ORIGINAL

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NEW YORK, NY 10174
(212) 758-9500 FAX (212) 758-9526

January 8, 2001

VIA OVERNIGHT MAIL

010037-TX

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0870

DEPOSIT DATE
D JAN 10 2001

Re: Application of CTC Communications Corp. for Authority to Provide Alternative Local Exchange Service in Florida

Dear Ms. Bayo:

Enclosed for filing on behalf of CTC Communications Corp. ("CTC") please find an original and five (5) copies of CTC's above referenced application. Also enclosed is a check in the amount of $250.00 to cover the application filing fee.

Please date-stamp the enclosed extra copy of this filing and return in the self-addressed, stamped envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact the undersigned at (202) 424-7705.

Respectfully submitted,

Harry N. Malone
Counsel for CTC Communications Corp.

Enclosures

cc: Bill Ward, CTC
Pamela Hintz, CTC (*without enclosures*)

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
00384 JAN-9 01
FPSC-RECORDS/REPORTING

** FLORIDA PUBLIC SERVICE COMMISSION **

DIVISION OF REGULATORY OVERSIGHT
CERTIFICATION SECTION

APPLICATION FORM
for
AUTHORITY TO PROVIDE
ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA

010037-TX

Instructions

This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Page 12).

Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

Use a separate sheet for each answer, which will not fit the allotted space.

Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6770

If you have questions about completing the form, contact:

Florida Public Service Commission
Division of Regulatory Oversight
Certification Section
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6480

FORM PSC/CMU 8 (11/95)
Required by Commission Rule Nos. 25-24.805, 25-24.810, and 25-24.815

APPLICATION

1. This is an application for ✓ (check one):

   (✓) **Original certificate** (new company).

   (   ) **Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

   (   ) **Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

   (   ) **Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. **Name of company**:

   CTC Communications Corp. ("CTC" or "Applicant")

3. **Name under which the applicant will do business (fictitious name, etc.):**

   CTC Communications Corp.

4. **Official mailing address (including street name & number, post office box, city, state, zip code):**

   360 Second Avenue

   Waltham, Massachusetts 02451

5. **Florida address (including street name & number, post office box, city, state, zip code):**

   CTC does not have an office established in Florida.

6. **Structure of organization:**

   (   ) Individual
   (✓) Foreign Corporation
   (   ) General Partnership
   (   ) Corporation
   (   ) Foreign Partnership
   (   ) Limited Partnership

( ) Other ____________________

7. **If individual, provide:**

Name: Not applicable

Title: ____________________

Address: ____________________

City/State/Zip: ____________________

Telephone No.: ____________________ **Fax No.:** ____________________

Internet E-Mail Address: ____________________

Internet Website Address: ____________________

8. **If incorporated in Florida, provide proof of authority to operate in Florida:**

   (a) The Florida Secretary of State corporate registration number:

   Not applicable

9. **If foreign corporation, provide proof of authority to operate in Florida:**

   (a) The Florida Secretary of State corporate registration number:

   F98000003797

10. **If using fictitious name-d/b/a, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:**

    (a) The Florida Secretary of State fictitious name registration number:

    CTC will not use a fictitious name or d/b/a.

11. **If a limited liability partnership, provide proof of registration to operate in Florida:**

    (a) The Florida Secretary of State registration number:

    Not applicable

12. **If a partnership, provide name, title and address of all partners and a copy of the partnership agreement.**

Name: Not applicable

Title: ____________________

Address: ______________________________

City/State/Zip: ______________________________

Telephone No.: ______________________ Fax No.: ______________________

Internet E-Mail Address: ______________________________

Internet Website Address: ______________________________

13. **If a foreign limited partnership, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.**

(a) The Florida registration number: Not applicable

14. **Provide F.E.I. Number (if applicable):** 04-2731202

15. **Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:**

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.

Not applicable

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

Not applicable

16. **Who will serve as liaison to the Commission with regard to the following?**

(a) The application:

Name: Harry N. Malone

Title: Counsel for the Applicant

Address: Swidler Berlin Shereff Friedman, LLP; 3000 K Street, N.W., Suite 300

City/State/Zip: Washington, DC 20007-5116

Telephone No.: (202) 424-7705 **Fax No.:** (202) 424-7645

Internet E-Mail Address: hnmalone@swidlaw.com

Internet Website Address: http://www.swidlaw.com

(b) Official point of contact for the ongoing operations of the company:

Name: Pamela L. Hintz

Title: Director of Regulatory and Tariff Compliance

Address: 360 Second Avenue

City/State/Zip: Waltham, MA 02451

Telephone No.: (781) 466-1242 **Fax No.:** (781) 466-1306

Internet E-Mail Address: hintzp@ctcnet.com

Internet Website Address: www.ctcnet.com

(c) Complaints/Inquiries from customers:

Name: Pamela L. Hintz

Title: Director of Regulatory and Tariff Compliance

Address: 360 Second Avenue

City/State/Zip: Waltham, MA 02451

Telephone No.: (781) 466-1242 **Fax No.:** (781) 466-1306

Internet E-Mail Address: hintzp@ctcnet.com

Internet Website Address: www.ctcnet.com

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

Delaware, the District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, and Virginia.

(b) has applications pending to be certificated as an alternative local exchange company.

Ohio

(c) is certificated to operate as an alternative local exchange company.

Delaware, the District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, and Virginia.

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

None.

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None.

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

Beginning in January 1998, CTC filed complaints against Bell Atlantic over their failure to pay agency commissions and the imposition of termination fees, arguing that such fees were a barrier to competition. It sued the company in federal district court, and filed complaints against Bell Atlantic with regulators in Connecticut, Maine, Massachusetts, New York, Rhode Island and Vermont. Both sides settled Feb. 25, 1999. Terms of the settlement were not released.

18. Submit the following:

A. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

Please see Exhibit 2.

B. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

Please see Exhibit 2.

C. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;
2. income statement; and
3. statement of retained earnings.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

   Please see Exhibit 1.

2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.

   Please see Exhibit 1.

3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

   Please see Exhibit 1.

THIS PAGE MUST BE COMPLETED AND SIGNED

APPLICANT ACKNOWLEDGMENT STATEMENT

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL

Pamela L. Hintz
Print Name

Pamela L. Hintz
Signature

Director of Regulatory and Tariff Compliance
Title

(781) 466-1242
Telephone No.

Address: CTC Communications Corp.

(781) 466-1306
Fax No.

360 Second Avenue

Waltham, Massachusetts 02451

THIS PAGE *MUST BE* COMPLETED AND SIGNED

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

Michael H. Donnellan
Print Name

Signature

Vice President – Operations
Title

1/5/2001
Date

(781) 466-1366
Telephone No.

(781) 466-1306
Fax No.

Address: CTC Communications Corp.

360 Second Avenue

Waltham, Massachusetts 02451

**** ATTACHMENT B ****

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.

   1)**To be determined** 2)______

   3)______ 4)______

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

   1)**To be determined** 2)______

   3)______ 4)______

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

POP-to-POP	OWNERSHIP
1)**To be determined**	
2)	
3)	
4)	

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

**** NOT APPLICABLE. CTC COMMUNICATIONS CORP. IS APPLYING FOR ORIGINAL AUTHORITY.**

I, (Name) **Not Applicable.** ____________________,

(Title) **Not Applicable** ____________ of ____________________

and current holder of Florida Public Service Commission Certificate Number # ____________,

have reviewed this application and join in the petitioner's request for a:

( ) sale

( ) transfer

( ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

Print Name	**Signature**
Title	**Date**
Telephone No.	**Fax No.**

Address: ____________________________________

____

____

EXHIBITS

EXHIBIT 1	Financial Statements
EXHIBIT 2	Managerial and Technical Qualifications
EXHIBIT 3	Proposed Price List
EXHIBIT 4	Letter of Qualification to Transact Business

EXHIBIT 1

FINANCIAL STATEMENTS OF CTC COMMUNICATIONS GROUP, INC.

Relying on the resources of its parent, CTC Communications Group, Inc., CTC has access to the financing and capital necessary to provide the requested service in the geographic area proposed to be served, to maintain the requested service and to meet its lease or ownership obligations.

Copies of CTC Communications Group, Inc.'s consolidated SEC Forms 10-K for the last three years and the most recent Form 10-Q are attached hereto. These exhibits are being offered to demonstrate CTC's financial ability to provide the proposed services. CTC possesses the sound financial resources necessary to effectively procure, install, and operate the facilities and services requested in this Application.

