to the Agreement.

13. The technical, managerial and financial personnel of Eastern will remain the same after the transaction, and the customers of Eastern will be provided services with the same high level of expertise currently in place.

14. The practical effect of the merger is a change in ownership of the common stock of Eastern. Eastern will continue to operate in all respects as it presently operates.

⁵ Exhibit "C" consists of Eastern's Income Statement and Balance Sheet dated January 31, 1996.

⁶ Note that the exact financial details of the Agreement have been redacted from Exhibit "A." Should this Commission desire to know the financial details of the transaction, this information will be provided to the Commission for *in camera* inspection.

15. Because the transaction will effect a transfer of control of the stock of Eastern, permission for the Agreement is respectfully sought herein.

IV. PUBLIC INTEREST CONSIDERATIONS

16. Critical to the proposed transaction is the need to ensure the continuation of high quality service to all customers currently served by both Eastern and Network. The proposed transaction will serve the public interest for the following reasons:

- a. First, the transaction will enhance the operating efficiencies, including market efficiencies, of both Network and Eastern;
- b. Second, it will increase the appeal to present and potential customers of both Network and Eastern as these entities can provide communications services to their customers in a more efficient manner;
- c. Finally, it may result in cost savings because of discounts on quantity ordering of materials and services for both Eastern and Network.

17. Accordingly, the requested transaction will serve to create a heightened level of operating efficiency which generally will serve to enhance the overall capacity of Network and Eastern to compete in the marketplace and to provide telecommunications services for Florida customers at competitive rates.

V. CONCLUSION

18. WHEREFORE, for the reasons stated herein, Applicants respectfully request that the Commission authorize the consummation of the Agreement and merger as described above.

DATED this 23rd day of April, 1997.

Respectfully submitted,



Edward P. Gothard, Esquire
Nowalsky & Bronston
3500 North Causeway Boulevard
Suite 1442
Metairie, Louisiana 70002
(504) 832-1008
(504) 832-1984

STATE OF KANSAS

COUNTY OF *JOHNSON*

VERIFICATION

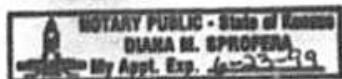
I, Tim Barton, am the President of Network Long Distance, Inc., and am authorized to make this verification on its behalf. The statements made in the foregoing Application are true of my own knowledge, except as to those matters which are therein stated on information and belief, and as to those matters I believe them to be true.

By: *T. Barton*
Name: Tim Barton
Title: President

Sworn to and subscribed before me, Notary Public, in and for the State and County named above, this 16th day of April, 1997.

Diana M. Sprovera
Notary Public

My Commission expires: 6-23-99



STATE OF VIRGINIA

COUNTY OF

VERIFICATION

I, Thomas G. Keefe, am the Treasurer, Vice President and Chief Financial Officer of Eastern Telecom International Corporation, and am authorized to make this verification on its behalf. The statements made in the foregoing Application are true of my own knowledge, except as to those matters which are therein stated on information and belief, and as to those matters I believe them to be true.

By: *Thomas G. Keefe*

Name: Thomas G. Keefe

Title: Treasurer, Vice President and Chief Financial Officer

Sworn to and subscribed before me, Notary Public, in and for the State and County named above, this 16 day of April, 1997.

Jammy D. Shackelford
Notary Public

My Commission expires: 7/31/00

EXHIBIT "A"

**AGREEMENT AND PLAN
OF MERGER**

**NOTE: THE ATTACHED IS A DRAFT DOCUMENT .
NETWORK IS REFERRED TO AS "WATER",
EASTERN TELECOM IS REFERRED TO AS "STEAM".**

BSMWL DRAFT
3/31/97

AGREEMENT AND PLAN OF MERGER
BY AND AMONG
WATER, INC.,
WATER ACQUISITION CORP.,
STEAM, INC.,
AND
THE SHAREHOLDERS OF STEAM, INC.
APRIL __, 1997

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G. A. K. **AGREEMENT AND PLAN OF MERGER** *A. T. K.*

THIS AGREEMENT AND PLAN OF MERGER (the "Agreement") is made and entered into as of the ___ day of April, 1997, by and among WATER, INC., a Delaware corporation ("WATER"), WATER ACQUISITION CORP., a Virginia corporation ("Acquisition"), STEAM, INC., a Virginia corporation ("STEAM"), and the shareholders of STEAM who have executed this Agreement (collectively, the "Shareholders").

WHEREAS, STEAM is engaged in the business of providing communications services;

WHEREAS, WATER has formed Acquisition as a wholly-owned subsidiary in order to effect the merger of Acquisition with and into STEAM (the "Merger") in accordance with this Agreement and in accordance with the laws of the Commonwealth of Virginia so that, upon consummation of the Merger, STEAM will be a wholly-owned subsidiary of WATER, and Acquisition will cease to exist;

WHEREAS, it is the intent of the parties that the Merger qualify as a reorganization under Section 368(a)(1)(A) and 368(a)(2)(E) of the Internal Revenue Code of 1986, as amended (the "Code");

WHEREAS, this Agreement has been approved by the respective boards of directors of WATER, Acquisition and STEAM; and

WHEREAS, the parties desire to induce each other to enter into this Agreement by making certain representations, warranties and covenants contained herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements, covenants, representations, warranties and promises set forth herein, and in order to prescribe the terms and conditions of the Merger, the parties hereto agree as follows:

**ARTICLE I
THE MERGER**

Section 1.1 The Merger. At the Effective Time (as defined in Section 1.2), upon the terms and subject to the conditions hereof, and in accordance with the Virginia Stock Corporation Act ("VSCA"), Acquisition will be merged with and into STEAM in the Merger whereupon STEAM shall continue as the surviving corporation (the "Surviving Corporation"), and the separate corporate existence of Acquisition shall cease.

Section 1.2 Effective Time. Subject to the terms and conditions hereof, the Merger shall be consummated on the Closing Date (as defined in Section 2.1), and simultaneously therewith or as soon as practicable thereafter, the parties shall cause to be filed Articles of Merger (the "Articles of Merger") with the Virginia State Corporation Commission, in such form as is

required by, and executed in accordance with, the relevant provisions of the VSCA and shall be effective at such time as such Articles of Merger have been so filed with the Virginia State Corporation Commission and the Virginia State Corporation Commission has accepted for record the Articles of Merger and issued a Certificate of Merger pursuant to Section 13.1-176 of the VSCA (the "Effective Time").

Section 1.3 Effects of the Merger. The Merger shall have the effects set forth in Section 13.1-176 of the VSCA.

Section 1.4 Articles of Incorporation and Bylaws. The Articles of Incorporation and the Bylaws of Acquisition as in effect immediately prior to the Effective Time shall be the Articles of Incorporation and the Bylaws of the Surviving Corporation until thereafter amended as provided by law.

Section 1.5 Officers and Directors. The officers and directors of STEAM as of the Effective Time shall be the officers and directors of the Surviving Corporation and will hold office from the Effective Time until their respective successors are duly elected or appointed and qualified in the manner provided in the Articles of Incorporation and Bylaws of the Surviving Corporation or as otherwise provided by law.

Section 1.6 Further Actions. At any after the Effective Time, the Surviving Corporation shall take all action as shall be required in connection with the Merger, including, but not limited to, the execution and delivery of any further deeds, assignments, instruments or documentation as are necessary or desirable to carry out the provisions of this Agreement.

ARTICLE II CONVERSION AND EXCHANGE OF SHARES, CLOSING

Section 2.1 Conversion and Exchange of Shares. As of the Effective Time, by virtue of the Merger and without any action on the part of any holder of any shares of common stock, no par value, of STEAM (the "STEAM Common"):

(a) All shares of STEAM Common which are held by STEAM shall be cancelled and retired and shall cease to exist and no stock of WATER or other consideration shall be delivered in exchange therefor. All shares of preferred stock of STEAM which remain outstanding at the Effective Time shall be cancelled and retired and shall cease to exist and no stock of WATER or other consideration shall be delivered in exchange therefor. Each share of common stock, \$.01 par value, of Acquisition shall become a share of the Surviving Corporation's common stock.

(b) At the Effective Time, by virtue of the Merger and without any action on the part of WATER, STEAM or the holders of any shares of the STEAM Common, (i) each share of STEAM Common, issued and outstanding immediately prior to the Effective Time which under the terms of Section 2.1(d) is to be converted into the right to receive a number of shares of common stock, par value \$.0001 per share of WATER (the "WATER Common") shall be converted into the right to receive a number of shares of WATER Common equal to the Exchange Ratio (as hereinafter defined) (collectively, the "Share Consideration"), and (ii) each share of STEAM Common issued and outstanding immediately prior to the Effective Time which under the terms of Section 2.1(d) is to be converted into the right to receive cash shall be converted into the right to receive an amount in cash equal to the Per Share Consideration (the "Cash Consideration," and together with the Share Consideration, the "Merger Consideration"). All shares of STEAM Common to be converted into shares of WATER Common or the right to receive cash pursuant to this Section 2.1(b) are hereinafter referred to as the "Converted Shares." The Exchange Ratio shall mean a number of shares of WATER Common determined by dividing (x) the Per Share Consideration by (y) the WATER Average Closing Price (as hereinafter defined), and rounding the result to three decimal places, provided, however, that the Exchange Ratio shall not be greater than 6,707.12 nor less than 6,300.63. The WATER Average Closing Price shall mean the average daily closing price per share, rounded to three decimal places, of WATER Common as reported through the National Association of Securities Dealers Automated Quotation System SmallCap Market for the twenty consecutive trading days ending on (and including) the day this Agreement is publicly announced pursuant to the terms hereof, provided, however, that the WATER Average Closing Price shall not exceed \$8.25 nor be less than \$7.75. The Per Share Consideration shall be equal to [REDACTED] divided by the number of issued and outstanding shares of STEAM Common at the Effective Time.

(c) As soon as practicable following execution of this Agreement, and in no event less than one day prior to the Closing Date, WATER will send to each holder of Converted Shares a cash election form (the "Election Form") and other appropriate materials providing for such Shareholder, all in form reasonably satisfactory to STEAM, subject to the provisions of Section 2.1(d), (i) to elect to receive the Share Consideration with respect to all or any portion of such Shareholder's shares of STEAM Common ("Share Election") or (ii) to elect to receive the Cash Consideration with respect to all or any portion of such Shareholder's shares of STEAM Common ("Cash Election"). As of the Election Deadline (as hereinafter defined), any shares of STEAM Common with respect to which no submission to a designee of WATER (the "Exchange Agent") of an effective, properly completed Election Form has been made shall be deemed to be "No-Election Shares."

(i) Any election to receive the Cash Consideration or the Share consideration shall have been validly made only if the Exchange Agent shall have received by 8:00 a.m., Kansas City time, on the day prior to the Closing Date (the

"Election Deadline") an Election Form properly completed. An election by a Shareholder shall be validly made only if the Exchange Agent shall have received an Election Form properly completed and executed by such Shareholder. WATER shall have the right to make reasonable determinations and to establish reasonable procedures (not inconsistent with the terms of this Agreement) in guiding the Exchange Agent in its determination as to the validity of Election Forms and of any revision, revocation or withdrawal thereof.

(ii) Any Shareholder who has made an election by submitting an Election Form to the Exchange Agent may at any time prior to the Election Deadline change such Shareholder's election by submitting a revised Election Form, properly completed and signed, that is received by the Exchange Agent prior to the Election Deadline. Any Shareholder may at any time prior to the Election Deadline revoke such Shareholder's election by written notice to the Exchange Agent received at any time prior to the Election Deadline.

(d) As soon as practicable after the Election Deadline (the "Allocation Date"), the Exchange Agent shall effectuate the allocation among Shareholders of rights to receive the Share Consideration or the Cash Consideration in the Merger in accordance with the terms of this Section 2.1(d). As is more fully set forth below, the number of shares of STEAM Common to be converted in the Merger into the right to receive cash may not exceed \$1,500,000.00 divided by the WATER Average Closing Price (the "Maximum Cash Election Shares").

(i) The Exchange Agent shall determine the numbers of Converted Shares for which Cash Elections (the "Cash Election Shares") and Share Elections (the "Share Election Shares") have been received.

(ii) Each Share Election Share and No-Election Share shall be converted in the Merger into the right to receive the Share Consideration.

(iii) If Cash Election shares constitute more than the Maximum Cash Election Shares of the Converted Shares, the Cash Election Shares shall be converted in the Merger into the right to receive cash and shares of WATER Common in the following manner: the number of Cash Election Shares covered by a Cash Election which shall be converted into the right to receive the Cash Consideration shall equal the amount obtained by multiplying (x) the number of shares of STEAM Common covered by such Cash Election by (y) a fraction of which the numerator shall be the Maximum Cash Election Shares and the denominator shall be the aggregate number of Cash Election Shares. The balance of such Cash Election Shares shall each be converted into the right to receive the Share Consideration.

(iv) If Cash Election Shares constitute the Maximum Cash Election Shares or less of the Converted Shares, each Cash Election Share shall be converted in the Merger into the right to receive the Cash Consideration.

Section 2.2 Date, Time and Place of Closing. The Closing of the Merger (the "Closing") shall be held on the fifth business day following the satisfaction or waiver of all of the conditions set forth in Article VII hereof, beginning at _____ a.m. _____ Time in the offices of _____, _____ or at such other place, time and date as the parties hereto shall mutually agree. The date of the Closing is referred to herein as the "Closing Date."