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934

For Quarter ended September 30, 2000

Commission File Number 0-27505.

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

Delaware	04-3469590
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

220 Bear Hill Rd., Waltham, Massachusetts 02451
(Address of principal executive offices) (Zip Code)

(781) 466-8080
(Registrant's telephone number including area code)

Former fiscal year: March 31, 2001
(Former name, former address and former fiscal year, if changed since last report)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the Issuer's classes of Common Stock, as of the latest practicable date:

As of November 14, 2000, 26,577,387 shares of Common Stock were outstanding.

CTC COMMUNICATIONS GROUP, INC.
FORM 10-Q
INDEX

<TABLE>
<CAPTION>

</TABLE>

CTC COMMUNICATIONS GROUP, INC.
CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEETS

	September 30, 2000	March 31, 2000
Assets		
Current assets:		
Cash and cash equivalents	$120,872,166	$20,093,156
Accounts receivable, net	49,197,397	39,965,335
Prepaid expenses and other current assets	3,767,597	3,576,033
Total current assets	173,837,160	63,634,524
Property and equipment	214,238,602	120,604,893
Less accumulated depreciation and amortization	(49,937,442)	(29,369,433)
Total property and equipment, net	164,301,160	91,235,460
Deferred financing costs and other assets	15,930,236	7,363,368
Total assets	$354,068,556	$162,233,352
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable and accrued expenses	$43,462,079	$46,328,757
Accrued salaries and related taxes	3,158,146	2,482,800
Current portion of obligations under capital leases	15,111,626	8,413,414
Current portion of notes payable	1,749,342	1,749,342
Total current liabilities	63,481,193	58,974,313
Long-term debt:		
Obligations under capital leases, net of current portion	47,877,806	15,031,108
Notes payable, net of current portion	103,584,924	103,928,207
Total long-term debt	151,462,730	118,959,315
Series B redeemable convertible preferred stock	198,539,851	0
Stockholders' deficit:		
Common stock	263,308	257,736
Additional paid in capital	93,051,980	90,652,020
Deferred compensation	(53,410)	(106,410)
Retained deficit	(152,677,096)	(106,503,622)
Total stockholders' deficit	(59,415,218)	(15,700,276)
Total liabilities and stockholders' deficit	$354,068,556	$162,233,352

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

<PAGE>
CTC COMMUNICATIONS GROUP, INC.
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS
<TABLE>
<CAPTION>

	Three Months Ended September 30, 2000	1999
<S> <C>	<C>	
Telecommunications revenues	$58,508,354	$35,109,155
Operating costs and expenses:		
Cost of telecommunications revenues, excluding depreciation	45,421,733	27,398,259
Selling, general and administrative expenses	20,536,134	12,676,315
Depreciation	11,975,575	3,652,809
Total operating costs and expenses	77,933,442	43,727,383
Loss from operations	(19,425,088)	(8,618,228)
Other income (expense), net:		
Interest income	2,146,554	473,780
Interest expense	(4,246,670)	(4,221,052)
Other income	0	71,996
Total other expense, net	(2,100,116)	(3,675,276)
Net loss	$(21,525,204)	$(12,293,504)
Net loss per common share:		
Basic and diluted	$(0.99)	$(0.61)
Weighted average number of common shares:		
Basic and diluted	26,267,495	20,634,800

</TABLE>

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

<PAGE>
CTC COMMUNICATIONS GROUP, INC.
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS
<TABLE>
<CAPTION>

<S>	Six Months Ended September 30, 2000 <C>	1999 <C>
Telecommunications revenues	$110,977,441	$66,156,006
Operating costs and expenses:		
Cost of telecommunications revenues, excluding depreciation	85,523,390	53,487,443
Selling, general and administrative expenses	38,247,475	26,918,439
Depreciation	20,937,682	5,756,309
Total operating costs and expenses	144,708,547	86,162,191
Loss from operations	(33,731,106)	(20,006,185)
Other income (expense), net:		
Interest income	3,518,996	474,121
Interest expense	(9,153,785)	(7,991,767)
Other income	0	111,514
Total other expense, net	(5,634,789)	(7,406,132)
Net loss	$(39,365,895)	$(27,412,317)
Net loss per common share:		
Basic and diluted	$(1.77)	$(1.56)
Weighted average number of common shares:		
Basic and diluted	26,118,831	18,061,875

</TABLE>

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

CTC COMMUNICATIONS GROUP, INC.
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS

	Six Months Ended September 30, 2000	1999
OPERATING ACTIVITIES:		
Net loss	$(39,365,895)	$(27,412,317)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	20,937,682	5,756,309
Stock compensation expense	53,000	2,506,119
Interest related to warrants and certain fees	464,249	2,075,913
Changes in working capital items:		
Accounts receivable	(9,232,062)	(10,662,878)
Prepaid expenses and other current assets	(191,564)	(1,567,589)
Other assets	(5,489,223)	(5,400)
Accounts payable and accrued expenses	(2,866,679)	8,543,081
Accrued salaries and related taxes	675,346	1,285
Net cash used by operating activities	(35,015,146)	(20,765,477)
INVESTING ACTIVITY:		
Additions to property and equipment	(49,044,678)	(11,745,132)
Net cash used in investing activities	(49,044,678)	(11,745,132)
FINANCING ACTIVITIES:		
Proceeds from the issuance of Series B Redeemable Convertible Preferred Stock, net of offering costs	191,732,272	0
Proceeds from the issuance of common stock	2,405,533	62,096,789
Repayment of amount due from stockholders	0	19,045
Proceeds from notes payable	25,000,000	42,098,357
Repayment of notes payable	(25,730,618)	(26,839,164)
Deferred financing costs	(3,517,174)	(42,559)
Repayments under capital lease obligations	(5,051,179)	(2,504,179)
Net cash provided by financing activities	184,838,834	74,828,289
Increase in cash and cash equivalents	100,779,010	42,317,680
Cash and cash equivalents at beginning of year	20,093,156	2,254,258
Cash and cash equivalents at end of period	$120,872,166	$44,571,938
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Network, related equipment and building acquired under capital leases	$44,596,089	$3,155,402
Network and related equipment acquired under notes payable	$362,615	$7,215,611

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

<PAGE>

CTC COMMUNICATIONS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying condensed consolidated unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnote disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the three and six months ended September 30, 2000 are not necessarily indicative of the results that may be expected for the transition period ending December 31, 2000, as noted below. These statements should be read in conjunction with the financial statements and related notes included in the our Annual Report on Form 10-K for the fiscal year ended March 31, 2000.

Change in Fiscal Year

At the Annual Meeting of our Board of Directors held on July 27, 2000, our fiscal year end was changed from March 31 of each year to December 31 of each year. The transition period will be reported on Form 10-K for the period ending December 31, 2000.

NOTE 2: COMMITMENTS AND CONTINGENCIES

We are a party to suits arising in the normal course of business which our management believes are not material individually or in the aggregate.

NOTE 3: NET LOSS PER SHARE

The following tables set forth the computation of basic and diluted net loss per share:

	Three Months Ended September 30, 2000	1999
Numerator:		
<S>	<C>	<C>
Net loss	$(21,525,204)	$(12,293,504)
Accretion to redemption value on redeemable preferred stock	(4,539,531)	(362,380)
Numerator for basic net loss per share and diluted net loss per share	$(26,064,735)	$(12,655,884)
Denominator:		
Denominator for basic net loss per share-weighted average shares	26,267,495	20,634,800
Effect of dilutive securities:		
Employee stock options	0	0
Denominator for diluted net loss per share-weighted-average shares	26,267,495	20,634,800
Basic and diluted net loss per share	$(0.99)	$(0.61)

	Six Months Ended September 30, 2000	1999
Numerator:		
<S>	<C>	<C>
Net loss	$(39,365,895)	$(27,412,317)
Accretion to redemption value on redeemable preferred stock	(6,807,579)	(689,384)
Numerator for basic net loss per share and diluted net loss per share	$(46,173,474)	$(28,101,701)
Denominator:		
Denominator for basic net loss per share-weighted average shares	26,118,831	18,061,875
Effect of dilutive securities:		
Employee stock options	0	0
Denominator for diluted net loss per share-weighted-average shares	26,118,831	18,061,875
Basic and diluted net loss per share	$(1.77)	$(1.56)

</TABLE>

NOTE 4: PREFERRED STOCK

In May 2000, the Company completed a $200 million preferred stock financing with Bain Capital Inc., Thomas H. Lee Partners, L.P. and CSFB Private Equity, consisting of 8.25% Series B redeemable convertible preferred stock which converts into common stock at $50 per share. The preferred stockholders may require redemption of the preferred shares if the common stock of the Company reaches certain levels. The Company may elect to redeem the preferred shares on the fifth anniversary of the closing and all outstanding shares of preferred stock must be redeemed by May 2010. Bain Capital and Thomas H. Lee each invested $75 million and CSFB Private Equity has invested $50 million.