Section 2.3 Deliveries by STEAM and the Shareholders at Closing. At the Closing, and thereafter as may be reasonably requested by WATER, STEAM and the Shareholders shall deliver to WATER the following:

(a) Certified copies of duly adopted resolutions of the Board of Directors of STEAM authorizing, approving, and consenting to the execution and delivery of this Agreement, to the consummation of the transactions contemplated herein, and to performance of the agreements set forth herein;

(b) The waiver, release, consent, estoppel certificate or other document of any person, corporation, association, or other entity of any nature whatsoever, in form reasonably acceptable to WATER, which WATER in its reasonable judgment deems necessary to consummate the transactions contemplated hereby, and to make the warranties and representations made by STEAM and the Shareholders in this Agreement true;

(c) Certificates of Good Standing dated within ten (10) days of the Closing Date from the Secretary of State and the tax commission for the Commonwealth of Virginia as appropriate, with respect to the payment of sales, employment, franchise and income tax liabilities of STEAM, in form and content as generally issued by the Commonwealth of Virginia;

(d) An opinion of STEAM's counsel dated as of the Closing Date in substantially the form set forth on Exhibit 2.3(d) to this Agreement;

(e) A duly executed Registration Rights Agreement in the form of Exhibit 2.3(e) hereto;

(f) A duly executed Escrow Agreement in the form of Exhibit 2.3(f) hereto;

(g) Duly executed Employment Agreements in the forms attached as Exhibits 2.3(g) hereto;

than 45 days after the Closing Date, WATER shall cause WATER's Auditors to deliver a consolidated balance sheet of STEAM as of the Closing Date (as corrected pursuant to Section 2.5(c) hereof, the "Closing Balance Sheet") to each of the parties to this Agreement and to the Escrow Agent. The Closing Balance Sheet shall be prepared in accordance with generally accepted accounting principles applied consistently with STEAM's past practice (to the extent that such past practice was in accordance with generally accepted accounting principles), without any adjustments applicable solely as a result of the Merger, and shall be certified without qualification by WATER's Auditors. The Closing Balance Sheet shall be accompanied by a statement prepared by WATER's Auditors setting forth the basis for the determination of the items and values reflected on the Closing Balance Sheet.

(b) The Shareholders' Representative (as defined below) and one firm of independent certified accountants acting on behalf of the Shareholders and the Shareholders' Representative (the "Shareholders' Auditors") shall have the right to review the work papers of WATER's Auditors utilized in preparing the Closing Balance Sheet, and shall have full access to the books, records, properties and personnel of STEAM for purposes of verifying the accuracy and fairness of the presentation of the Closing Balance Sheet. The Shareholders shall work in good faith and cooperate with WATER and WATER's Auditors in the preparation of the Closing Balance Sheet and the resolution of any dispute in connection therewith pursuant to subparagraph (c) below.

(c) The values or amounts for each item reflected on the Closing Balance Sheet shall be binding upon the Shareholders and the Shareholders' Representative, unless the Shareholders' Representative gives written notice within 30 days after receipt of the Closing Balance Sheet, of disagreement with any of the values or amounts shown on the Closing Balance Sheet, specifying as to each such item in reasonable detail, the nature and extent of such disagreement (the "Dispute Notice"). If WATER and the Shareholders' Representative are unable to resolve any such disagreement within 30 days after the date of the Dispute Notice, the disagreement shall be submitted to arbitration in accordance with the provisions of this Agreement. If as a result of the resolution of any disputes by agreement pursuant to this Section 2.5 or by arbitration pursuant to this Agreement, any amount shown in the Closing Balance Sheet is determined to be erroneous, such erroneous amount shall be deleted from the Closing Balance Sheet and the correct amount shall be inserted in lieu thereof. The Closing Balance Sheet, as so corrected, shall constitute the Closing Balance Sheet for purposes of this Agreement.

(d) WATER shall pay the fees and disbursements of WATER's Auditors. The fees and disbursements of the Shareholders' Auditors incurred in the review of the Closing Balance Sheet shall be paid by the Shareholders, in proportion to their ownership of STEAM Common. WATER shall under no circumstances be liable for any fees or disbursements of the Shareholders' Auditors.

(e) Immediately upon the expiration of the 30-day period for giving the Dispute Notice, if no Dispute Notice is given, or immediately upon the resolution of disputes, if any, pursuant to this Section 2.5, the Merger Consideration remaining to be distributed shall be adjusted by the aggregate of the adjustments set forth below (as so adjusted, the "Adjusted Merger Consideration"). In the event the Adjusted Merger Consideration exceeds the Merger Consideration, WATER shall issue additional WATER Common, at the WATER Average Closing Price, to the Shareholders in preparation to their ownership of STEAM Common:

(i) If the Long Term Debt of STEAM (as defined below) as reflected on the Closing Balance Sheet is less than \$1,200,000.00, the difference between such Long Term Debt and \$1,200,000.00 shall be added to the Merger Consideration.

(ii) If the Long Term Debt of STEAM reflected on the Closing Balance Sheet is greater than \$1,200,000.00, the difference between such Long Term Debt and \$1,200,000.00 shall be subtracted from the Merger Consideration.

(iii) If the Working Capital of STEAM (as defined below) reflected on the Closing Balance Sheet is less than \$_____, the difference between such Working Capital and \$_____ shall be subtracted from the Merger Consideration.

(iv) If the Working Capital of STEAM reflected on the Closing Balance Sheet is greater than \$_____, the difference between such Working Capital and \$_____ shall be added to the Merger Consideration.

(v) The term "Long Term Debt" is defined as _____.

(vi) The term "Working Capital" is defined as _____, after provision for payment of fees and expenses of STEAM and the Shareholders associated with this Agreement and the Merger.

Section 2.6 Payments of Adjusted Merger Consideration. Immediately upon expiration of the 30-day period for giving the Dispute Notice, or immediately upon final resolution of any dispute:

(a) In the event the Adjusted Merger Consideration is less than the Merger Consideration, an amount equal to the difference between such amounts shall be returned to WATER from the Share Consideration held in escrow pursuant to the Escrow Agreement.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF STEAM AND THE SHAREHOLDERS

STEAM and the Shareholders hereby jointly and severally make the representations and warranties set forth in this Article III to WATER and Acquisition. STEAM and the Shareholders acknowledge that (i) these representations and warranties are made by them as an inducement to WATER and Acquisition to enter this Agreement and to consummate the transactions contemplated hereby; and (ii) WATER and Acquisition have entered into this Agreement specifically in reliance upon each of such representations and warranties.

Section 3.1 Organization. STEAM is duly organized, validly existing, and in good standing under the laws of the Commonwealth of Virginia. Attached hereto as Exhibit 3.1 is a complete and correct copy of the Articles of Incorporation and Bylaws (together with all amendments thereto) of STEAM. STEAM has all necessary power and authority to own and operate its properties and assets, to enter into this Agreement, and to carry on its business as now conducted.

Section 3.2 Subsidiaries, Qualification, Licenses. STEAM has no subsidiary corporations or any other interest in any corporation, partnership, association or joint venture, other than as described on Schedule 3.2. Neither the nature of STEAM'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 Virginia, _____, _____, _____, _____, and _____ (together, the "States"). STEAM is duly qualified, certified or licensed in each such state and jurisdiction where such qualification, certification or licensing is necessary or required to conduct its business and offer communications services.

Section 3.3 Capitalization.

(a) The authorized capital stock of STEAM consists of: (i) 1,000 shares of common stock, no par value, of which 606 shares are issued and outstanding and _____ shares are held as treasury stock, and (ii) 100,000 shares of \$10 par value preferred stock, of which 30,785.04 shares are issued and outstanding and _____ shares are held as treasury stock. 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 STEAM Common, or any securities convertible into or evidencing the right to purchase any shares of STEAM Common. All such issued and outstanding shares are validly issued, fully paid and nonassessable. All of the outstanding capital stock of STEAM is held of record by the persons or entities in the amounts set forth on Schedule 3.3, and there is no outstanding agreement (written or oral), option, warrant, note or any other type of security of STEAM which would entitle any person to acquire any equity securities of STEAM. There are no restrictions imposed by the Articles of Incorporation or Bylaws of STEAM, and there are no other agreements,

understandings or commitments, which would in any way affect or impair the transactions contemplated hereby.

(b) Each Shareholder is the lawful record and beneficial owner of the STEAM Common set forth opposite his name on Schedule 3.3. The STEAM Common are now and as of the Closing will be free and clear of any claims, pledges, security interests, liens or encumbrances or other restrictions or limitations of any kind, other than those arising under this Agreement. None of the Shareholders or STEAM is a party to, or bound by, any shareholder agreement, voting agreement, voting trust, buy-sell agreement, option agreement or any similar agreement, understanding or commitment with respect to any of the STEAM Common.

Section 3.4 Authority. This Agreement and each other agreement required to be executed and delivered by STEAM or the Shareholders in connection herewith, when executed and delivered, will be the legal, valid and binding obligation of STEAM or the Shareholders, as applicable, enforceable against them in accordance with their terms, except as enforceability may be limited by (i) applicable bankruptcy, reorganization, insolvency, moratorium and similar laws affecting the enforcement of creditors' rights generally, and (ii) general equitable principles (regardless of whether enforceability is considered in a proceeding in equity or at law).

Section 3.5 Consents and Approvals. The execution, delivery and performance of this Agreement and the other agreements contemplated hereby and the consummation of the transactions contemplated hereby or thereby will not violate or result in a breach of any term of STEAM's Articles of Incorporation or Bylaws, result in a breach of or constitute a default under any term in any agreement, tariff or other instrument to which STEAM is a party or by which it is bound, violate any law or any order, rule or regulation applicable to STEAM of any court or any regulatory body, administrative agency or other governmental instrumentality having jurisdiction over STEAM or its properties; and will not result in the creation or imposition of any lien, charge, or encumbrance of any nature whatsoever upon any of its assets, which lien, charge or encumbrance has not been removed prior to Closing. STEAM 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. Except as set forth on Schedule 3.5 hereto, none of the execution, delivery or performance of this Agreement or any of the other agreements executed in connection herewith, or the consummation of the transactions contemplated hereby or thereby requires any filing with or the consent or approval of any third party, including but not limited to any governmental body or entity other than the filing with, and the acceptance for record by, the Virginia State Corporation Commission of Articles of Merger in accordance with the VSCA. None of the Shareholders or STEAM is required to obtain the consent or approval of any other person or entity with respect to the transactions contemplated hereunder, except as set forth on Schedule 3.5.

Section 3.6 Financial Statements.

(a) (i) The audited Balance Sheets of STEAM as of April 30, 1995 and 1996 and the unaudited Balance Sheet of STEAM as of December 31, 1996 (the "Balance Sheets"), and (ii) the related Statements of Income and the Statements of Cash Flows for the fiscal years and periods then ended of STEAM, together with the notes thereon, audited by the independent certified public accountants of STEAM, have been delivered by STEAM to WATER. 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 STEAM, 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 STEAM, as of such dates and for such periods. All transactions between STEAM and the Shareholders related to the business or operations of STEAM have been identified in such audited financial statements.

(b) Except as set forth in Schedule 3.6, the unaudited financial statements as of and for the period ended December 31, 1996 have been similarly prepared, 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 present fairly the financial condition and results of operations of STEAM as of such date and for such period, except for the lack of explanatory footnote disclosures required by GAAP. Such footnote disclosures, if included with the financial statements at and for the eight (8) month period ended December 31, 1996, would be substantially similar in description and content to the footnote disclosures in the audited financial statements for the fiscal year ended April 30, 1996. All transactions between STEAM and the Shareholders related to the business or operations of STEAM have been identified in such unaudited financial statements.

(c) For purposes of this Agreement, the Balance Sheet of STEAM at December 31, 1996 is sometimes referred to as the "Balance Sheet" and the date thereof is referred to as the "Balance Sheet Date." STEAM shall deliver to WATER (i) the unaudited consolidated financial statements of STEAM for the months ended after December 31, 1996, no later than ___ days after the end of each such month until Closing shall have occurred; (ii) the audited financial statements of STEAM for the fiscal year ended April 30, 1997, no later than _____, 1997; and (iii) any subsequent unaudited compiled financial statements of STEAM for each fiscal quarter thereafter no later than 35 days after the end of each such fiscal quarter until the Closing shall have occurred. Such financial statements will be prepared in accordance with GAAP applied on a consistent basis during the periods involved, will present fairly the financial condition and results of operations of STEAM as of such dates and for such periods, and will be in accordance with the books and records of STEAM.

Section 3.7 Absence of Certain Changes. Except as set forth on Schedule 3.7, since the Balance Sheet Date, there has not been:

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

(b) Any material physical damage or destruction, whether or not covered by insurance, adversely affecting the properties, business, or operations of STEAM;

(c) Any labor dispute or threat thereof or any attempt to organize or reorganize the employees of STEAM for the purpose of collective bargaining;

(d) Any direct or indirect redemption, purchase or other acquisition by STEAM of any of the STEAM Stock, or declaration of or payment or distribution of any kind of cash or other assets to any Shareholder;

(e) Any employment, severance, consulting or other compensation contract entered into by STEAM 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;

(f) Any communication, whether oral or written, to STEAM or the Shareholders from STEAM's customers or suppliers or agencies regulating STEAM; nor does STEAM or any Shareholder, after making due inquiry, have any knowledge of any potential development affecting STEAM which would reasonably lead it or any of them to expect a material adverse change in STEAM's business;

(g) Any satisfaction or discharge of any lien by STEAM or payment by STEAM of any obligation or liability, other than an obligation or liability included in the Balance Sheet of STEAM, 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;

(h) Any guaranty, endorsement or indemnification by STEAM of the obligations of any third person, firm or corporation;

(i) Any sale or transfer of any assets or cancellation by STEAM 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;

- (j) Any knowing waiver by STEAM of any rights having a value in excess of \$10,000;
- (k) Any transactions entered into, other than in the ordinary course of business;
- (l) Any mortgage, pledge or lien or other encumbrance of any of its assets, tangible or intangible; or
- (m) Any assignment, sale or transfer of any patent, trademark, trade name, trade secret, copyright or other intangible asset.

Section 3.8 No Undisclosed Liabilities. Except as set forth on Schedule 3.8 attached hereto and made a part hereof, as of _____, 1997, STEAM had no material liabilities, absolute or contingent, which are not shown on the Balance Sheet. All liabilities, absolute or contingent, of STEAM incurred subsequent to _____, 1997 will have been incurred only in the ordinary course of business and STEAM will, prior to the Closing, have obtained the consent of WATER to incur any single such liability incurred subsequent to the date of this Agreement in excess of \$25,000. The accounts, notes and other receivables, whether current or non-current, of STEAM shown on the most recent Balance Sheet before the Closing, and all such receivables of STEAM as at the Closing, were and shall be good and collectible, subject only to any 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 STEAM as of the Closing. The total amount of debt owed by STEAM to banks or other third-party lenders does not, and will not as of the Closing, exceed \$ _____.

Section 3.9 Evaluation Materials. The written materials, data and documents provided by STEAM and the Shareholders to WATER related to STEAM's historical revenue generation, customer retention and acquisition, costs of access and other network costs remain true as of the date hereof and the results of STEAM's operations as of the date hereof are consistent with such written materials, data and documents. All written projections of future operations provided by STEAM and the Shareholders to WATER are consistent with such written materials, data and documents and are based upon assumptions of future conditions which STEAM and the Shareholders believe are reasonable.

Section 3.10 Benefit Plans: ERISA.

(a) Schedule 3.10(a) 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 STEAM.

(b) Schedule 3.10(b) lists each employee of STEAM 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 STEAM and a description of any agreement with respect to the election or tenure of any of them as such.

(c) No employee of STEAM will be entitled to severance pay by virtue of the transactions contemplated by this Agreement. Schedule 3.10(c) sets forth each employee of STEAM 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.

(d) Schedule 3.10(d) 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, 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 STEAM or any Related Party (hereinafter defined) for the benefit of any current or former employee, director or agent of STEAM 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"). STEAM 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 Code. STEAM has delivered to WATER, 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, 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. "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 STEAM.

(e) None of the Benefit Plans are intended by STEAM or any Related Party to meet, or are required to meet, the requirements of Section 401(a) of the Code and no Benefit Plan is subject to Title IV of ERISA.

(f) STEAM 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 STEAM or any Related Party 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 or for breach of fiduciary duty with respect to or in connection with a Benefit Plan.

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

(h) No Benefit Plan provides or is required to provide group health, medical, death or survivor benefits to any former or retired employee of STEAM 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.

(i) No Benefit Plan or fiduciary has nor does STEAM 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.

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

Section 3.11 Litigation. Except as set forth in Schedule 3.11:

(a) 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 STEAM and the Shareholders, threatened, nor are there, to the best knowledge of STEAM and the Shareholders, any investigations, whether or not purportedly on behalf of STEAM, complaints or reviews by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against, relating to or affecting STEAM.

(b) STEAM 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 STEAM's assets, the use or occupancy of STEAM's real property, and any interests related thereto, and the Merger does not constitute a default thereunder.

(c) 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 STEAM. The Shareholders have no actual knowledge or information of any act, error, or omission which would give rise to such a claim. Neither STEAM nor the Shareholders 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, 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; (iv) actions involving representative actions, class actions or derivative suits.

(d) Neither STEAM nor Shareholders are aware of any claim, or the basis of any claim, against STEAM 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 STEAM, including claims arising out of any alleged defective nature of its products or services.

(e) There is no claim, legal action, suit, arbitration, governmental investigation or other legal or other administrative proceeding, including any bankruptcy proceeding, nor any order, decree or judgment in progress, pending, in effect or, to the knowledge of STEAM or the Shareholders threatened, against or relating to STEAM or the Shareholders, which would negatively affect the transactions contemplated by this Agreement.

(f) There is not pending nor, to the best knowledge of STEAM and the Shareholders, threatened, a recall or investigation of any product sold by STEAM.

Section 3.12 Compliance with Laws. Except as set forth on Schedule 3.12, STEAM has not received written notice and neither STEAM nor any of the Shareholders has any knowledge, having made due inquiry, of any violation by STEAM 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 amended by (i) the Telecommunications Act of 1996, and by (ii) the Telephone Consumer Protection Act of 1991, and the Shareholders 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 STEAM of its properties do not violate any such laws, regulations, orders or requirements. To Shareholders' 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 those states in which STEAM offers communications services, and certain regulatory authorities of foreign countries, if any, in which STEAM offers international communications services, (together, the

"Commissions") all of which are set forth in Schedule 3.5, 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.

Section 3.13 Tax Returns. Except as set forth in Schedule 3.13, 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 STEAM, have been duly and timely filed, were true, correct and complete in all material respects and STEAM has 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 STEAM has not received any notice of deficiency or adjustment. The Balance Sheet contains liabilities which are and will be sufficient for the payment of all respective federal, state, county and local taxes, whether current or deferred.

All taxes and other assessments and levies which STEAM is required by law to withhold or to collect have been duly withheld and collected, and have been paid over to the proper governmental authorities or are held by STEAM in separate bank accounts for such payment. All statements and reports required to be filed under any chapter of the Code by STEAM have been duly filed.

Except as described on Schedule 3.13, attached hereto and made a part hereof, to the best of the Shareholders' 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 STEAM or of any claimed failure to pay or report any kind of tax which may be assessed by any taxing authority against STEAM.

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

Section 3.15 Banks. Schedule 3.15 is a correct and complete list setting forth the name of each bank in which STEAM 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 STEAM.

Section 3.16 Contracts. Schedule 3.16 lists and describes all of the written contracts, plans, agreements, arrangements and leases, true and complete copies of which have been furnished to WATER as of the date hereof, and describes each oral contract, plan, agreement, arrangement and lease to which STEAM is a party, including but not limited to: (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 STEAM to pay, in one installment or in the aggregate over its term or one year, whichever is shorter, an amount in excess of \$ _____; (ii) each contract and letter of authorization 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 STEAM over its term or in any one 12 month period, whichever is shorter, in excess of \$ _____; (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 STEAM; (viii) each lease of real and personal property which (a) has a term in excess of one year or (b) obligates STEAM to pay, in one installment or in the aggregate over its term or one year, whichever is shorter, an amount in excess of \$ _____ which leases shall be set forth separately in Schedule 3.16; and (ix) each contract and agreement with affiliates of STEAM, including the Shareholders. STEAM holds a current, valid letter of authorization from each of its business and residential customers. Except as set forth on Schedule 3.16 hereto, STEAM 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.

Section 3.17 Titles, Real Property Matters. Schedule 3.17 contains descriptions by categories of STEAM's real property (including all plants and structures located thereon) as of the date of this Agreement. Except as set forth in Schedule 3.17, STEAM has good and marketable title in fee simple to such properties, free and clear of all liens and encumbrances and use restrictions. STEAM will obtain title insurance policies on all real estate listed as owned in fee simple on Schedule 3.17 hereto, prior to the Closing. STEAM owns or leases all the furniture, equipment and leasehold improvements located in the structures referred to in Schedule 3.17. All other assets and property used in the business of STEAM, and all assets and property reflected in the Balance Sheets, the Balance Sheet, 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) are 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 3.17. All real estate owned or leased by STEAM, their uses, appurtenances and improvements substantially comply with all applicable ordinances and regulations, building, and zoning laws. The buildings, machinery and equipment of STEAM are in good and serviceable condition, reasonable wear and tear excepted.

Section 3.18 Environmental Matters.

(a) Hazardous Materials (as defined below) have never been generated, stored, discharged, disposed of, spilled, dumped, poured, emptied, or released and are not currently present at, on, in, beside, above or under the Real Property and no contingent liability exists in connection with any release of any Hazardous Material. Underground storage tanks are not and have never been located on the Real Property.

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

(c) The Real Property and STEAM'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.

(d) 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 Water Pollution Control Act; the Clean Air Act; the Federal Insecticide, Fungicide and Rodenticide Act; the Safe Drinking Water 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").

(e) STEAM agrees and consents to the performance of environmental testing on the Real Property as WATER may reasonably request; provided, however, that the performance of such tests will not negate or affect STEAM's or the Shareholders' representations or warranties or agreement to indemnify contained herein.

Section 3.19 Broker's Fees. Except for The Toronto Dominion Bank, no person or entity has been authorized to act as a broker, finder, financial advisor or in any other similar capacity as to give rise to any claim for brokerage or finder's fees or commissions with respect to the transactions contemplated hereby by anyone claiming to have acted on behalf of the Shareholders or STEAM.

Section 3.20 Labor Matters. No group of employees of STEAM is presently organized into a collective bargaining unit. No labor union has recently attempted, or is presently attempting, to organize any of STEAM's employees into a collective bargaining unit. No employees of STEAM are on strike or threatening to strike.

Section 3.21 Conflicts of Interest. Except as set forth on Schedule 3.21, neither the Shareholders nor any director, officer, or employee of STEAM or any relative of any of them, has (i) loaned to or guaranteed the loan of a third party to STEAM or borrowed any money from STEAM 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 STEAM or any lender, supplier, customer, sales representatives or distributor of STEAM; provided, however, that the Shareholder or such 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.

Section 3.22 Patents, Trademarks, Miscellaneous Intellectual Property. Schedule 3.22 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 STEAM or under which STEAM is licensed or franchised, all of which are valid, in good standing and uncontested. Except as set forth on Schedule 3.22, STEAM possesses adequate 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. STEAM has not 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 STEAM has any interest in any such copyright, patent, trademark, trade name, process, invention or formula. STEAM 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 3.22, except as specifically stated in Schedule 3.22.

Section 3.23 Insurance Coverage. Schedule 3.23 is a correct and complete list of all insurance held by STEAM including the policy number, name of carrier, coverage, term, expiration date and premium. STEAM 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 through the Closing. STEAM has not been refused any insurance by an insurance carrier to which it has applied for insurance during the past three years.

Section 3.24 Full Disclosure. No representation or warranty by STEAM or the Shareholders in this Agreement, nor any statement or certificate furnished, or to be furnished, by or on behalf of STEAM or the Shareholders, nor any document or certificate delivered to WATER pursuant to this Agreement, or in connection with the transactions contemplated hereby, contains any untrue statement of material fact, or omits to state any material fact necessary to make any statement contained therein not misleading. STEAM and the Shareholders have performed or complied, or will perform or comply in all material respects with all covenants, agreements and conditions contained in this Agreement on their part required to be performed or complied with at or prior to the Closing Date.

Section 3.25 Correct Records. The financial records, ledgers, account books, minute books, stock certificate books, stock registers, and other corporate records of STEAM 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.

Section 3.26 Investment Representations.

(a) Each Shareholder is acquiring the WATER 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 WATER Stock or any part thereof, and no Shareholder has a plan or intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, each Shareholder 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 WATER Stock. Each Shareholder acknowledges that the offering of the WATER Stock, other than the Registered Shares (as defined in Section 6.5 below), 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 WATER Stock contemplated by this Agreement are exempt from registration pursuant to exemptions available under such laws, and that WATER's reliance upon such exemptions is predicated upon each Shareholder's representations set forth in this Agreement. Each Shareholder acknowledges and understands that the WATER Stock, other than the Registered Shares, must be held for an indefinite period of time unless the WATER 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.

(b) Each Shareholder 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 WATER Shares and is able to bear the economic risk of an investment in the WATER Shares, including, without limiting the generality of the foregoing, the risk of losing part or all of his investment in the WATER Shares and the possible inability to sell or transfer the WATER Shares for an indefinite amount of time.

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

(d) Each Shareholder's principal residence is located within the state designated under his name on Schedule 3.3.

(e) The Shareholders acknowledge and agree that the certificates representing the WATER Shares shall bear the following legend:

The Shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or under any applicable state securities laws, and may not be sold or otherwise transferred in the absence of such registration or an exemption therefrom under such Act.

Section 3.27 Expenses. The legal expenses allocated to STEAM in connection with the transactions contemplated by this Agreement shall be reasonable and shall not exceed in the aggregate of \$_____, unless STEAM shall have received written approval to exceed such fee amount from WATER, which approval shall not be unreasonably withheld. All other expenses allocated to STEAM or incurred by it in connection with this Agreement shall not exceed \$_____. As soon as practicable after the Closing, STEAM shall submit to WATER a list of such expenses incurred up to the Closing.

ARTICLE IV COVENANTS OF STEAM AND THE SHAREHOLDERS

The Shareholders and STEAM jointly and severally covenant and agree that from the date hereof to and including the Closing:

Section 4.1 Maintenance of Business. STEAM shall continue to carry on its business, maintain its plants and equipment and keep its books of account, records and files in substantially the same manner as heretofore, except that STEAM shall seek WATER'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 \$_____. STEAM will maintain in full force and effect insurance policies now in effect. STEAM may, however, continue to carry on such activities, plans, capital and operating programs which were approved by it prior to the date hereof, provided that such activities, plans and programs shall not involve expenditures exceeding \$_____ for each such activity, plan or program. If any such activities, plans or programs exceed \$_____ they shall, prior to the execution of this Agreement, have been submitted to WATER in detail and in writing, and shall have been approved by WATER.

Section 4.2 Negative Covenants. Except for the permitted actions of STEAM set forth on Schedule 4.2, without the prior written consent of WATER, STEAM shall not, and the Shareholders shall do all things and take all reasonable and proper action to provide that STEAM shall not:

(a) 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 STEAM, provided, however, that STEAM and the Shareholders shall take all steps necessary to redeem, and shall redeem, all issued and outstanding shares of STEAM preferred stock no fewer than five days prior to the Closing Date;

(b) Amend its Articles of Incorporation or amend its Bylaws;

(c) 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;

(d) Pay or guarantee any obligation or liability other than obligations or liabilities reflected in the Balance Sheets, or the Balance Sheet, 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;

(e) Adopt or modify any severance, consulting, bonus, pension, profit sharing, benefit or other compensation plan or arrangement or increase its overall work force, other than in the normal course of business, or enter into any contract of employment;

(f) 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 transactions, other than in the ordinary course of business;

(g) 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 VII hereof not being satisfied;

(h) Have made or become obligated to make any dividend payment or other distribution to the Shareholders; or

(i) Enter into or modify any contracts for the purchase of communications services unless such contracts are first approved by WATER.