NOTE 5: RELATED PARTY TRANSACTION

In May 2000, the Company entered into a 15 year lease for approximately 71,250 square feet from a limited liability company in which two of the Company's executive officers, including the chairman, own a majority of membership interests, and in which four executive officers of the Company each own a minority membership interest. The annual base rental under the lease is $1,778,100, which is subject to annual cost of living adjustments. The lease obligation has been capitalized in the accompanying condensed consolidated unaudited financial statements.

NOTE 6: RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133, as amended") was issued, as amended by SFAS Nos. 137 and 138, which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS No. 133, as amended, is effective for all fiscal quarters

<PAGE>

of fiscal years beginning after June 15, 2000. The Company is presently analyzing the impact, if any, that the adoption of SFAS No. 133, as amended, will have on its financial condition or results of operations.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an Interpretation of APB Opinion No. 25." The Company is required to adopt the Interpretation on July 1, 2000. The Interpretation requires, among other things, that stock options that have been modified to reduce the exercise price be accounted for as variable. The Company modified one stock option agreement in April 1999, which resulted in a stock compensation charge of approximately $2.2 million. No other option grants have been modified by a reduction of the exercise prices, therefore, the adoption of the Interpretation is not expected to have an impact on the Company's consolidated financial statements, unless modifications are made in the future.

Adoption of Staff Accounting Bulletin 101.

The Company, as described below, will revise its revenue recognition policy for certain recurring monthly fees to be consistent with applicable provisions of Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"). Previously, monthly recurring fees for the next month's service were recognized at the time all of the Company's significant performance obligations had been fulfilled and the related monthly service fee became nonrefundable based on the terms of the Company's contract with its customers which require 60 days notice for cancellation.

Since SAB 101 now indicates that nonrefundability of revenues and fulfillment of all significant performance obligations are not a basis for revenue recognition, the Company has determined that deferral of the monthly recurring service fees to the period in which the service is available to the customer is a preferable method of accounting. The impact of the change in recognizing recurring service fees will be reported as a cumulative effect of a change in accounting principle as of April 1, 2000 in accordance with Accounting Principles Board Opinion No. 20, Accounting Changes. The cumulative effect of this change will increase the Company's loss by approximately $1.8 million as of April 1, 2000. This amount represents the income attributable to the deferral, as of that date, of one month's recurring service fee revenue totaling approximately $9.3 million. SAB 101 as amended, allows the Company to implement this change as of the last quarter of the transition period ending December 31, 2000. The previously reported quarterly financial information for the transition period will be restated so that annual operating results for the transition period ending December 31, 2000 will be presented on the new basis.

There will be no impact to the Company's cash flow from operations as a result of this change. Also, it is believed that the adoption of this change in accounting for fiscal 2000 or prior periods will not have a material effect on the Company's previously reported results of operations, financial position or cash flows for those periods.

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

The following discussion should be read in conjunction with the Financial Statements and Notes set forth elsewhere in this Report.

OVERVIEW

We are a rapidly growing single-source provider of voice, data and Internet communications services, or integrated communications provider, with 16 years of marketing, sales and service experience. We target predominantly medium and larger-sized business customers who seek greater capacity for voice and data traffic, a single provider for their telecommunications requirements and improved levels of service. We have a large, experienced sales force consisting of 253 sales people supported by 182 network coordinators as of September 30, 2000. Our sales force is located close to our customers in 38 sales branches primarily in the Northeast and Mid-Atlantic states.

We are currently deploying our own state-of-the-art network facilities to carry telecommunications traffic. Our network uses packet-switching, a technology which transmits data in discrete packages. It also uses internet protocol, which is a method that allows computers with different architectures and operating systems to communicate over the internet, and asynchronous transfer mode, or ATM, architecture. These network technologies allow the network to transmit multiple types of media, such as voice, data, Internet and video. The first phase of our network included 22 Cisco Systems, or Cisco, advanced data switches and two network operations centers. We have interconnected our facilities with leased transmission capacity over fiber optic cable strands from Level 3 Communications and NorthEast Optic Network. In March 2000, we signed a $115 million agreement to purchase more than 8,300 route miles of dark fiber covering the eastern half of the United States from Williams Communications to implement our fiber network program. The contract includes co-location space and ongoing network maintenance services. The fiber acquired will expand our current network presence along the Boston to Washington, D.C. corridor into 40 major markets extending from the central United States throughout the eastern United States. In August 2000, we signed a $3.3 million agreement to purchase 325 route miles of dark fiber in northern New England. The contract includes co-location space and ongoing network maintenance services. Cisco has reviewed and approved our network design and has designated our network as a Cisco Powered Network(tm). In May 1999, we began the testing of our integrated communications network, or service marked as PowerPath(sm) Network, with some of our customers. In September 1999, we began providing commercial service on our PowerPath(sm) Network and by September 30, 2000, we were servicing over 1,300 customers on our PowerPath(sm) Network.

We became an integrated communications provider, or ICP, in January 1998. Prior to that, we were the largest independent sales agent for NYNEX Corp. (now Verizon), based on agency revenues. At the end of 1997, before leaving the Verizon agency program, we were managing relationships for approximately 7,000 customers, representing over 280,000 local access lines and over $200 million in annual local telecommunications spending. As of September 30, 2000, after only 33 months as an integrated communications provider, we were servicing 407,052 access lines and equivalent circuits,

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or ALEs. ALEs are the total number of voice circuits and equivalent data circuits we have in service. Voice circuits are the actual number of voice circuits purchased by our customers, while equivalent data circuits represent the data transmission capacity purchased by our customers divided by 64 kilobits per second, which is the capacity necessary to carry one voice circuit.

Our Services

We offer the following services:

Local Telephone Services. We offer connections between customers' telecommunications equipment and the local telephone network, which we currently lease from incumbent local exchange carriers. For large customers or customers with specific requirements, we integrate their private systems with analog or digital connections. We also provide all associated call processing features as well as continuously connected private lines for both voice and data applications.

Long Distance Telephone Services. We offer a full range of domestic and international long distance services, including "1+" outbound calling, inbound toll free service, standard and customized calling plans. We also offer related services such as calling cards, operator assistance and conference calling.

High Speed Data Services. We offer a wide array of both continuously connected and switched high speed digital data services. Switched or high speed digital data services include Integrated Services Digital Network, or ISDN, frame relay and ATM products.

Internet Services. We offer high speed, continuously connected internet access and services through various digital connections. We provide the necessary configuration support and other support services on a 24-hour, 7-day a week basis.

Future Service Offerings. As we continue deploying the network, we may offer the following additional services: hosting of web-sites, electronic commerce over the internet, data security and storage services, systems integration, managed services, consulting and network monitoring services, customized private networks, virtual private networks and other data, and voice and sophisticated network products.

RESULTS OF OPERATIONS - THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2000 AS COMPARED TO THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 1999.

Total revenues for the quarter ended September 30, 2000 ("2000 Quarter") were $58,508,000, as compared to $35,109,000 for the quarter ended September 30, 1999 ("1999 Quarter"), or an increase of 67%. Total revenues for the six months ended September 30, 2000 ("2000 Six Months") were $110,977,000, as compared to $66,156,000 for the six months ended September 30, 1999 ("1999 Six Months"). The 2000 Quarter revenues also represented an increase of 12% over the revenues of $52,469,000 for the quarter ended June 30, 2000. Revenues for local, Internet access and data services increased a combined 13% on a sequential quarter basis due primarily to the addition of new customer relationships.

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A common basis for measurement of an ICP's progress is the growth in ALEs. During the 2000 Quarter, we provisioned 45,300 net ALEs, bringing the total lines in service to 407,052. Net lines provisioned through the 2000 Quarter represented a 13% sequential increase over net lines provisioned through the quarter ended June 30, 2000. Data ALEs represent 22% of total ALEs as of September 30, 2000.