Section 4.3 Organization, Goodwill. STEAM shall preserve its business organization intact, retain the services of its present officers and use its best efforts to substantially retain its present employees, and preserve the good will of its suppliers, customers and others having business relations with it.

Section 4.4 Access to Facilities, Files and Records. STEAM and the Shareholders acknowledge that as of the date this Agreement is executed WATER has not completed Due Diligence (defined as those actions and investigations described in subsections (i) through (iv) below). Therefore, at the reasonable request of WATER, STEAM shall, from time to time, give or cause to be given to WATER, 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 STEAM; (ii) all such other information concerning the affairs of STEAM as WATER may reasonably request; (iii) consult with the independent auditors of and counsel to STEAM with respect to all matters, including, but not limited to, the financial condition of STEAM and the audit of STEAM's financial statements and any legal and regulatory matters affecting STEAM; (iv) at WATER's own cost and expense, the facilities, properties and operations of STEAM in order to perform a Phase I environmental audit (the "Environmental Audit"). The Environmental Audit, if conducted, shall be instituted within 30 days after this Agreement is fully executed by both parties. A copy of the report of the Environmental Audit will be delivered promptly to the Shareholders and the Shareholders shall, at their expense, be afforded an opportunity to undertake a Phase II audit, if necessary, to prove to WATER's satisfaction that no hazards exist. The Shareholders, at their expense, shall be afforded a 30 day period after discovery to cure any environmental hazards which the Environmental Audit discloses exist and WATER shall keep confidential all information regarding any such hazard unless legally required to disclose it.

Section 4.5 Third Party Consents. STEAM or the Shareholders will obtain or cause to be obtained the consent of any third party whose consent is required 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 STEAM shall not spend any money or otherwise incur any obligation in order to obtain any such consent without the prior written approval of WATER.

Section 4.6 Securities Laws. STEAM and the Shareholders will take all action necessary to permit the transactions contemplated herein to be consummated in compliance with all applicable federal and state securities laws and regulations.

Section 4.7 Communications Laws. STEAM and the Shareholders 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 STEAM and its business.

Section 4.8 Notice of Proceedings. STEAM 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 WATER in writing of such order, decree, complaint or notice.

Section 4.9 Delivery of STEAM's Shareholder Lists. The list of shareholders in Schedule 3.3 hereof is a true and complete list setting forth the identity of all of the common shareholders of STEAM, their holdings of all of the stock of STEAM, the certificate number of each share certificate issued to each of them and the date of such issuance. Prior to the Closing, STEAM will deliver an updated list of its common shareholders and their holdings and WATER may rely completely on such updated list of shareholders.

Section 4.10 Confidentiality. STEAM and each Shareholder, shall maintain all information gained from WATER in connection with the transactions contemplated by this Agreement and the terms of this Agreement (the "WATER Confidential Information") in strict confidence, and shall take all precautions necessary to prevent disclosure, access to, or transmission of the WATER Confidential Information, or any part thereof, to any third party, except as required by law or order of any court having competent jurisdiction. The WATER 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 Shareholder and STEAM shall, immediately upon WATER's request, return all copies and recordings of the WATER Confidential Information in their possession or under their control and delete all records thereof in any data storage system maintained by or for such Shareholder or STEAM.

Section 4.11 No Solicitation. STEAM agrees that, prior to the Effective Time, 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 STEAM (an "Acquisition Transaction") or negotiate or enter into any discussions or other communications with any prospective purchaser (other than WATER or its affiliates) with respect to any Acquisition Transaction. STEAM shall immediately advise WATER of any inquiries or proposals relating to any Acquisition Transaction.

Section 4.12 Recommendation and Approval of Merger. The Board of Directors of STEAM has approved and recommended the Merger to the Shareholders. Each of the Shareholders agrees to vote their STEAM Common in favor of the Merger and to take such actions as may be necessary to consummate the transactions contemplated hereby.

Section 4.13 Audited Financial Statements. STEAM shall promptly take any action necessary in order that, no later than July 15, 1997, STEAM can obtain and deliver to WATER an audited balance sheet of STEAM for each of the two immediately preceding fiscal years, and an audited income statement, statement of cash flows and statement of retained earnings for each of the three preceding years (the "Audited Financial Statements") with an unqualified opinion thereon from a certified public accountant reasonably acceptable to WATER, together with the consent of the applicable auditor, in form and content reasonably acceptable to WATER, to the effect that such financial statements may be included in future public filings of WATER with the Securities and Exchange Commission (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.

Section 4.14 Public Announcements. STEAM and each of the Shareholders acknowledges that WATER is a publicly-held company and dissemination of information concerning this transaction or trading in WATER'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, STEAM and each of the Shareholders agrees not to disseminate any information or make any public statement concerning the transactions other than what is in press releases of WATER.

Section 4.15 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 STEAM or the ability of any Shareholder or STEAM 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 WATER 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,

STEAM and/or such Shareholder shall provide to WATER all relevant information related thereto.

Section 4.16 Employees. On or before the Closing Date, STEAM shall deliver to WATER a list of STEAM's employees as of the end of the calendar month immediately preceding the Closing, indicating the following information for each employee:

- (a) his or her compensation and any applicable severance arrangement;
- (b) whether remunerated on an hourly, weekly, or monthly basis;
- (c) date of most recent commencement of service with STEAM; and
- (d) accrued holiday, vacation, sick leave, long service entitlement (if any) and permitted time-off due as compensation for additional time worked.

Section 4.17 Expenses. Shareholders shall indemnify and hold harmless WATER and STEAM in respect of any expenses or claims for fees in excess of the amounts set forth in Section 3.27 hereof with respect to the transactions contemplated herein by anyone claiming to have acted for the benefit of, or on behalf of, STEAM or the Shareholders.

Section 4.18 Retention of Staff. Shareholders John D. Crawford and Thomas G. Keefe agree, upon election as Chairman of the Board of WATER and Chief Financial Officer of WATER, respectively, as set forth in Section 6.4 hereof, to use their best efforts, consistent with their managerial responsibilities to WATER, to retain the current financial reporting staff and independent auditors of WATER.

Section 4.19 Shareholders' Approval. STEAM and the Shareholders have taken, or will take no later than April __, 1997, all action necessary in accordance with applicable law, and the STEAM Articles of Incorporation and Bylaws, to consider and vote upon the approval of this Agreement and the Merger. All of the Shareholders have voted or will vote their STEAM Shares in favor of the Merger. The Shareholders hereby waive any rights to request appraisal of their STEAM shares under the provisions of Article 15 of the VSCA.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF WATER AND ACQUISITION

As an inducement to the Shareholders to enter into this Agreement and to consummate the transactions contemplated hereby, WATER and Acquisition represent and warrant to the Shareholders as follows:

Section 5.1 Corporate Existence. Each of WATER and Acquisition is a corporation duly organized, validly existing and in good standing under the laws of their respective jurisdictions of incorporation and is qualified as a foreign corporation in each other jurisdiction in which it is lawfully required to qualify to conduct business.

Section 5.2 Corporate Power and Authority. Each of WATER and Acquisition has all requisite corporate power and authority to own its properties and assets, and to carry on the business in which it is now engaged. Each of WATER and Acquisition has the corporate power and authority to execute and deliver this Agreement and the other agreements contemplated hereby, and to perform the covenants of WATER and Acquisition set forth in this Agreement.

Section 5.3 Capitalization. The authorized capital stock of WATER consists of: (i) 100,000,000 shares of common stock, par value \$.0001 per share, of which _____ shares are issued and outstanding and _____ shares are held as treasury stock and (ii) 25,000,000 shares of \$.01 par value preferred stock, of which _____ shares are issued and outstanding and _____ shares are held as treasury stock. 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 WATER stock, or any securities convertible into or evidencing the right to purchase any shares of WATER stock. All such issued and outstanding shares are validly issued, fully paid and nonassessable. There are no restrictions imposed by the Articles of Incorporation or Bylaws of WATER, and there are no other agreements, understandings or commitments, which would in any way affect or impair the transactions contemplated hereby.

Section 5.4 Execution and Delivery Permitted. The execution, delivery and performance of this Agreement will not violate or result in a breach of any term of WATER's Articles of Incorporation or Bylaws or result in a breach of constitute a default under any term in any agreement or other instrument to which WATER or Acquisition is a party, such default having not been previously waived by the other party to such agreements, or violate any law or any order, rule or regulation applicable to them, of any court or any regulatory body, administrative agency or other governmental instrumentality having jurisdiction over them or their properties. Each of WATER's and Acquisition's Board of Directors has taken all action required by law, and by their respective Articles of Incorporation and their respective Bylaws, and otherwise, to authorize the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement, including the issuance of the WATER Shares. Neither the execution, delivery or performance of this Agreement or any of the other agreements executed in connection herewith, or the consummation of the transactions contemplated hereby or thereby requires any filing with or the consent or approval of any third party, including but not limited to any governmental body or entity, other than (i) compliance with the Securities Act and the Securities Exchange Act of 1934, as amended, (ii) applications to certain state utility regulatory commissions in states in which WATER offers services, and (iii) the filing with, and the acceptance for record by, the Virginia State Corporation Commission of Articles of Merger in accordance with the VSCA.

Section 5.5 Binding Effect. This Agreement, and each other agreement required to be delivered by WATER or Acquisition in connection herewith, when executed and delivered will be the legal, valid and binding obligation of WATER or Acquisition, as applicable, enforceable against them in accordance with their terms, except as enforceability may be limited by (i) applicable bankruptcy, reorganization, insolvency, moratorium and similar laws affecting the enforcement of creditors' rights generally and (ii) general equitable principles (regardless of whether enforceability is considered in a proceeding in equity or at law).

Section 5.6 Reports and Financial Statements. Since _____, 1997, to the extent WATER has been required to make filings under the Securities Act, the Exchange Act or applicable state laws and regulations, WATER has filed with the SEC or the applicable state regulatory authority, as the case may be, all forms, statements, reports and documents (including all exhibits, amendments and supplements thereto) required to be filed by it under each of the Securities Act, the Exchange Act and applicable state laws and regulations, and the respective rules and regulations thereunder, all of which complied in all material respects with all applicable requirements of the appropriate act and the rules and regulations thereunder. WATER has previously delivered to the Shareholders true and complete copies of its (i) Annual Reports on Form 10-K for the _____ fiscal years ended March 31, 1996, as filed with the SEC, (ii) proxy and information statements relating to all meetings of its shareholders (whether annual or special), and actions by written consent in lieu of a shareholders' meeting, from _____, 199__ until the date hereof, (iii) all other reports or registration statements filed by WATER with the SEC since _____, 199__ (collectively, the "WATER SEC Reports") and (d) the audited consolidated financial statements of WATER for the fiscal year ended March 31, 1996 (the "WATER Financial Statements"). As of their respective dates, the WATER SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of WATER included in the WATER SEC Reports and the WATER Financial Statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis (except as may be indicated therein or in the notes thereto) and fairly present in all material respects the financial position of WATER and its subsidiaries as of the dates thereof and the results of their operations and changes in financial position for the periods then ended, subject, in the case of the unaudited interim financial statements, to normal year-end and audit adjustments.

Section 5.7 Absence of Certain Changes. Except as set forth on Schedule 5.7, attached hereto and made a part hereof, since the date of the most recent balance sheet included in the WATER Financial Statements, there has not been:

- (a) Any material adverse change in the financial condition, operations, business or prospects of WATER, including, but not limited to, any state or federal regulatory proceedings which could culminate in an order or other action which could have such an

adverse change, excluding generally known industry trends and competitive conditions affecting the industry generally;

(b) Any material physical damage or destruction, whether or not covered by insurance, adversely affecting the properties, business, or operations of WATER;

(c) Any labor dispute or threat thereof or any attempt to organize or reorganize the employees of WATER for the purpose of collective bargaining;

(d) Any direct or indirect redemption, purchase or other acquisition by WATER of any shares of WATER Common, or declaration of or payment or distribution of any kind of cash or other assets to any shareholder of WATER;

(e) Any employment, severance, consulting or other compensation contract entered into by WATER 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;

(f) Any communication, whether oral or written, to WATER from WATER's customers or suppliers or agencies regulating WATER, nor does WATER have any knowledge of any potential development affecting WATER, which would reasonably lead it to expect a material adverse change in WATER's business;

(g) Any guaranty, endorsement or indemnification by WATER of the obligations of any third person, firm or corporation;

(h) Any sale or transfer of any assets or cancellation by WATER of debts or claims having a value, in the aggregate, of more than \$100,000, except, in each case, in the ordinary course of business; or

(i) Any knowing waiver by WATER of any rights having a value in excess of \$100,000.

Section 5.8 Litigation. Except as set forth in Schedule 5.8:

(a) 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 WATER, threatened, nor are there, to the best knowledge of WATER, any investigations, whether or not purportedly on behalf of WATER, complaints or reviews by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against, relating to or affecting WATER.

(b) WATER 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 WATER's assets, the use or occupancy of WATER's real property, and any interests related thereto, and the issuance of shares of WATER Common in the Merger will not constitute a default thereunder.

(c) 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 WATER.

(d) There is no claim, legal action, suit, arbitration, governmental investigation or other legal or other administrative proceeding, including any bankruptcy proceeding, nor any order, decree or judgement in progress, pending, in effect, or, to the knowledge of WATER threatened, against or relating to WATER or Acquisition, which would negatively affect WATER's ability to consummate the transactions contemplated by this Agreement.