Costs of telecommunications revenues, excluding depreciation, for the 2000 Quarter were $45,422,000, as compared to $27,398,000 for the 1999 Quarter; and were $85,523,000 for the 2000 Six Months, as compared to $53,487,000 for the 1999 Six Months. As a percentage of telecommunications revenues, cost of telecommunications revenues was 77% for the 2000 Quarter, as compared to 76% for the quarter ended June 30,2000. The increase in the percentage of the cost of the telecommunications revenues primarily reflects lower rates on toll revenue due to rate decreases and the effect of the Verizon strike on our network installations.

Selling expense consists of the costs of providing sales and other support services for customers including salaries, commissions and bonuses to salesforce personnel. General and administrative expense consists of the costs of the billing and information systems and personnel required to support our operations and growth.

For the 2000 Quarter, selling, general and administrative expenses (SG&A) increased 62% to $20,536,000 from $12,676,000 for the 1999 Quarter; and for the 2000 Six Months, increased 42% to $38,247,000 from $26,918,000 for the 1999 Six Months. This increase was due to the opening of additional branch sales offices and the associated increased number of sales, service and engineering employees hired in connection with the transition to the ICP platform. As of September 30, 2000, we employed 757 people including 253 account executives and 182 network coordinators in branch locations throughout the Northeast and Mid-Atlantic states.

Depreciation and amortization expense increased to $11,976,000 in the 2000 Quarter from $3,653,000 for the 1999 Quarter; and for the 2000 Six Months, increased to $20,938,000 from $5,756,000 for the 1999 Six Months. This increase was a result of additional expenses associated with the equipment and software relating to the network deployment and the upgrade of our information systems. Network equipment and software is being depreciated over 3-5 years, reflecting the risk of rapid technological change.

Other expense, net decreased by 43% to $2,100,000 and decreased by 24% to $5,635,000 for the 2000 Quarter and 2000 Six Months, respectively, from the same periods in 1999. Interest expense increased due to the increase in borrowings required in connection with the deployment of our network, working capital requirements and funding our operating losses. This increase is offset by an increase in interest income from the proceeds of our preferred stock financing.

As a result of the above factors, the net losses amounted to $21,525,000 for the 2000 Quarter and $39,366,000 for the 2000 Six Months.

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Liquidity and Capital Resources

Working capital at September 30, 2000 was $110.4 million compared to $4.7 million at March 31, 2000, an increase of $105.7 million. Cash balances at September 30, 2000 and March 31, 2000 totaled $120,872,000 and $20,093,000, respectively.

The increase in working capital resulted from the net proceeds realized from a $200 million preferred stock financing with Bain Capital Inc. ($75 million), Thomas H. Lee Partners, L.P. ($75 million) and CSFB Private Equity ($50 million). The investment consists of 8.25% Series B redeemable convertible preferred stock which converts into our common stock at $50 per share. The preferred stockholders may require redemption of the preferred shares if the common stock of the Company reaches certain levels. The Company may elect to redeem the preferred shares on the fifth anniversary of the closing and all outstanding shares of preferred stock must be redeemed by May 2010. The net proceeds are being used to fund strategic marketing and technology initiatives of our accelerated business plan which include the purchase of dark fiber and optronics, branch sales office and PowerPath(sm) Network expansion and new PowerPath(sm) Network product and applications development.

In March 2000, TD Securities (U.S.) Inc. underwrote a $225 million senior secured credit facility ("TD credit facility") to fund our base plan for expansion of our branch sales offices and our Integrated Communications Network. The proceeds were used to retire the $43 million balance of the $75 million Goldman Sachs/Fleet Credit Facility and to repay in full the $25 million Cisco vendor financing facility. The TD credit facility includes a $50 million senior secured 7-1/2 year revolving credit facility, a $100 million senior secured 7-1/2 year delayed draw term loan and a $75 million senior secured 8 year term loan. As of September 30, 2000, we entered into an amendment to the TD credit facility to modify certain provisions of the agreement and we are in compliance with all of the financial convenants. As of September 30, 2000, $100 million of the TD credit facility was outstanding.

Since September 30, 1998, we have entered into various lease and vendor financing agreements which provide for the acquisition of equipment and software. As of September 30, 2000, the aggregate amount borrowed under these agreements was approximately $68.2 million.

In July 1999, we completed a public offering (including the exercise of the underwriters' overallotment option) of 6,037,500 shares of common stock at $11.50 per share, adjusted for the March 2000 three-for-two stock split with net proceeds of approximately $62.1 million. The proceeds were used for general corporate purposes and continued deployment of the PowerPath(sm) Network and expansion into new markets throughout the Northeast and Mid-Atlantic states.

We will continue to use the balance of the proceeds realized from the TD credit facility and Series B redeemable convertible preferred stock financing for general corporate purposes including, capital expenditures, working capital and operating losses associated with the continued deployment of our network, further penetration of our existing region and our expansion into new markets throughout the Northeast and Mid-Atlantic states. Until utilized, the net proceeds from the TD credit facility and Series B redeemable convertible preferred stock financing are being invested in short-term, interest-bearing instruments and other investment-grade securities.

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We believe that proceeds available from the Series B redeemable convertible preferred stock financing and the TD credit facility, cash on hand and the amounts expected to be available under our bank and lease financing arrangements will be sufficient to fund our planned capital expenditures, working capital and operating losses for at least the next 12 months. We cannot assure you that if we require funds in addition to the funds made available through the TD credit facility and the preferred stock financing, such financing will be available, or if available, on terms acceptable to us when needed. If we are unable to obtain such financing when needed, we may postpone or abandon our development and expansion plans which could have a material adverse effect on our business, results of operations and financial condition. The actual timing and amount of our capital requirements may be materially affected by various factors, including the timing and actual cost of the network, the timing and cost of our expansion into new markets, the extent of competition and pricing of telecommunications services by others in our markets, the demand by customers for our services, technological change and potential acquisitions.

Year 2000 Compliance

Our information technology systems and non-information systems were year 2000 compliant prior to the end of 1999. We did not incur any year 2000 problems in our systems that required any corrective actions and did not experience any interruptions in service as a result of the year 2000 compliance status of any of our vendors. Our systems and applications are effectively processing information in order to support ongoing operations in the year 2000 and beyond.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133, as amended") was issued, as amended by SFAS Nos. 137 and 138, which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS No. 133, as amended, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company is presently analyzing the impact, if any, that the adoption of SFAS No. 133, as amended, will have on its financial condition or results of operations.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an Interpretation of APB Opinion No. 25." The Company is required to adopt the Interpretation on July 1, 2000. The Interpretation requires, among other things, that stock options that have been modified to reduce the exercise price be accounted for as variable. The Company modified one stock option agreement in April 1999, which resulted in a stock compensation charge of approximately $2.2 million. No other option grants have been modified by a reduction of the exercise prices, therefore, the adoption of the Interpretation is not expected to have an impact on the Company's consolidated financial statements, unless modifications are made in the future.

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Adoption of Staff Accounting Bulletin 101.

The Company, as described below, will revise its revenue recognition policy for certain recurring monthly fees to be consistent with applicable provisions of Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"). Previously, monthly recurring fees for the next month's service were recognized at the time all of the Company's significant performance obligations had been fulfilled and the related monthly service fee became nonrefundable based on the terms of the Company's contract with its customers which require 60 days notice for cancellation.

Since SAB 101 now indicates that nonrefundability of revenues and fulfillment of all significant performance obligations are not a basis for revenue recognition, the Company has determined that deferral of the monthly recurring service fees to the period in which the service is available to the customer is a preferable method of accounting. The impact of the change in recognizing recurring service fees will be reported as a cumulative effect of a change in accounting principle as of April 1, 2000 in accordance with Accounting Principles Board Opinion No. 20, Accounting Changes. The cumulative effect of this change will increase the Company's loss by approximately $1.8 million as of April 1, 2000. This amount represents the income attributable to the deferral, as of that date, of one month's recurring service fee revenue totaling approximately $9.3 million. SAB 101 as amended, allows the Company to implement this change as of the last quarter of the transition period ending December 31, 2000. The previously reported quarterly financial information for the transition period will be restated so that annual operating results for the transition period ending December 31, 2000 will be presented on the new basis.