Section 5.9 Compliance with Laws. Except as set forth on Schedule 5.9, WATER has not received written notice and WATER has no knowledge of any violation by WATER 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 amended by (i) the Telecommunications Act of 1996, and by (ii) the Telephone Consumer Protection Act of 1991, and WATER does 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 WATER of its properties do not violate any such laws, regulations, orders or requirements. To the actual knowledge of WATER, 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 those states in which STEAM offers communications services, and certain regulatory authorities of foreign countries, if any, in which STEAM offers international communications services, 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.

Section 5.10 Issuance of Shares. Upon issuance of shares of the WATER Common in the Merger as Merger Consideration or Adjusted Merger Consideration, the WATER Shares will be duly authorized, validly issued, fully paid and nonassessable, free and clear of any lien, security interest or other encumbrance of any kind and free of any claim, except for the rights of WATER pursuant to this Agreement or the Escrow Agreement.

**ARTICLE VI
COVENANTS OF WATER**

WATER covenants and agrees that:

Section 6.1 Corporate Action. Subject to the provisions of this Agreement, WATER shall take, and shall cause Acquisition to 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 VI or anywhere else in this Agreement shall require WATER to carry out such transactions if a Final Order of a Commission (as those terms are defined in Section 7.3 of this Agreement) contains a term, condition or provision which, in WATER's sole determination, is unduly burdensome.

Section 6.2 Confidentiality. WATER shall maintain all information gained from STEAM in connection with its evaluation of the transactions contemplated by this Agreement (the "STEAM Confidential Information") in strict confidence, and shall take all precautions necessary to prevent disclosure, access to, or transmission of the STEAM 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 WATER to satisfy its disclosure obligations under the federal and state securities laws. In the event the Closing does not occur for any reason, WATER shall, immediately upon STEAM's request, return all copies and recordings of the STEAM Confidential Information in its possession or under its control and delete all records thereof in any data storage system maintained by or for WATER.

Section 6.3 Notice of Proceedings. WATER 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 STEAM in writing of such order, decree, complaint or notice.

Section 6.4 Director Representation.

(a) At the Effective Time, the WATER Board of Directors shall use its best efforts to support and recommend all necessary action to (i) increase by one (1) the number of seats on the WATER Board of Directors, (ii) elect John D. Crawford to fill the newly-created vacancy, and (iii) elect John D. Crawford as Chairman of the WATER Board of Directors.

(b) After the Effective Date of the Merger, and for a period of two (2) years thereafter, WATER shall use its best efforts to allow STEAM or Shareholders to designate for nomination such number of directors, rounded to the next whole number, as will give the Shareholders representation on WATER's Board of Directors equal to the product of (x) the number of directors on WATER's Board of Directors (giving effect to any increase in the number of directors pursuant to this Section 6.4) multiplied by (y) the percentage that the WATER Shares held by the Shareholders bears to the total aggregate number of WATER Shares outstanding (such number being, the "Board Percentage"), and the WATER Board of Directors shall, upon request by the Shareholders, use best efforts to satisfy the Board Percentage by considering the nomination of persons recommended by the Shareholders to fill one upcoming vacancy on the WATER Board of Directors. The provisions of this Section 6.4 are in addition to and shall not limit any rights which STEAM, WATER or any of their affiliates may have as a holder or beneficial owner of shares as a matter of law with respect to the election of directors or otherwise, provided, however, that WATER's duties hereunder are subject to its ability to comply with all applicable federal and state securities laws and governing corporate law.

(c) At the Effective Time, the WATER Board of Directors shall support efforts to elect Thomas G. Keefe to the position of Chief Financial Officer of WATER.

Section 6.5 Third Party Consents; Guarantees. WATER will use its reasonable best efforts to cooperate with STEAM and the Shareholders to obtain or cause to be obtained the consent of any third party whose consent is required 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. WATER will use its reasonable best efforts to assist John D. Crawford in obtaining the release of his personal guarantees of STEAM obligations following the Closing Date.

Section 6.6 Communications Laws. WATER will use its reasonable best efforts to cooperate with STEAM to permit the transactions contemplated herein to be consummated in compliance with all applicable federal, state and local telecommunications laws governing or applicable to STEAM and its business.

Section 6.7 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 WATER or the ability of WATER 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 STEAM or the Shareholders or (iii) causes any representation or warranty of WATER 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, WATER shall provide to STEAM all relevant information related thereto.

Section 6.8 Broker's Fees. WATER shall indemnify and hold harmless the Shareholders in respect of any claim for brokerage or finder's fees or commissions with respect to the transactions contemplated herein by anyone claiming to have acted on behalf of WATER.

ARTICLE VII CONDITIONS TO CLOSING

Section 7.1 WATER and Acquisition Conditions to Closing. The obligations of WATER and Acquisition hereunder are subject to the satisfaction of each of the following conditions at or before Closing, the occurrence of which may, at the option of WATER, be waived:

(a) All representations and warranties of STEAM and the Shareholders in this Agreement and any certificate, Exhibit or Schedule to be delivered pursuant hereto, which Exhibit or Schedule shall not be amended by STEAM or the Shareholders without WATER's prior written consent, shall be true and accurate in all material respects on the date made and on and as of the Closing, and STEAM and the Shareholders shall have delivered to WATER a certificate to such effect dated as of the Closing Date;

(b) There shall be no material adverse change in the operations of the business of STEAM from the date hereof through the Closing Date;

(c) STEAM and the Shareholders shall perform and comply with all of their obligations under this Agreement which are to be performed or complied with by each of them prior to the Closing Date;

(d) STEAM and the Shareholders shall have delivered to WATER and Acquisition all of the documents required to be delivered by them pursuant to this Agreement.

(e) WATER and WATER's counsel shall approve the form and substance of the documents delivered by STEAM and the Shareholders pursuant to this Agreement;

(f) There shall be no claims, actions or suits pending or threatened against STEAM or the Shareholders that would restrict or prohibit STEAM or the Shareholders from consummating the transactions contemplated herein;

(g) 100% of the outstanding STEAM Common shall have been voted in favor of this Agreement and the Merger;

(h) Prior to the Closing, there shall not have occurred any damage, destruction or loss not covered by insurance exceeding \$_____, or losses due to toll fraud exceeding _____ times the average monthly toll fraud losses for the six months preceding the

month in which this Agreement is executed, adversely affecting the services, products, properties, business operations or prospects of STEAM;

(i) If required by WATER in writing, each instrument or other agreement or document under which STEAM 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 WATER or STEAM of any additional obligation or cost and in a manner satisfactory in form and substance to WATER and STEAM so as to permit the transactions contemplated by this Agreement without a default or acceleration of any obligation thereunder and to provide that neither WATER nor STEAM 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;

(j) STEAM's authorized and issued and outstanding capital stock shall be as stated in Section 3.3 and STEAM 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;

(k) STEAM shall have delivered to WATER at the Closing certified copies of resolutions adopted by the Board of Directors of STEAM adopting and approving this Agreement;

(l) STEAM shall have delivered to WATER a Certificate of Good Standing (or its equivalent) issued by the Virginia State Corporation Commission to the effect that STEAM is duly incorporated and in good standing under the laws of the States, as of the date of the Closing.;

(m) STEAM shall have furnished to WATER a copy of its Articles of Incorporation, including all amendments thereto, which shall have been certified by the Virginia State Corporation Commission as of a date reasonably near the Closing Date;

(n) STEAM shall have furnished to WATER a copy of the Bylaws of STEAM which shall have been certified by the Secretary of STEAM as of the Closing Date;

(o) On or before the Closing (i) the Board of Directors or the Executive Committee thereof of WATER shall have ratified this Agreement and authorized the transactions contemplated hereby and (ii) STEAM shall have taken, and the Shareholders shall cause STEAM to have taken, all corporate action as may be necessary and satisfactory to WATER in its sole discretion, to formalize, update, bolster and ratify the past actions of the employees, officers, directors and Shareholders of STEAM;

(p) Prior to the Closing, STEAM shall have delivered to WATER its audited balance sheet and the related statements of income and retained earnings and statements of cash flows for the fiscal year ending April 30, 1997, reflecting results consistent with those reflected on the interim unaudited financial statements provided by STEAM to WATER prior to the date of this Agreement;

(q) The Merger shall have been declared effective by the Virginia State Corporation Commission; and

(r) STEAM shall have delivered to WATER true and accurate certified copies of certificates of public necessity and convenience or similar certificates of authority issued by the Commission.

Section 7.2 STEAM and Shareholder Conditions to Closing. The obligations of STEAM and the Shareholders hereunder are subject to the satisfaction of each of the following conditions at or before Closing, the occurrence of which may, at the option of STEAM, be waived:

(a) All representations and warranties of WATER and Acquisition in this Agreement shall be true on the date hereof and on and as of the Closing, and WATER and Acquisition shall have delivered to the Shareholders a certificate to such effect dated as of the Closing Date;

(b) WATER and Acquisition shall perform and comply with all of their obligations under this Agreement which are to be performed or complied with by WATER or Acquisition prior to or on the Closing Date;

(c) WATER and Acquisition shall have delivered all of the documents required to be delivered by them by this Agreement;

(d) STEAM and STEAM's counsel shall have approved the form and substance of the documents delivered by WATER and Acquisition pursuant to this Agreement;

(e) There shall be no claims, actions or suits pending or threatened against WATER or Acquisition that would restrict or prohibit WATER or Acquisition from consummating the transactions contemplated herein; and

(f) The Merger shall have been declared effective by the Virginia State Corporation Commission.

Section 7.3 Mutual Covenants and Conditions to Obligations of STEAM and WATER.

(a) As soon as practicable after execution of this Agreement, STEAM and WATER shall join in applications to the Commissions requesting the approvals and authorizations of each such Commission of the transactions contemplated by this Agreement. WATER and the Shareholders shall bear equally 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.

(b) The obligations of STEAM, WATER and the Shareholders under this Agreement are subject to the receipt prior to the Closing of Final Orders (as defined below) of the Commissions approving and authorizing the transactions contemplated herein. WATER, the Shareholders and STEAM shall not be obligated to consummate such transactions if, in the judgment of WATER's Board of Directors or its Executive Committee of the Board of Directors, there is contained in any such order a term, condition or provision which is unduly burdensome. For the purposes of this Section 7.3(b), 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 7.3(b) 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 the party to this Agreement or a third party, a party to this Agreement determines that such order contains a term, condition or provision which is unduly burdensome.

(c) Each of the parties to this Agreement agrees that if WATER, using its reasonable judgment, determines that an application to any other state or federal agency for its approval or authorization of the transactions contemplated herein is required, then WATER shall file such application and STEAM and the Shareholders shall join in such application with WATER and otherwise act in accordance with the provisions of Section 7.3(a) of this Agreement with respect to such application.

**ARTICLE VIII
INDEMNIFICATION**

Section 8.1 Shareholders' Litigation Indemnity Agreements. The Shareholders, jointly and severally, shall for a period of six years from the Closing Date indemnify STEAM, WATER 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 3.11 hereof, or which should have been listed on such Schedule, provided, however, that the indemnification obligation contained in this Section 8.1 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 Shareholders prior to the sixth 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 8.1.

Section 8.2 Shareholders' Other Indemnity Agreements. All representations and warranties made in this Agreement by the Shareholders are made to and for the benefit of both WATER and STEAM. 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 Shareholders at the Closing), the Shareholders, jointly and severally, shall for a period of five years from the Closing Date indemnify WATER and STEAM against and hold WATER and STEAM 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 8.2 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 Shareholders prior to the fifth 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 8.2.

Section 8.3 WATER's Indemnity Agreements. With respect to all representations and warranties made by WATER in this Agreement (and/or in the Exhibits and Schedules attached hereto and the documents to be delivered by WATER at the Closing), WATER shall for a period of five years from the Closing Date indemnify the Shareholders against and hold the Shareholders 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 8.3 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 WATER prior to the fifth 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 8.3.

Section 8.4 No Limitation. The indemnity agreements in this Article VIII shall not constitute a limitation on any of the warranties, representations, covenants or agreements herein.

Section 8.5 Procedure for General Claims. WATER shall give reasonably prompt written notice to the Shareholders' Representative of any claim or event other than Third Party Claims (as defined below) with respect to which WATER believes it or its affiliates is or may be entitled to indemnification pursuant to this Article VIII and the Shareholders' Representative shall give reasonably prompt notice to WATER of any claim or event other than Third Party Claims

with respect to which the Shareholders believe they are or may be entitled to indemnification pursuant to this Article VIII (in each case, a "Notice of Claim"), provided, however, that the failure to give notice as provided in this Section 8.5 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 (or its affiliates, in the case of WATER) 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.

Section 8.6 Procedure for Third Party Claims.

(a) WATER, on the one hand, and the Shareholders' Representative, 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 or its affiliates is or may be entitled to indemnification pursuant to this Article VIII 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 failing 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 8.6 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 VIII hereof or any subsequent claims of the Indemnified Party with respect to such Third Party Claim.

(b) 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 Shareholders are the Indemnifying Party, by the Shareholders, and (ii) in the case of any such Third Party Claim with respect to which WATER is the Indemnifying Party, by WATER.

ARTICLE IX MISCELLANEOUS

Section 9.1 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 Articles VIII, and Sections 9.6, 9.7, 9.9, 9.12 and 9.14, 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 9.3, 9.4, 9.6, 9.7, 9.9, and 9.12, 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.

Section 9.2 Termination of Transactions; Termination Fee.

(a) The transactions contemplated hereby may be abandoned, and this Agreement terminated, upon notice, at any time after the date of this Agreement, but not later than the Closing, by:

(i) The mutual consent of the Board of Directors of STEAM and WATER; or

(ii) WATER, if WATER discovers facts or circumstances in the course of Due Diligence, whether or not WATER was informed of the matter to which such discovered facts and circumstances relate prior to the execution of this Agreement, which are such that in the good faith judgment of WATER would make it inadvisable to proceed with the transactions contemplated by this Agreement; or

(iii) WATER, if STEAM or any Shareholder is in willful breach of any of its representations, warranties, covenants or agreements under this Agreement in any material respect; or

(iv) STEAM, if WATER or Acquisition is in willful breach of any of its representations, warranties, covenants or agreements under this Agreement in any material respect; or

(v) Either STEAM or WATER, if the consummation of the Merger contemplated herein has 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

(vi) The Board of Directors of STEAM or WATER if the Merger contemplated herein shall not have become effective on or before June 15, 1997.