There will be no impact to the Company's cash flow from operations as a result of this change. Also, it is believed that the adoption of this change in accounting for fiscal 2000 or prior periods will not have a material effect on the Company's previously reported results of operations, financial position or cash flows for those periods.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our exposure to financial risk, including changes in interest rates, relates primarily to outstanding debt obligations. We utilize our senior secured credit facility to fund a substantial portion of our capital requirements. This facility bears interest at a variable interest rate, which is subject to market changes. Our earnings are affected by changes in short-term interest rates as a result of our borrowings under the TD credit facility. The TD credit facility interest payments are determined by the outstanding indebtedness and the LIBOR rate at the beginning of the period in which interest is computed. As required under the TD credit facility, we utilize interest rate swap and collar agreements to hedge variable rate interest risk on 50% of the TD credit facility. All of our derivative financial instrument transactions are entered into for non-trading purposes.

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Notional amount outstanding at September 30, 2000, for the interest rate collar is $33 million, with an expected maturity date in the year 2003. The interest rate collar effectively locks $33 million of our TD credit facility borrowings between 12.25% and 9.67%.

Notional amount outstanding at September 30, 2000, for interest rate swap is $17 million, with an expected maturity date in the year 2003. The interest rate swap effectively caps $17 million of our TD credit facility borrowings at 10.75%.

For purposes of specific risk analysis we use sensitivity analysis to determine the impacts that market risk exposure may have on the fair value of our outstanding debt obligations. To perform sensitivity analysis, we assess the risk of loss in fair values from the impact of hypothetical changes in interest rates on market sensitive instruments, considering the hedge agreements noted above. We compare the market values for interest risk based on the present value of future cash flows as impacted by the changes in the rates. We selected discount rates for the present value computations based on market interest rates in effect at September 30, 2000. We compared the market values resulting from these computations with the market values of these financial instruments at September 30, 2000. The differences in the comparison are the hypothetical gains or losses associated with each type of risk. As a result of our analysis we determined at September 30, 2000, with respect to our variable rate debt obligations, a 10% increase in interest rates with all other variables held constant would result in increased interest expense and cash expenditures for interest of approximately $259,000 in the quarter ended September 30, 2000. A 10% decrease in interest rates would result in reduced interest expense and cash expenditures of approximately $259,000 for the same period.

For purposes of specific risk analysis we use sensitivity analysis to determine the impacts that market risk exposure may have on the fair value of our outstanding fixed rate redeemable convertible preferred stock. To perform sensitivity analysis, we assess the risk of loss in fair values from the impact of hypothetical changes in dividend rates on market sensitive instruments. We compare the market values for dividend risk based on the present value of future cash flows as impacted by the changes in the rates. We selected discount rates for the present value computations based on market dividend rates in effect at September 30, 2000. We compared the market values resulting from these computations with the market values of these financial instruments at September 30, 2000. The differences in the comparison are the hypothetical gains or losses associated with each type of risk. As a result of our analysis we determined at September 30, 2000, with respect to our fixed rate redeemable convertible preferred stock, a 10% increase in dividend rates with all other variables held constant would result in increased dividends of approximately $412,500 in the quarter ended September 30, 2000. A 10% decrease in dividend rates would result in reduced dividends of approximately $412,500 for the same period.

Part II

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

(a) The 2000 Annual Meeting of Stockholders of the Company was held on July 27, 2000.

(b) Not applicable.

(c) Each nominee for Class III director received the following votes:

Name	Votes For	Abstentions
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Robert J. Fabbricatore	24,148,950	301,470
Ralph S. Troupe	24,161,571	288,849
Scott M. Sperling	24,164,346	286,074
Katherine Dietze Courage	24,164,346	286,074

The following table sets forth the other matters voted upon and the respective number of votes cast for, against, number of abstentions and broker nonvotes.

Matter Voted Upon	Votes For	Votes Against	Abstentions	Delivered Non Voted
To approve the 2000 Flexible Stock Plan	14,321,274	3,635,017	42,213	6,451,916
To approve the retention of Ernst & Young LLP as independent accountants	24,442,476	3,372	4,572	-

(d) Not applicable.

Item 6 - Exhibits and Reports on Form 8-K

(a) The following exhibits are included herein:

27 Financial Data Schedule

99.1 Risk Factors

(b) Reports on Form 8-K

We filed the following reports on Form 8-K during the quarter ended September 30, 2000.

Date	Items Reported
1. July 12, 2000	Announcement that we have selected Telcordia Technologies to provide core components of Class 5 Local Dial Tone Services on our Integrated Communications Network and that we expect to have customers using Class 5 local services on our network in the first calendar quarter of 2001.
2. July 18, 2000	Announcement that we have expanded our Integrated Communications Network into the Philadelphia PA and Baltimore MD markets.
3. July 31, 2000	Announcement of the change in our fiscal year to December 31 of each year from March 31 of each year.
4. August 3, 2000	Announcement that the Telecordia Softswitch is providing VoIP Voice Services Between 11 CTC Branch Sales Offices
5. August 29, 2000	Announcement that Verizon Strike Will Not Materially Impact Revenue and Access line Growth and of the Dark Fiber Purchase from NorthEast Optic Network

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SIGNATURES

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

CTC COMMUNICATIONS GROUP, INC.

Date: November 14, 2000 /S/ ROBERT J. FABBRICATORE

Robert J. Fabbricatore
Chairman and CEO

Date: November 14, 2000 /S/ JOHN D. PITTENGER

John D. Pittenger
Executive Vice President, and Chief Financial Officer

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EXHIBIT 99.1

RISK FACTORS

From time to time we have, and may in the future make, forward-looking statements, based on our then-current expectations, including statements made in Securities and Exchange Commission filings, in press releases and oral statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve risks and uncertainties, and actual results could differ materially from those expressed or implied in the forward- looking statements for a variety of reasons. These reasons include, but are not limited to, factors outlined below. We do not undertake to update or revise our forward-looking statements publicly even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

BECAUSE OUR REVENUES PRIOR TO JANUARY 1998 RESULTED FROM A BUSINESS STRATEGY WE ARE NO LONGER PURSUING, YOU MAY HAVE DIFFICULTY EVALUATING US.

We began offering local services under our own brand name in January 1998 and began providing network services to customers since September 1999. As a result, we can only provide limited historical operating and financial information about our current business strategy for you to evaluate.

IF WE DO NOT SUCCESSFULLY EXECUTE OUR NEW BUSINESS STRATEGY, WE MAY BE UNABLE TO COMPETE EFFECTIVELY.

Our business strategy is complex and requires that we successfully complete many tasks, a number of which we must complete simultaneously. If we are unable to effectively implement or coordinate the implementation of these multiple tasks, we may be unable to compete effectively in our markets and our financial results may suffer.

OUR INCURRENCE OF NEGATIVE CASH FLOWS AND OPERATING LOSSES DURING THE NEXT SEVERAL YEARS MAY ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

During recent periods we have experienced substantial net losses, operating losses and negative cash flow. Our expenses have increased significantly, and we expect our expenses to continue to increase as we deploy our network and implement our business plan. Accordingly, we expect to incur significant operating losses, net losses and negative cash flow during the next several years, which may adversely affect the price of our common stock.

IF OUR NETWORK DOES NOT FUNCTION PROPERLY, WE WILL BE UNABLE TO PROVIDE THE TELECOMMUNICATIONS SERVICES ON WHICH OUR FUTURE PERFORMANCE WILL IN LARGE PART DEPEND.

Because the design of our network has not been widely deployed, we cannot assure you that our network will provide the functionality that we expect. We also cannot be sure that we will be able to incorporate local dial tone capabilities into our network because this technology has not been widely implemented. Without this capability we will not be able to provide on our network all of our target customers' fixed line telecommunications services.

IF WE DO NOT OBTAIN INTERCONNECTION AGREEMENTS WITH OTHER CARRIERS, WE WILL BE UNABLE TO PROVIDE ENHANCED SERVICES ON OUR NETWORK.

Negotiation of interconnection agreements with incumbent local exchange carriers, or ILECs, can take considerable time, effort and expense, and these agreements are subject to federal, state and local regulation. We may not be able to effectively negotiate the necessary interconnection agreements. Without these interconnection agreements, we will be unable to provide enhanced connectivity to our network and local dial tone services and to achieve the financial results we expect.

BECAUSE OF OUR LIMITED EXPERIENCE, WE MAY NOT BE ABLE TO PROPERLY OR TIMELY DEPLOY, OPERATE AND MAINTAIN OUR NETWORK, WHICH COULD MATERIALLY ADVERSELY AFFECT OUR FINANCIAL RESULTS.

The failure of our network equipment to operate as anticipated or the inability of equipment suppliers to timely supply such equipment could materially and adversely affect our financial results.

Because we have limited experience operating and maintaining telecommunications networks, we may not be able to deploy our network properly or do so within the time frame we expect. In addition, we may encounter unanticipated difficulties in operating and maintaining our network. If network implementation does not occur in a timely and effective manner, our financial results could be adversely affected.

OUR HIGH LEVERAGE CREATES FINANCIAL AND OPERATING RISK THAT COULD LIMIT THE GROWTH OF OUR BUSINESS.

We have a significant amount of indebtedness. As of September 30, 2000, we had approximately $168.3 million of total indebtedness outstanding. We do not expect to generate sufficient cash flow from operations to repay our existing credit facilities. We have incurred substantial debt financing to fund our business plan. Our high leverage could have important consequences to us, including,

- limiting our ability to obtain necessary financing for future working capital, capital expenditures, debt service, or refinancing requirements or other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business;
- placing us at a competitive disadvantage to competitors with less leverage;
- increasing our vulnerability in the event of a downturn in our business or the economy generally;
- requiring that we use a substantial portion of our cash flow from operations for debt service and not for other purposes.

WE MAY BE UNABLE TO OBTAIN THE ADDITIONAL CAPITAL WE WILL REQUIRE TO FUND OUR OPERATIONS AND FINANCE OUR GROWTH ON ACCEPTABLE TERMS OR AT ALL, WHICH COULD CAUSE US TO DELAY OR ABANDON OUR DEVELOPMENT AND EXPANSION PLANS.

We will need significant additional capital to expand our business plan. We cannot assure you that capital will be available to us when we need it or at all. If we are unable to obtain capital when we need it, we may delay or abandon our expansion plans. That could have a material adverse effect on our business and financial condition.

OUR MARKET IS HIGHLY COMPETITIVE, AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY, ESPECIALLY AGAINST ESTABLISHED COMPETITORS WITH GREATER FINANCIAL RESOURCES AND MORE EXPERIENCE.

We operate in a highly competitive environment. We have no significant market share in any market in which we operate. We will face substantial and growing competition from a variety of data transport, data networking, telephony service and integrated telecommunications service providers. We also expect that the incumbent local exchange carriers ultimately will be able to provide the range of services we currently offer. Many of our competitors are larger and better capitalized than we are, are incumbent providers with long-standing customer relationships, and have greater name recognition. We may not be able to compete effectively against our competitors.

OUR INFORMATION SYSTEMS MAY NOT PRODUCE ACCURATE AND PROMPT BILLS WHICH COULD CAUSE A LOSS OR DELAY IN THE COLLECTION OF REVENUE AND COULD ADVERSELY AFFECT OUR RELATIONS WITH OUR CUSTOMERS.

We depend on our information systems to bill our customers accurately and promptly. Because of the deployment of our network and our expansion plans, we are continuing to upgrade our information systems. Our failure to identify all of our information and processing needs or to adequately upgrade our information systems could delay our collection efforts, cause us to lose revenue and adversely affect our relations with our customers.

WE MAY NOT RECEIVE TIMELY AND ACCURATE CALL DATA RECORDS FROM OUR SUPPLIERS WHICH COULD CAUSE A LOSS OR DELAY IN THE COLLECTION OF REVENUE AND COULD ADVERSELY AFFECT OUR RELATIONS WITH OUR SUPPLIERS.

Our billing and collection activities are dependent upon our suppliers providing us with accurate call data records. If we do not receive accurate call data records in a timely manner, our collection efforts could suffer and we could lose revenue. In addition, we pay our suppliers according to our calculation of the charges based upon invoices and computer tape records provided by these suppliers. Disputes may arise between us and our suppliers because these records may not always reflect current rates and volumes. If we do not pay disputed amounts, a supplier may consider us to be in arrears in our payments until the amount in dispute is resolved, which could adversely affect our relations with our suppliers.

WE DEPEND ON THE NETWORKS AND SERVICES OF THIRD PARTY PROVIDERS TO SERVE OUR CUSTOMERS AND OUR RELATIONSHIPS WITH OUR CUSTOMERS COULD BE ADVERSELY AFFECTED BY FAILURES IN THOSE NETWORKS AND SERVICES.

We depend on other carriers for the switching and transmission of our customer traffic. After we complete deploying our network, we will still rely to some extent on others for switching and transmission of customer traffic. We cannot be sure that any third party switching or transmission facilities will be available when needed or on acceptable terms.

Although we can exercise direct control of the customer care and support we provide, most of the services we currently offer are provided by others. The availability of these services are subject to work stoppages, lack of available facilities, physical damage, power loss, capacity limitations, software defects, breaches of security and other factors which may cause interruptions in service or reduced capacity for our customers. These problems, although not within our control, could adversely affect customer confidence and damage our relationships with our customers.

INCREASES IN CUSTOMER ATTRITION RATES COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

Our customers may not continue to purchase local, long distance, data or other services from us. Because we have been selling voice and data telecommunications under our own brand name for a short time, our customer attrition rate is difficult to evaluate. We could lose customers as a result of national advertising campaigns, telemarketing programs and customer incentives provided by major competitors as well as for other reasons not in our control as well as a result of our own performance. Increases in customer attrition rates could have a material adverse effect on our results of operations.

WE MAY BE UNABLE TO EFFECTIVELY MANAGE OUR GROWTH, WHICH COULD MATERIALLY ADVERSELY AFFECT ALL ASPECTS OF OUR BUSINESS.

We are pursuing a business plan that will result in rapid growth and expansion of our operations if we are successful. This rapid growth would place significant additional demands upon our current management and other resources. Our success will depend on our ability to manage our growth. To accomplish this we will have to train, motivate and manage an increasing number of employees. Our failure to manage growth effectively could have a material adverse effect on our business, results of operations and financial condition.

WE MAY BE UNABLE TO RETAIN OR REPLACE OUR SENIOR MANAGEMENT OR HIRE AND RETAIN OTHER HIGHLY SKILLED PERSONNEL UPON WHICH OUR SUCCESS WILL DEPEND.

We believe that our continued success will depend upon the abilities and continued efforts of our management, particularly members of our senior management team. The loss of the services of any of these individuals could have a material adverse effect on our business, results of operations and financial condition. Our success will also depend upon our ability to identify, hire and retain additional highly skilled sales, service and technical personnel. Demand for qualified personnel with telecommunications experience is high and competition for their services is intense. If we cannot attract and retain the additional employees we need, we will be unable to successfully implement our business strategy.

CHANGES TO THE REGULATIONS APPLICABLE TO OUR BUSINESS COULD INCREASE OUR COSTS AND LIMIT OUR OPERATIONS.

We are subject to federal, state, and local regulation of our local, long distance, and data services. The outcome of the various administrative proceedings at the federal and state level and litigation in federal and state courts relating to this regulation as well as federal and state legislation may increase our costs, increase competition and limit our operations.

RAPID TECHNOLOGICAL CHANGES IN THE TELECOMMUNICATIONS INDUSTRY COULD RENDER OUR SERVICES OR NETWORK OBSOLETE FASTER THAN WE EXPECT OR REQUIRE US TO SPEND MORE THAN WE CURRENTLY ANTICIPATE.

The telecommunications industry is subject to rapid and significant changes in technology. Any changes could render our services or network obsolete, require us to spend more than we anticipate or have a material adverse effect on our operating results and financial condition. Advances in technology could also lead to more entities becoming our direct competitors. Because of this rapid change, our long-term success will increasingly depend on our ability to offer advanced services and to anticipate or adapt to these changes, such as evolving industry standards. We cannot be sure that:

- we will be able to offer the services our customers require;
- our services will not be economically or technically outmoded by current or future competitive technologies;
- our network or our information systems will not become obsolete;
- we will have sufficient resources to develop or acquire new technologies or introduce new services that we need to effectively compete; or
- our cost of providing service will decline as rapidly as the costs of our competitors.

WE MAY PURSUE ACQUISITIONS WHICH COULD DISRUPT OUR BUSINESS AND MAY NOT YIELD THE BENEFITS WE EXPECT.