(b) Upon termination of this Agreement by STEAM pursuant to subsection (iv) of Section 9.2(a), WATER agrees to pay STEAM a fee in immediately available funds equal to \$_____.

(c) Upon termination of this Agreement by WATER pursuant to subsection (iii) of Section 9.2(a), or upon withdrawal of the STEAM Board of Directors' recommendation of the Merger pursuant to Section 4.12, STEAM agrees to pay WATER a fee in immediately available funds equal to \$_____.

(d) Upon termination of this Agreement by either STEAM or WATER pursuant to subsection (v) of Section 9.2(a), the terminating party agrees to pay the non-terminating party a fee in immediately available funds equal to \$_____.

Section 9.3 Effect of Termination or Abandonment. If for any reason the transactions contemplated hereby are terminated or abandoned pursuant to Section 9.2 hereof, 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.

Section 9.4 Liabilities. In the event this Agreement is terminated and the contemplated transactions are abandoned pursuant to Section 9.2 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.

Section 9.5 Assignment. This Agreement shall not be assigned by STEAM or the Shareholders.

Section 9.6 Further Assurances. From time to time prior to, at and after the Closing, the Shareholders, STEAM and WATER will and will cause their respective directors and officers to execute all such instruments and take all such actions as the Shareholders, WATER or STEAM, 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.

Section 9.7 Notices. All notices, demands and other communications which may or are required to be given hereunder or with respect hereto shall be given by STEAM on behalf of itself and the Shareholders, and by WATER on behalf of itself. All such notices, demands and other communications 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 WATER:

with a copy to:

or to such other address as WATER may from time to time designate by notice to STEAM and the Shareholders;

(ii) If to STEAM or the Shareholders:

with a copy to:

or to such other address as STEAM and the Shareholders may from time to time designate by notice to WATER.

Section 9.8 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.

Section 9.9 Rules of Construction. This Agreement shall be construed as follows:

(a) 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;

(b) 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;

(c) 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;

(d) throughout this Agreement, the masculine, feminine or neuter genders shall be deemed to include the masculine, feminine and neuter, and the singular and plural, and vice versa.

Section 9.10 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.

Section 9.11 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 Shareholders, 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 Shareholders and STEAM, on the one hand, and WATER, 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.

Section 9.12 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 WATER and of STEAM and the successors and personal representatives of the Shareholders. 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.

Section 9.13 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.

Section 9.14 Public Statements or Releases. STEAM, the Shareholders and WATER 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.

Section 9.15 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.

Section 9.16 No Third Party Beneficiaries. This Agreement and the obligations of WATER 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 STEAM and no such person or entity shall have any rights or remedies hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on this day, month and year first above written.

WATER, INC.

By: _____
Name: _____
Title: _____

WATER ACQUISITION CORP.

By: _____
Name: _____
Title: _____

STEAM, INC.

By: _____
Name: _____
Title: _____

SHAREHOLDERS:

John D. Crawford

Thomas G. Keefe

Donna L. Raoust

Glenn Callahan

Rick Davis

Layne Levine

Lisa Brown

Dean Young

LIST OF EXHIBITS AND SCHEDULES

EXHIBITS

- 2.2(d) STEAM Opinion
- 2.3(b) WATER Opinion
- 2.3(e) Registration Rights Agreement
- 2.3(f) Escrow Agreement
- 2.3(g) Employment Agreements
- 3.1 STEAM Articles of Incorporation and Bylaws

SCHEDULES

- 3.2 STEAM Subsidiaries, Other Interests
- 3.3 Ownership of STEAM Common
- 3.5 Consents and Approvals
- 3.6 Exceptions to Interim Financial Statement
- 3.7 Material Adverse Changes
- 3.8 Undisclosed Liabilities
- 3.10(a) Employment Contracts
- 3.10(b) Employee Salary and Benefit Information
- 3.10(c) Employee Severance Information
- 3.10(d) Benefit Plans
- 3.11 Litigation
- 3.12 Exceptions to Compliance with Laws, Tariffs
- 3.13 Tax Filings and Audits
- 3.14 Indebtedness
- 3.15 Bank Accounts
- 3.16 Other Contracts, Agreements, Leases, etc.
- 3.17 Owned Real Property and Liens and Encumbrances
- 3.21 Conflicts of Interest
- 3.22 Intellectual Property
- 3.23 Insurance
- 4.2 Permitted Actions

EXHIBIT "B"

**NETWORK LONG DISTANCE, INC.
FINANCIAL INFORMATION**

**FORM 10-Q, FOR QUARTER
ENDED DECEMBER 31, 1996**

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended December 31, 1996.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____.

Commission File Number: **0-23172**

NETWORK LONG DISTANCE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

77-1122018

(I.R.S. Employer Identifi-
cation Number)

525 Florida Street
Baton Rouge, Louisiana 70801

Address of Principal Executive Offices, Including Zip Code

(504) 343-3125

(Registrant's Telephone Number, Including Area Code)

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 periods that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

There were 6,767,639 shares of the Registrant's \$0.0001 per value common stock issued and outstanding as of December 31, 1996.

NETWORK LONG DISTANCE, INC. AND SUBSIDIARIES**Index to Form 10-Q****For the Quarter Ended December 31, 1996**

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NETWORK LONG DISTANCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1996 <u>Unaudited</u>	March 31, <u>1996</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 641,600	\$892,572
Accounts receivable, net of allowance for doubtful accounts of \$2,071,000 and \$1,001,000 at December 31, 1996, and March 31, 1996 respectively	8,402,507	9,325,997
Other receivables	670,244	708,962
Deferred income tax asset	586,564	0
Other current assets	<u>418,048</u>	<u>668,231</u>
Total current assets	10,716,956	11,595,762
Property and equipment		
Land	75,000	75,000
Building and improvements	729,306	697,285
Telecommunications equipment	1,399,864	2,338,886
Furniture and fixtures	<u>1,728,988</u>	<u>1,371,197</u>
	3,933,158	4,482,368
Less accumulated depreciation	<u>(2,121,917)</u>	<u>(1,758,938)</u>
Total property and equipment, net	1,811,241	2,723,412
Customer acquisition costs, Net	6,022,037	5,002,702
Goodwill, Net	2,579,701	3,358,081
Other intangibles, net	222,904	412,219
Other assets	<u>818,228</u>	<u>218,940</u>
Total assets	<u>\$21,888,064</u>	<u>\$23,311,116</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt and current maturities of long-term debt	\$ 1,117,635	\$202,280
Accounts payable	231,251	1,857,423
Accrued telecommunications cost	4,837,239	2,736,999
Other accrued liabilities	1,928,924	1,152,691
Customer deposits	132,890	176,210
Deferred income tax liability	0	242,872
Current maturities of capital lease obligations	<u>82,934</u>	<u>82,855</u>
Total current liabilities	8,341,083	6,251,230
Deferred income tax liability	0	68,201
Long-Term Debt	2,834,716	2,889,138
Capital Lease Obligation	33,202	126,481
Series A convertible preferred stock - \$0.01 per value; 25,000,000 shares authorized; no shares issued and outstanding at December 31, 1996, and March 31, 1996.	C	0
Stockholders' equity		
Common stock - \$0.0001 per value; 20,000,000 shares authorized; 6,767,639 and 6,523,878 shares issued and outstanding at December 31, 1996 and March 31, 1996, respectively	877	652
Additional paid-in capital	14,787,036	12,970,833
Retained earnings	(4,076,360)	1,106,871
Treasury stock	<u>(82,280)</u>	<u>(82,280)</u>
Total stockholders' equity	<u>10,888,083</u>	<u>13,888,088</u>
Total liabilities and stockholders' equity	<u>\$21,888,064</u>	<u>\$23,311,116</u>

See notes to consolidated financial statements.

NETWORK LONG DISTANCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	<u>Three Months ended</u> <u>December 31,</u>		<u>Nine Months ended</u> <u>December 31,</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Revenue (including excise taxes of \$342,561 and \$242,807 for the three months ended December 31, 1996 and 1995, respectively and \$1,074,000 and \$592,014 for the nine months ended December 31, 1996 and 1995 respectively)	\$14,384,688	\$11,465,271	\$44,029,052	\$31,294,438
Operating expenses:				
Telecommunications costs	10,201,738	8,209,529	30,901,479	22,885,397
Selling, general and administrative	3,855,857	2,498,976	10,661,864	6,479,602
Depreciation and amortization	465,941	370,763	1,326,503	771,467
Provision for losses on accounts receivable	1,988,486	(30,982)	2,683,483	143,314
Provision to reduce carrying value of certain assets	<u>4,050,000</u>	<u>0</u>	<u>4,050,000</u>	<u>0</u>
Total operating expenses	<u>20,861,822</u>	<u>11,046,286</u>	<u>49,603,309</u>	<u>30,279,780</u>
Operating income	(6,177,134)	418,985	(5,573,657)	1,014,658
Interest (income) expense, net	141,486	77,617	397,065	167,395
Other (income) expense, net	<u>0</u>	<u>0</u>	<u>0</u>	<u>(22,827)</u>
Income before income taxes	(6,318,620)	341,368	(5,970,722)	880,090
Provision (benefit) for income taxes	<u>(853,001)</u>	<u>84,791</u>	<u>(709,186)</u>	<u>282,914</u>
Net income applicable to common stockholders	(5,365,619)	246,577	(5,261,536)	617,176
Proforma Adjustment (Note 1):				
Income tax provision	<u>0</u>	<u>44,366</u>	<u>4,700</u>	<u>104,511</u>
Proforma Net Income applicable to common stockholders	<u>\$ (5,365,619)</u>	<u>\$ 202,211</u>	<u>\$ (5,269,736)</u>	<u>\$ 512,665</u>
Earnings per common share	<u>\$ (0.87)</u>	<u>\$ 0.04</u>	<u>\$ (0.87)</u>	<u>\$ 0.12</u>
Proforma earnings per common share	n/a	<u>\$ 0.03</u>	<u>\$ (0.87)</u>	<u>\$ 0.10</u>

See notes to consolidated financial statements.

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

For the Nine months ended December 31,
1988 1995

	1988	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (5,261,536)	\$ 617,176
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	377,166	413,086
Amortization	649,337	358,381
Provision for losses on accounts receivable	2,663,463	143,314
Provision (benefit) for deferred income taxes	(1,157,374)	193,014
Provision for employee stock incentive plan	36,061	38,064
Loss on impairment of intangibles	4,050,000	0
Changes in assets and liabilities, net of effect of business combinations:		
Increase in accounts receivable	(1,094,346)	(3,041,378)
Decrease (increase) in other receivables	36,720	(9,568)
Increase (decrease) in other assets	216,596	(722,380)
Decrease in accrued line costs	1,572,185	1,496,589
(Decrease) increase in accounts payable	(1,455,721)	726,725
Increase (Decrease) in accrued liabilities	646,889	(71,240)
Net cash provided by operating activities	<u>1,585,418</u>	<u>141,783</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(238,355)	(1,636,285)
Acquisition and related costs	(3,829,161)	(2,219,256)
Increase in intangible assets	92,389	(320,019)
Proceeds from sale of equipment	764,363	0
Proceeds from the sale of short term investments	0	1,558,582
Net cash used in investing activities	<u>(3,210,774)</u>	<u>(2,817,008)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings	21,879,904	6,890,151
Principal payments on debt	(20,978,803)	(5,746,769)
Decrease in capital lease obligation	(63,305)	(54,601)
Dividends on common stock	0	(36,386)
Net cash provided by financing activities	<u>837,796</u>	<u>3,052,385</u>
Net increase (decrease) in cash and cash equivalents	(787,560)	377,180
Effect of change in fiscal year-end of LWI	536,588	0
Cash and cash equivalents at beginning of period	<u>892,572</u>	<u>523,282</u>
Cash and cash equivalents at end of period	<u>\$ 941,600</u>	<u>\$ 900,442</u>

See notes to consolidated financial statements.

NETWORK LONG DISTANCE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - MERGER

On November 15, 1996, Network Long Distance, Inc. (Network), merged with United Wats, Inc. (UWI) and in connection therewith issued 2,277,780 shares of common stock for all of UWI's common stock (the Merger). The Merger was accounted for as a pooling-of-interests and, accordingly, the Network financial statements for periods prior to the Merger have been restated to include the results of UWI for all periods presented. Separate and combined results of operations are as follows:

	For the Three months ended December 31,		For the Nine months ended December 31,	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Revenues:				
Network	\$ 9,029,149	\$ 8,292,719	\$29,226,114	\$24,196,455
UWI	<u>5,355,539</u>	<u>3,172,552</u>	<u>14,803,538</u>	<u>7,097,983</u>
Combined	<u>\$14,384,688</u>	<u>\$11,465,271</u>	<u>\$44,029,652</u>	<u>\$31,294,438</u>
Income (Loss) before income taxes:				
Network	\$(6,670,662)	\$ 137,781	\$(6,736,886)	\$ 373,129
UWI	<u>352,042</u>	<u>203,587</u>	<u>766,164</u>	<u>506,961</u>
Combined	<u>\$(6,318,620)</u>	<u>\$ 341,368</u>	<u>\$(5,970,722)</u>	<u>\$ 880,090</u>

Prior to the Merger, UWI utilized a December 31 fiscal year end. For purposes of the consolidated balance sheets, the March 31, 1996 and December 31, 1996 consolidated balance sheets of Network have been consolidated with the balance sheets of UWI as of December 31, 1995 and December 31, 1996, respectively. The consolidated statements of income of Network for the three month and nine month periods ended December 31, 1996 and December 31, 1995 have been consolidated with the results of UWI for the three months and nine months ended December 31, 1996 and September 30, 1995, respectively. The consolidated statements of cash flows of Network for the nine months ended December 31, 1996 and December 31, 1995 have been consolidated with the results of UWI for the nine months ended December 31, 1996 and September 30, 1995, respectively. The combined companies of Network and UWI are hereinafter referred to as the "Company."