We may pursue strategic acquisitions as we expand. Acquisitions may disrupt our business because we may:

- experience difficulties integrating acquired operations and personnel into our operations;
- divert resources and management time;
- be unable to maintain uniform standards, controls, procedures and policies
- enter markets or businesses in which we have little or no experience; and
- find that the acquired business does not perform as we expected.

OUR EXISTING PRINCIPAL STOCKHOLDERS, EXECUTIVE OFFICERS AND DIRECTORS CONTROL A SUBSTANTIAL AMOUNT OF OUR VOTING SHARES AND WILL BE ABLE TO SIGNIFICANTLY INFLUENCE ANY MATTER REQUIRING SHAREHOLDER APPROVAL.

Our officers and directors and parties related to them now control approximately 35.1% of the voting power of our outstanding capital stock. Robert J. Fabbricatore, our Chairman and Chief Executive Officer, controls approximately 13.4% of our voting power. Therefore, the officers and directors are able to significantly influence any matter requiring shareholder approval.

FLUCTUATIONS IN OUR OPERATING RESULTS COULD ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

Our annual and quarterly revenue and results could fluctuate as a result of a number of factors, including:

- variations in the rate of timing of customer orders,
- variations in our provisioning of new customer services,
- the speed at which we expand our network and market presence,
- the rate at which customers cancel services, or churn,
- costs of third party services purchased by us, and
- competitive factors, including pricing and demand for competing services.

Also, our revenue and results may not meet the expectations of securities analysts and our stockholders. As a result of fluctuations or a failure to meet expectations, the price of our common stock could be materially adversely affected.

OUR STOCK PRICE IS LIKELY TO BE VOLATILE.

The trading price of our common stock is likely to be volatile. The stock market in general, and the market for technology and telecommunications companies in particular, has experienced extreme volatility. This volatility has often been unrelated to the operating performance of particular companies. Other factors that could cause the market price of our common stock to fluctuate substantially include:

- announcements of developments related to our business, or that of our competitors, our industry group or our customers;
- fluctuations in our results of operations;
- hiring or departure of key personnel;
- a shortfall in our results compared to analysts' expectations and changes in analysts' recommendations or projections;
- sales of substantial amounts of our equity securities into the marketplace;
- regulatory developments affecting the telecommunications industry or data services; and
- general conditions in the telecommunications industry or the economy as a whole.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2000

Commission File Number 0-27505.

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

Delaware (State or other jurisdiction of incorporation or organization)	04-3469590 (IRS Employer Identification No.)
220 Bear Hill Rd., Waltham, Massachusetts (Address of principal executive offices)	02451 (Zip Code)

(781) 466-8080
(Registrant's telephone number including area code)

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

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

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

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

Based on the closing sale price on June 19, 2000, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $683,335,261.

At June 19, 2000, 26,186,796 shares of the Registrant's Common Stock were outstanding.

Our Services

We offer the following services:

Local Telephone Services. We offer connections between customers' telecommunications equipment and the local telephone network, which we currently lease from incumbent local exchange carriers. For large customers or customers with specific requirements, we integrate their private systems with analog or digital connections. We also provide all associated call processing features as well as continuously connected private lines for both voice and data applications.

Long Distance Telephone Services. We offer a full range of domestic and international long distance services, including "1+" outbound calling, inbound toll free service, standard and customized calling plans. We also offer related services such as calling cards, operator assistance and conference calling.

High Speed Data Services. We offer a wide array of both continuously connected and switched high speed digital data services. Switched or high speed digital data services include Integrated Services Digital Network, or ISDN, frame relay and ATM products.

Internet Services. We offer high speed, continuously connected internet access and services through various digital connections. We provide the necessary configuration support and other support services on a 24-hour, 7-day a week basis.

Future Service Offerings. As we continue deploying the network, we may offer the following additional services: hosting of web-sites, electronic commerce over the internet, data security and storage services, systems integration, consulting and network monitoring services, customized private networks, virtual private networks and other data, and voice and sophisticated network products.

Our Integrated Communications Network, or IntelliNET(sm)

We began deploying the first phase of our state-of-the-art, packet-switched network, IntelliNET(sm), in January 1999. Today, our network is fully operational providing customers with integrated broadband services including voice, data, internet access and videoconferencing convergence over a single multi-service connection. We are able to offer a broad array of sophisticated services over our network. We believe that our network will enable us to improve margins, enhance network and service quality and broaden our range of product offerings. We álso believe that our network will ultimately enable us to deliver voice and data services across a single multi-service connection. We expect our network to lower customers' overall telecommunications costs and stimulate demand for new services.

The advantage of the IntelliNET(sm) network is that it is an open architecture allowing us to integrate new and emerging technology to meet our customers' increasing demand for high capacity and reliable voice, data and video services. The network utilizes Cisco BPX and MGX IP + ATM switches, the most reliable and proven method to handle all types of data, voice, Internet and video traffic. Our switches and hubs are co-located with Level 3 Communications and Northeast Optic Network and Bell Atlantic facilities.

We access our customers from our network via PowerPath services, which provide a fully converged ATM connection from the customer to our IntelliNET(sm). Data, Internet, video and long-distance voice are consolidated on a single access facility thus eliminating inefficiency and expense associated with separate dedicated lines for different products and services.

We believe the packet switched network is superior to the existing circuit switched network. The basic technology within the existing telephone-switching network has not changed for approximately 100 years. The circuit switch technology dedicates a fixed amount of capacity for the entire duration of a telephone call. In a packet switched environment, there is no single dedicated circuit and information is broken apart and sent into packets that are mixed with other types of data communications and then reassembled at the end.

Our ability to transmit via packets provides for superior network utilization and results in the ability to transmit more information through a similar channel, thus more information, i.e. voice and data, will be transported at a lower cost and more efficiently.

We are currently offering long-distance and data services over our network, and local exchange will continue to be obtained from other carriers. We believe that long-distance and data services represent over 50% of the telecommunications spending of our target customers. We plan to incorporate local dial tone in the first quarter of 2001, thus simplifying the transition of existing customers onto the network. The customer will not have to disconnect from the ILEC and then reconnect onto our network. The transition of the customer from ILEC to our network requires only the reprogramming of the customer's system to direct long-distance and data service traffic to our network. This strategy enables customers to keep their existing phone numbers as well as having the built-in redundance of the separate physical connection to the ILEC.

We access our customer locations from our network through our PowerPath(sm) services. Various access modes include a variety of high capacity technologies, including digital subscriber line, or DSL, service which permits high speed connections over existing telephone lines, leased high capacity wireline circuits, or T-1s, wireless technologies and fiber optic facilities, as available.

CTC on-net Internet Services

We have built an extensive IP network infrastructure supported by our IntelliNET(sm) network. We became registered as an official Internet Service Provider, or ISP, in early 2000, which enables us to deliver Internet access to our customers as part of our IntelliNET(sm) converged services offering. We plan to launch our web based mail product during the summer of 2000 and plan to further expand this offering to a unified messaging service early next year.

Fiber Network

With the objective to secure competitive transport capacity and improve time to market of our IntelliNET(sm) and value added services, we launched a major dark fiber program in early 2000 with the acquisition of over 8,300 fiber route miles (the term "dark" describes the absence of components required for optical transmission or optronics). The program consists of two phases. Phase 1 includes our current footprint in the Northeastern United States continuing south through Virginia, northeast to Ohio and east to New York. Our primary network operations center is co-located at our Waltham, Massachusetts technology center, supported by a back-up network operations center in Springfield, Massachusetts. We expect Phase I to be completed by January 2001, although the major routes will become operational as early as mid-year 2000. We plan to substitute the transmission capacity over fiber optic cable strands which we presently lease from ILECs, Level 3 Communications and Northeast Optic Network with our own fiber connections.

Phase II of the network is expected to commence in December 2000 and coverage will extend from Virginia south to Florida, west to Texas, north to Illinois, and then east to Indiana, and Tennessee to Georgia. We expect Phase II to be completed by January 2002.

To implement our fiber network program, we signed a $115 million agreement to purchase more than 8,300 route miles of dark fiber covering the Eastern half of the United States from Williams Communications ("Williams"). The contract includes co-location space and ongoing network maintenance services on our nationwide fiber optic network. The fiber acquired will expand our current network presence along the Boston to Washington, D.C. corridor into 40 major markets extending from the central United States throughout the eastern United States.

Williams, which owns and operates the largest next-generation network in the United States, is a recognized leader in providing innovative services and advances in fiber-optic engineering and construction and is the largest independent source of integrated business communications solutions including data, voice or video.