NOTE 2 - BASIS OF PRESENTATION

The financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Certain reclassification have been made to the balance sheet dated March 31, 1996 in order to conform to the balance sheet dated December 31, 1996. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature) which are necessary to present fairly the financial position, results of operations and cash flows for the interim periods.

NOTE 3 - ACQUISITIONS

In May 1996, the Company purchased substantially all of the customer base of Universal Network Services, Inc. including the related accounts receivable valued at \$776,000 for approximately 243,750 shares of common stock valued at approximately \$1,828,000, and cash of approximately \$3,628,000. The Company has initially allocated approximately \$2,100,000 to customer base and \$2,800,000 to goodwill with estimated useful lives of 7.5 years and 30 years, respectively. The following represents the proforma results of operations of the Company and Universal Network Services, Inc. for the Nine months ending December 31, 1996.

For the Nine Months Ended

	<u>December 31, 1996</u>
Revenue	045,612,993
Net Income (Loss)	<u>415,698,351</u>
E.P.S.	<u>4.10,988</u>

The initial purchase price allocations for the fiscal year 1997 acquisitions were based on estimates as the Company is waiting for more detailed information concerning the current value of certain assets. As a result, the final purchase price allocations may differ from the presented estimates. To identify the intangibles acquired in these purchases, the Company employs a series of projections of the acquired customer bases. These projections utilize cash flow models and historic and projected attrition rates to quantify the values allocated to the various acquired intangibles and the related useful lives. Management believes such projections are achievable based on the current results of the Company's operations.

NOTE 4 - REDUCTION IN CARRYING VALUE OF CERTAIN ASSETS

During the three month period ended December 31, 1996 the Company incurred non-cash charges related to a reduction in the carrying value of intangible assets associated with certain acquisitions. The contractual agreements related to the Company's acquisitions of certain customer bases required certain re-evaluations as of October 31, 1996. As a result, Management revised estimates of the recoverability of these intangible assets resulting in a non-cash, pretax charge of \$4,050,000. On a pretax basis the write-down included \$2,740,000 for goodwill and \$60,000 for customer acquisition costs associated with the purchase of selected assets from Value Tel, Inc., \$774,000 for goodwill and \$176,000 for customer acquisition costs associated with the purchase of selected assets from Colorado River Communications Corp., and \$300,000 for customer acquisition costs associated with the purchase of selected assets from Quantum Communications, Inc. The fair value of these assets were determined by estimating the present value of future cash flows to be generated by these assets.

NOTE 5 - NET INCOME (LOSS) PER SHARE

Net income (loss) per share was calculated based on the following number of common and common equivalent shares outstanding: 6,082,354 and 5,805,182 for the three months ended December 31, 1986 and 1995, respectively, and 6,038,100 and 5,370,551 for the nine months ended December 31, 1996 and 1995, respectively.

NOTE 6 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

For the nine months ended December 31, 1996 and 1995, interest paid amounted to \$401,000 and \$89,000, respectively. Income taxes paid by the Company during the nine months ended December 31, 1996 and 1995 was \$170,000 and \$231,000, respectively.

**MANAGEMENT'S DISCUSSION & ANALYSIS
OF FINANCIAL CONDITION
& RESULTS OF OPERATIONS**

The following is a discussion of the consolidated financial condition and results of operations of the Company for the three months and nine months ended December 31, 1996 and 1995 after giving effect to the mergers with United Wats, Inc. (UWI) and Long Distance Telecom, Inc. dba Blue Ridge Telephone (Blue Ridge), which were accounted for as a pooling of interests. This information should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto.

Certain statements set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts, are forward-looking statements under the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements. Among the factors that could cause actual future results to differ materially are competitive pressures, the timing and techniques used in marketing by third-party distributors and the market acceptance of certain services.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended December 31, 1996, the Company's cash flow provided by operating activities was \$1,585,418 compared to cash flow provided by operating activities of \$141,418 for the nine months ended December 31, 1995. The Company made significant capital investments in the first nine months of fiscal year 1997, resulting in cash used in investing activities of \$3,210,774, compared to \$2,817,008 of cash used in investing activities for the nine months ended December 31, 1995. These investments included customer base acquisitions, office furniture and fixtures and leasehold improvements related to the Company's new operations center. Included in investing activities is \$784,363 of proceeds from the sale of a DEX switch which is being leased back to the Company. The Company has financed these capital expenditures and acquisitions by utilizing its revolving line of credit and term loan facility.

In May 1996, the Company entered into a \$14,250,000 credit facility with a bank which includes a revolving credit facility and term loan facility. Borrowings under the revolving credit portion of the facility may not exceed the lesser 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 will bear interest at the prime rate plus 3%. Substantially all of the assets of the Company are pledged as collateral under the credit facility.

In May 1996, the Company purchased substantially all of the customer base of Universal Network Services, Inc. including the related accounts receivable valued at \$776,000 for approximately 243,750 shares of common stock valued at approximately \$1,825,000, and cash of approximately \$3,628,000. The Company has initially allocated approximately \$2,100,000 to customer base and \$2,600,000 to goodwill with estimated useful lives of 7.5 years and 30 years, respectively.

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 337,058 shares of common stock for all of Blue Ridge's common stock (the Merger). The Merger was accounted for as a pooling-of-interests and, accordingly, the Network financial statements for periods prior to the Merger have been restated to include the results of Blue Ridge for all periods presented. Prior to the Merger, Blue Ridge operated in the form of a partnership under the name "Telecommunications Ventures Limited Partnership No. 1 T/A Blue Ridge Telephone." On June 17, 1996, 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 income include a pro forma adjustment to reflect a provision for income taxes on a combined basis as if Blue Ridge had been subject to income tax.

On November 15, 1996, Network Long Distance, Inc. (Network), merged with United Wats, Inc. (UWI) and in connection therewith issued 2,277,780 shares of common stock for all of UWI's common stock (the Merger). The Merger was accounted for as a pooling-of-interests and, accordingly, the Network financial statements for periods prior to the Merger have been restated to include the results of UWI for all periods presented. Prior to the Merger, UWI utilized a December 31 fiscal year end. For purposes of the consolidated balance sheets, the March 31, 1996 and December 31, 1996 consolidated balance sheets of Network have been consolidated with the balance sheets of UWI as of December 31, 1995 and December 31, 1996. The consolidated statements of income of Network for the three month and nine month periods ended December 31, 1996 and December 31, 1995 have been consolidated with the results of UWI for the three months and nine months ended December 31, 1996 and September 30, 1995, respectively. The consolidated statements of cash flows of Network for the nine months ended December 31, 1996 and December 31, 1995 have been consolidated with the results of UWI for the nine months ended December 31, 1996 and September 30, 1995, respectively.

RESULTS OF OPERATIONS

For the three months ended December 31, 1996, revenues, inclusive of excise taxes and fees, were \$14,384,688, compared to \$11,465,271 for the third fiscal quarter of 1996, an increase of 25.5% and \$44,029,162 for the nine months ended December 31, 1996 compared to \$31,294,438 for the same period in 1995, an increase of 40.7%. The rise in revenues reflects an overall increase in long distance calling volume resulting from the enhanced sales efforts of the Company's nationwide retail, agent, and affinity marketing divisions; and from new calling traffic generated by the Company's expanded acquisition program, see Note 3 to the Financial Statements.

Cost for telecommunications for the three months ended December 31, 1996 were \$10,201,738, representing approximately 70.9% of revenue, compared to \$8,209,529, representing 71.6% of revenue for the same period in 1995. For the nine month period ended December 31, 1996, cost of telecommunications were \$30,901,479 representing 70.2% of revenue, compared to \$22,885,397 representing 73.1% of revenue for the same period in 1995. This reduction as a percentage of revenues is a reflection of economies of scale resulting from the increased calling volume from both internal generated sales and through the Company's mergers and acquisition activity.

Selling, general and administrative expenses were \$3,855,657 for the three months ended December 31, 1996, representing 26.8% of revenue. This compares with SG&A expense of \$2,496,976 for the three months ended December 31, 1995, representing 21.8% of revenues. SG&A for the nine month period ended December 31, 1996 was \$10,661,864 or 24.2% of revenue compared to \$8,479,802 or 20.7% of revenues for the same period last year. The increases are associated with one-time charges relating to the mergers with UWI and Blue Ridge and an increase in personnel costs associated with a build up of operations in anticipation of future revenue growth.

Depreciation and amortization expense was \$465,841 for the three months ended December 31, 1996, representing 3.2% of revenues. This is compared to \$370,763, or 3.2% of revenue, for the same period in 1995. For the nine month period ended December 31, 1996, depreciation and amortization expense was \$1,326,503 or 3.0% of revenue compared to \$771,467 or 2.5% of revenue for the same period last year. This increase is related to the amortization of the customer bases acquired, primarily those acquired from Universal Network Services, Inc. and Value Tel, Inc., and from depreciation of additional equipment acquired during the periods.

The provision for losses on accounts receivable for the three month period ended December 31, 1996 was \$1,988,486 or 13.8% of revenues. This compared to \$(30,982) or (0.27)% of revenues for the same period in 1995. For the nine month period ended December 31, 1996, the provision for losses on accounts receivable was \$2,663,463 or 6.1% of revenues compared to \$143,314 or 0.46% of revenues for the same period in 1995. The increases in the provision for losses on accounts receivable is primarily associated with the Company's on-going effort to clean-up and de-emphasize its wholesale operations in order to reduce the Company's exposure to this lower margin sector of the business, the write-off of uncollectible accounts receivable acquired in previous acquisitions, and the application of the Company's revised policies associated with the collection and write-off of accounts receivable.

During the three month period ended December 31, 1996, the Company incurred non-cash charges related to a reduction in the carrying value of intangible assets associated with certain acquisitions. The contractual agreements related to the Company's acquisition of certain customer bases required certain re-evaluations as of October 31, 1996. As a result, management's revised estimates of the recoverability of these intangible assets resulted in a non-cash, pretax charge of \$4,050,000. On a pretax basis the write-down included \$2,740,000 for goodwill and \$60,000 for customer acquisition costs associated with the purchase of selected assets from Value Tel, Inc., \$774,000 for goodwill and a \$176,000 for customer acquisition costs associated with the purchase of selected assets from Colorado River Communications Corp., and \$300,000 for customer acquisition costs associated with the purchase of selected assets from Quantum Communications, Inc. In light of these reductions, the Company has reviewed its mergers and acquisitions program in an effort to reduce its exposure to such reductions as they may relate to any other acquisitions including purchase price allocations and amortization periods.

Net income (loss) for the three months ended December 31, 1996 was \$(5,365,619), compared to \$246,577 for the same period in 1995. For the nine month period ended December 31, 1996, net income was \$(5,261,536) compared to \$617,176 for the same period last year. This decrease in net income is attributable to the reduction in the carrying value of certain assets and from the increases in selling, general, and administrative expenses and the provision for losses on accounts receivable.

PART II**Other Information****Item 1: Legal Proceedings**

None

Item 2: Changes in Securities

None

Item 3: Default Upon Senior Securities

None

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

None

Item 5: Other Information

None

Item 6: Exhibits and Current Reports on Form 8-K

(a) Exhibits - None.

(b) Current reports on Form 8-K

During the quarter ended December 31, 1996, the Company filed the following current reports: Current report on Form 8-K/A dated September 16, 1996, filed on November 12, 1996, reporting under Item 7 Financial Statements, Current report on Form 8-K/A dated September 16, 1996, filed on November 15, 1996, reporting under Item 7 Financial Statements, Current report on Form 8-K dated November 15, 1996, filed on November 25, 1996, reporting under Item 2 Acquisition or Disposition of Assets, Current Form 8-K/A dated November 15, 1996, filed on November 27, 1996, reporting under Item 7 Financial Statements. After the quarter ended December 31, 1996, the Company filed a Current report on Form 8-K/A dated November 15, 1996, filed on January 14, 1997, reporting under Item 7 Financial Statements.

SIGNATURES

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

NETWORK LONG DISTANCE, INC.

Dated: February 13, 1997

By: /s/Marc I. Becker
Marc I. Becker, Executive Vice President
and Chief Operating Officer

EXHIBIT "C"

**EASTERN TELECOM
INTERNATIONAL, INC.
FINANCIAL INFORMATION**

**INCOME STATEMENT
AND BALANCE SHEET
DATED JANUARY 31, 1996**

EASTERN TELECOM INTERNATIONAL CORP.
BALANCE SHEET

For the Nine Months Ended January 31, 1997

ASSETS

CURRENT ASSETS:	
FIRST UNION NATIONAL - DEPOSITORY	\$361,163.87
FIRST UNION NATIONAL - DISBURSEMENT	(696,627.67)
FIRST UNION - CAP ACCOUNT	496,240.62
FIRST UNION - PAYROLL	(13,129.08)
FIRST UNION ETC OF DC	(15,244.21)
FIRST UNION ETC OF DC PETTY CASH	621.40
CRESTAR BANK GENERAL	203.89
E-TRADE MONEY MARKET	36,464.21
STOCK INVESTMENTS	49,050.00
	<hr/>
TOT. CASH AND MARKETABLE SECURITIES	218,743.03
A/R ONE PLUS	3,822,683.74
A/R USBI - ONE PLUS	35,497.63
A/R AMERICAN EXPRESS	4,647.54
A/R ZERO PLUS DIALING - HOTELS	140,902.18
A/R ZERO PLUS DIALING - ONE PLUS	40,102.96
A/R RECEIVABLES FUNDING CORP (RFC)	276,176.13
A/R RECEIVABLES FUNDING HOLDBACK	283,717.25
A/R CREDIT RESERVE	57,737.12
A/R OFFSET RESERVE	28,868.56
A/R SERVICE FEES	57,737.12
INVESTMENT IN ADVANCED CLIENT SOLUT	0.00
INVESTMENT IN FREEDOM USA	0.00
A/R MISCELLANEOUS	6,227.83
	<hr/>
TOTAL ACCOUNTS RECEIVABLE	4,754,298.06
LESS ALLOWANCE FOR BAD DEBT, UNBILLABLES, CREDITS AND FEES	
ONE PLUS - DIRECT BILLED	(267,587.86)
ONE PLUS - LEC BILLED	(10,618.73)
ONE PLUS - RFC	(87,220.17)
ZERO PLUS - HOTELS	(47,922.87)
ZERO PLUS - ONE PLUS	(7,273.13)
	<hr/>
NOTES RECEIVABLE JDC -	114,885.12
NOTES RECEIVABLE/EMPLOYEE	6,000.00
NOTES RECEIVABLE-DETAILERS	6,000.00
	<hr/>
TOTAL NOTES RECEIVABLE	126,885.12
INVENTORY - PPD CALLING CARDS	7,500.00
PREPAID EXPENSES	7,853.15
	<hr/>
TOTAL CURRENT ASSETS	4,694,656.60

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EASTERN TELECOM INTERNATIONAL CORP.
BALANCE SHEET

January 31, 1997

ALER & T-1 EQUIPMENT	\$909,050.00	
VEHICLES	2,000.00	
FURNITURE, FIXTURES & EQUIPMENT	240,268.20	
COMPUTER EQUIPMENT	526,750.81	
COMPUTER SOFTWARE	307,753.11	
ROUTING CONNECTIONS	277,126.08	
LEASEHOLD IMPROVEMENTS	86,831.94	
TELEPHONE SWITCH	871,748.60	
EASTERN TELECOM SWITCH	1,273,687.45	
	<u>4,495,216.19</u>	
TOTAL FIXED ASSETS	(2,091,622.56)	
ACCUMULATED DEPRECIATION		2,403,593.63
OTHER ASSETS:		
PLAN FEES		39,027.97
ACCUMULATED AMORTIZATION		(17,983.54)
DEPOSITS		54,218.40
		<u>7,173,513.06</u>
TOTAL ASSETS		=====

EASTERN TELECOM INTERNATIONAL CORP.
BALANCE SHEET

January 31, 1997

LIABILITIES AND EQUITY

CURRENT LIABILITIES:

ACCOUNTS PAYABLE	\$1,362,357.85	
401 - K PLAN	7,031.04	
PAYROLL TAXES PAYABLE	58,455.31	
FEDERAL SUPPORT/GARNISHMENT PAYABLE	328.07	
LOSS RECEIPTS TAX PAYABLE	323,331.81	
FEDERAL EXCISE TAX PAYABLE	128,084.30	
ACCRUED HOTEL COMMISSIONS	49,433.47	
ACCRUED SALES COMMISSIONS	31,349.37	
ACCRUED TRANSMISSION EXPENSE	1,028,959.00	
ACCRUED OPERATOR SERVICES	5,526.84	
ACCRUED PAYROLL	137,316.68	
INCOME TAXES PAYABLE	66,306.56	
CURRENT PORTION OF LT DEBT	456,315.36	
TOTAL CURRENT LIABILITIES		3,654,795.66

OTHER LIABILITIES:

/P TELECOMMUNICATIONS FINANCIAL	358,215.51	
/P NELCO	25,297.96	
/P INSIGHT FINANCIAL	75,000.00	
COVERED CALL OPTION	0.00	
/P AT&T	6,500.00	
/P M&SD FINANCIAL	787,196.92	
/P LEON PERLIN	210,000.00	
CURRENT PORTION OF LT DEBT	(456,315.36)	
TOTAL OTHER LIABILITIES		1,005,895.03
TOTAL LIABILITIES		4,660,690.69
DEFERRED INCOME TAXES		547,169.00

EQUITY:

COMMON STOCK	1,732.00	
DEFERRED STOCK	307,850.40	
TREASURY STOCK AT COST	(550,000.00)	
RET EARNINGS TO PREFERRED	(307,850.40)	
RETAINED EARNINGS	1,528,639.93	
CURRENT YEAR EARNINGS (LOSS)	1,222,700.40	
UNREALIZED HOLDING GAIN	(4,502.30)	
OTHER DIVIDENDS PAID	(232,916.66)	
TOTAL EQUITY		1,965,653.37
TOTAL LIABILITIES AND EQUITY		7,173,513.06

EASTERN TELECOM INTERNATIONAL CORP.
Consolidated

For the Nine Months Ended January 31, 1997

	CURRENT	%	Y.T.D.	%
REVENUE:				
LONG DISTANCE: 0+	871,220.55	3.4%	81,203,686.34	7.5%
LONG DISTANCE: 1+	1,949,020.55	93.4%	14,087,979.57	88.2%
LONG DISTANCE: 1+ LEC BILLED	7,572.92	0.4%	66,367.04	0.4%
LONG DISTANCE: 1+ INTERNET	3,743.88	0.2%	6,500.77	0.0%
PAGER INCOME	29,631.74	1.4%	195,316.85	1.2%
STATE FEES	7,874.74	0.4%	68,522.34	0.4%
OPERATOR SERVICE REVENUE	15,114.93	0.7%	180,298.79	1.1%
CONSULTING INCOME	0.00	0.0%	15,988.12	0.1%
INTEREST INCOME	1,883.26	0.1%	32,583.31	0.2%
DIVIDEND INCOME	0.00	0.0%	880.00	0.0%
RENTAL INCOME	0.00	0.0%	120,198.54	0.8%
TOTAL REVENUE	2,086,042.57	100.0%	15,978,321.67	100.0%
LESS: CUSTOMER REFUNDS	0.00	0.0%	(5,616.35)	0.0%
CREDITS & ALLOWANCES - 1+	(20,406.85)	-1.0%	(107,294.24)	-0.7%
NET REVENUE	2,065,635.72	99.0%	15,865,411.08	99.3%
COST OF REVENUE:				
LEC CHARGES	(31.08)	0.0%	3,168.62	0.0%
.A.B.S. INTERSTATE USE	211,191.18	10.1%	1,895,274.28	11.9%
.A.B.S. INTRASTATE USE	114,688.66	5.5%	925,886.96	5.8%
CONTRACT OPERATOR SERVICES	3,700.99	0.2%	58,754.64	0.4%
LONG DIST CHARGES	657,148.09	31.5%	4,397,190.71	27.5%
W/O RECURRING CIRCUIT CHARGES	74,577.10	3.6%	523,277.98	3.3%
INTERNET RECURRING CHARGES	3,187.50	0.2%	28,620.05	0.2%
INTERNET NON-RECURRING CHARGES	100.00	0.0%	100.00	0.0%
NETWORK FACILITY RENT	7,177.72	0.3%	56,783.99	0.4%
NETWORK MAINTENANCE EXP	1,050.00	0.1%	4,140.00	0.0%
NETWORK SITE-TELEPHONE EXP	0.00	0.0%	2,179.54	0.0%
COMMISSIONS SALES	42,004.40	2.0%	278,074.06	1.7%
COMMISSIONS CUSTOMERS	19,129.81	0.9%	312,752.34	2.0%
MATERIALS & REPAIRS	3,682.05	0.2%	32,572.13	0.2%
COST OF PAGERS	1,552.30	0.1%	117,236.00	0.7%
CUSTOMER PAGER USAGE	13,393.00	0.6%	69,870.08	0.4%
COST OF DEBIT CARD MATERIALS	3,750.00	0.2%	3,750.00	0.0%
INSTALLATION CHARGES	11,300.50	0.5%	42,887.35	0.3%
LABOR	5,060.92	0.2%	54,107.79	0.3%
FREIGHT/SHIPPING	0.00	0.0%	495.76	0.0%
VALIDATION FEE	1,658.82	0.1%	27,936.37	0.2%
BAD DEBT	61,762.37	3.0%	685,804.86	4.3%
UNBILLABLE	939.09	0.0%	14,300.96	0.1%
BILLING FEES	5,361.41	0.3%	62,681.31	0.4%
FUNDING FEES	1,039.82	0.0%	13,477.26	0.1%
DEPRECIATION	42,823.27	2.1%	390,038.07	2.4%
TOTAL COST OF REVENUE	1,286,248.12	61.7%	10,001,361.11	62.6%
GROSS PROFIT	779,387.60	37.4%	5,864,049.97	36.7%

EASTERN TELECOM INTERNATIONAL CORP.
Consolidated

For the Nine Months Ended January 31, 1997

	CURRENT	%	Y.T.D.	%
OPERATING EXPENSES:				
ADVERTISING EXPENSE	84,725.26	0.2%	858,571.92	0.4%
AMORTIZATIVE EXPENSE	16,653.24	0.8%	147,742.89	0.9%
ACCOUNTING FEES	0.00	0.0%	39,140.00	0.2%
PHONE CHARGES	3,204.12	0.2%	20,943.53	0.1%
COLLECTION EXPENSE	2,091.73	0.1%	11,006.20	0.1%
COMPUTER CONSULTANT & SOFTWARE	974.00	0.0%	21,422.14	0.1%
CONTRIBUTIONS	0.00	0.0%	600.00	0.0%
DEPRECIATION EXP	14,498.02	0.7%	108,829.30	0.7%
FEES & SUBSCRIPTIONS	2,852.00	0.1%	18,266.76	0.1%
FRONTIZATION EXPENSE	714.12	0.0%	6,427.04	0.0%
EMPLOYEE BENEFITS	1,091.68	0.1%	5,090.73	0.0%
EQUIPMENT <\$1000.00	563.39	0.0%	1,097.40	0.0%
EQUIPMENT MAINTENANCE	4,644.96	0.2%	36,486.47	0.2%
INSURANCE-GENERAL LIABILITY WORKERS	11,653.11	0.6%	18,157.40	0.1%
INSURANCE-LIFE, HEALTH & AUTO	2,069.11	0.1%	51,100.87	0.3%
INTEREST EXPENSE	31,992.85	1.5%	263,103.27	1.6%
LEGAL FEES	0.00	0.0%	72,321.91	0.5%
MISCELLANEOUS EXPENSE	534.41	0.0%	3,356.70	0.0%
OFFICE SUPPLIES	8,928.85	0.4%	56,995.36	0.4%
EMPLOYEE PAGERS	707.69	0.0%	8,457.74	0.1%
PROVISIONS	0.00	0.0%	14,839.53	0.1%
POSTAGE	13,788.55	0.7%	101,698.23	0.6%
PROPERTY TAXES	33,077.71	1.6%	230,141.88	1.4%
RENT - OFFICE	30,565.90	1.5%	258,877.43	1.6%
RENT - EQUIPMENT	1,451.51	0.1%	15,118.08	0.1%
RECRUITMENT SERVICES	7,990.00	0.4%	77,129.02	0.5%
SALARIES - OFFICERS	23,200.79	1.1%	215,274.14	1.3%
SALARIES - OFFICE STAFF	104,220.27	5.0%	622,257.22	3.9%
SALARIES - SALES ADMINISTRATION	29,334.40	1.4%	182,253.10	1.1%
SALARIES - SALES STAFF	122,754.88	5.9%	1,029,983.25	6.4%
SALES STAFF INCENTIVES	66,472.90	3.2%	767,803.14	4.8%
TEMPORARY OFFICE CLERK	6,544.19	0.3%	32,278.92	0.2%
DEFERRED PAYROLL EXPENSE	(62,374.38)	-3.0%	(2,268.32)	0.0%
TAXES AND LICENSES	193.56	0.0%	13,704.38	0.1%
TELEPHONE EXPENSE	29,301.08	1.4%	238,011.79	1.5%
TRAVEL EXPENSE	2,875.10	0.1%	42,651.96	0.3%
TRAVEL - MEALS	1,903.52	0.1%	18,142.00	0.1%
TRAINING/SEMINARS	0.00	0.0%	706.46	0.0%
TRAVEL COST 1+	0.00	0.0%	1,104.00	0.0%
TOTAL OPERATING EXPENSES	519,238.62	24.9%	4,808,843.26	30.1%
TOTAL OPERATING INCOME	260,148.98	12.5%	1,055,206.71	6.6%
GAIN) LOSS ON SALE OF ASSET	55.40	0.0%	(131,897.56)	-0.8%
GAIN) LOSS ON INVESTMENTS	(2,893.97)	-0.1%	(35,596.13)	-0.2%
PRETAX INCOME	262,987.50	12.6%	1,222,700.40	7.7%
NET INCOME	262,987.50	12.6%	1,222,700.40	7.7%

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Of Counsel

Writer's Direct Dial Number
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April 23, 1997

970511-11

DEPOSIT

DATE

D513

APR 29 1997

VIA AIRBORNE EXPRESS

Executive Secretary
Florida Public Service Commission
2450 Schumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Joint Application of Network Long Distance, Inc.
and Eastern Telecom International Corporation
for Approval of a Merger

Dear Sir:

On behalf of Network Long Distance, Inc. and Eastern Telecom International,
enclosed please find an original and twelve (12) copies of the referenced Application. Also
enclosed is a check in the amount of \$250.00 to cover the filing fee.

Please date stamp and return the enclosed extra copy of this letter in the envelope
provided.

Please call me should you have any questions concerning this filing. Thank you for
your assistance with this matter.

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____ EPG/fl
- EAG _____
- LEG _____ Enclosures
- LIN _____
- OPC _____
- REL _____
- SEC _____
- WAS _____
- QTH _____

Sincerely,

Edward P. Gothard
Edward P. Gothard

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

Initials of person who forwarded check: AG

DOCUMENT NUMBER-DATE

04302 APR 29 97

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