We believe that our relationship with Williams will provide us with the ability to quickly acquire a world-class telecommunications infrastructure. The fully integrated architecture of the Williams Multi-Service Broadband Network combines ATM core switching with advanced optical networking technologies and enables us to extend our networking capability outside of our current footprint.

We recently announced that we will install and operate our own optronics at points along the fiber routes and have selected Cisco as our optronics provider for the fiber network. We will purchase Internet scale, carrier class optical networking equipment, specifically Cisco's ONS 153454 Synchronous Optical Network, or SONET, switches, and Cisco's ONS 15800 Dense Wave-link Multiplexing, or DWM, switches. We anticipate spending approximately $75 million for the purchase of these optronics over the next two years.

Sales and Customer Care

We market telecommunications services by developing long-term business relationships with our customers and offering them comprehensive management of their telecommunications requirements. Each of our customers is assigned a local dedicated team consisting of a sales executive and a network consultant. This team provides a single point of contact for our customer's needs. This team works together with the customer to design, implement and maintain an integrated telecommunications solution. This team also reviews customers' services on a regular basis through regular on-site meetings and, based upon changes in the customers' needs or available technologies, updates their network to make the best use of the currently available products and services. We believe that providing localized, proactive high quality customer care promotes continued sales of new services with much more value and reduces customer churn.

Sales and Service Infrastructure. Our branches are currently staffed with over 400 individuals, representing approximately 75% of our employees. As of March 31, 2000, there were 214 sales executives, 144 network consultants, 35 branch/regional managers and 22 service managers located in 30 sales branches serving markets in Connecticut, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

Customer Sales and Service Model. At the initial meeting with a prospective customer, our sales executives first gain a detailed understanding of the customer's business, including their method of operations, a description of their short and long-term business plans and the communications challenges which they currently face. A thorough, detailed inventory of the customer's current communications services and costs is then analyzed. We then present a communications solution to our customer based on our analysis of their business and goals which outlines both options and recommendations designed to eliminate unnecessary expense, implement new services to improve the functional and financial performance of their network and position them to make changes to their network as their business needs and available technologies change. Sales executives also review with the customer the benefits of the CTC comprehensive, ongoing customer care program which focuses on timely response to daily customer needs and is a proactive approach to an ongoing dialogue to keep the customer informed of industry changes and trends and keep ourselves informed of changes in the plans or needs of the customer. We believe the relationship-intensive approach of assigning sales executives and network consultants to each customer account results in both high customer satisfaction and retention rates.

Our sales executives regularly participate in training programs on subjects such as solution-oriented sales, comprehensive customer care, network design and other technical features of our services. We seek to motivate and retain our sales executives through extensive training and a commission structure that supports our relationship oriented sales and service policies and reward account growth and retention.

Customer Care. Our network consultants are thoroughly trained in each of the Customer's service offerings and are responsible for customer care. Network consultants are located in each of our sales branches and are responsible for individual customer accounts in direct support of the sales executives. Each sales representative is kept informed of the unique needs and aspects of each individual customer to whom they are assigned. Our localized, multi-step customer care process provides an ongoing and comprehensive service program to our customers. This process ranges from long-term consultative planning to day-to-day handling of service issues.

Our customer care program is designed to provide prompt action in response to customer inquiries and complaints. The local sales branches are staffed 11 hours a day, 5 days a week. At other times, incoming calls are automatically connected to a central customer care center which is staffed 24 hours a day, 7 days a week. We believe that our network consultants are motivated to provide the highest level of customer care because a significant portion of their compensation is based on customer retention and satisfaction.

Our Information Systems

Our information systems include five central applications which fully integrate our sales and account management, customer care, provisioning, billing and financial processes. Automation of each of these processes is designed for high transaction volumes, accuracy, timely installation, accurate billing feeds and quality customer service. Data entered in one application is generally exported into all other applications. Each branch office is connected via frame relay to the central processor. Our employees have online access to our information systems from their branch desktops or docking stations.

We also have an electronic interface to most of our major suppliers. When a sales executive wishes to place an order, our information systems electronically direct it to the appropriate supplier and monitor any delays in provisioning the order. Once the order is provisioned, our information systems automatically remove it from the in-process order file, update the customer's service inventory and network configuration, initiate billing, post the sales executive's commission and update our financial reports.

Our information systems include the following applications:

Account and Sales Management. Our account management application is the hub of our information systems. It stores all of our customer-related information, such as location detail, contact information, transaction history and account profile. Our account management application also automatically exports data to our customized sales application. Our sales application is a fully-integrated database that provides sales personnel with access to information for pricing services, customized sales proposals, customer correspondence, sales performance, referencing methods and procedures, service descriptions, competitive information and historical profiles of our current and prospective customers. These historical profiles include details of installed services, recent transactions and billing history. Our sales system can be used both on- and off-line. All entries made while off-line are automatically updated to the central processor and all relevant data is simultaneously exported to the other central applications each time a salesperson connects to the network.

Customer Care. Our network consultants use our account care application to review installed services, make additions, changes and deletions to accounts, initiate and track repair and service work and review past billing for any customer. This closed loop application provides automatic follow up and records all transactions in a customer history file. Service orders and repair requests input in our account care application are automatically exported into our provisioning application.

Provisioning. We generally direct customer orders through our provisioning application electronically to our major suppliers. We track these orders through our account care application from initiation through completion. Order information is entered by the account team at each branch and then forwarded for technical design review. Upon design acceptance, an Access Service Request (ASR) is issued to a local service provider to provision the PowerPath access service. This interval is from the local service provider and currently averages 20 days. Upon electronic receipt of the Firm Order Confirmation (FOC), the Installation and Services appointment is scheduled. Branch network coordinators are alerted of the date and they coordinate that date with the customer. Two days before installation, network addresses and services are assigned throughout the network and the Integrated Access Device (IAD) is programmed and shipped to the installation depot. On the FOC date, the access service is tested prior to acceptance. The following day, the IAD is installed and the customer's services are activated. The total interval from receipt of customer order to service activation now averages 24 days. If any delay in the process occurs, our information system alerts the sales and service team who then have the ability to take corrective action and also notify the customer of a possible delay. Once the order has been filled the information is automatically fed to our billing application.

Billing and Customer Interface. Our billing application gives us the ability to provide our customers a single bill for all the services we provide. Our billing application also allows the customer to review historic bill detail, perform customized usage analyses and download information directly to their own accounting applications. Using a secure Web-based application called IntelliVIEW(tm), our customers have near real-time online access to our billing application and are able to review and analyze their bills and related information with many useful features including:

Call summary	Time of day analysis
Call detail	Day of week analysis
Click-a-Bill drill down	Location summary and analysis
Line usage summary	Group summary and analysis
Expensive call breakdown	e-mail notification of billing
Frequent call breakdown	

Customer billing statements are also available on CD ROM, diskette or paper. Paper statements generated by our billing application offer our customers different management formats.

Financial. Data from our billing application is electronically transferred to our financial application. Our financial application tracks and prepares reports on sales activity, commissions, branch operations, branch profitability and cash flows. The financial application also compiles this data for our periodic financial reports. In addition, this application provides internal controls for revenue tracking and costing. The integrated nature of our information systems allows us to operate each branch as a separate profit and loss center.

Information Systems. We continue to upgrade our information systems in order to support our network. Our Information Management Platform consists of a three-tier architecture. A relational database and data warehouse from Oracle comprises tier one. Vertical systems at the second tier support our network operations support system, business applications used by our various departments, a business-to-business communications server, and a suite of web based applications. Both tiers one and two run on SUN-Microsystems and UNIX. A web based client at the third tier allows our customers, vendors, partners and employees access to information using Windows, Windows NT or web browsers.

Our Information Management Platform is built on open standards, and is highly scalable and flexible to accommodate future growth and new services. It allows us to replace and upgrade business applications without impacting other applications and provides us highly reliable data. All of our systems are fully redundant. The information is mirrored on EMC storage systems located in two distant data centers.

Competition

We operate in a highly competitive environment. We have no significant market share in any market in which we operate. We now face and will continue to face substantial and growing competition from a variety of data transport, data networking and telephony service providers. We face competition from single-source providers and from providers of each individual telecommunications service. Many of these competitors are larger with greater financial and other resources than we possess. In addition, many of our competitors are incumbent providers, with long standing relationships with their customers and greater name recognition.

Bell Atlantic is a competitor for local and data services, and we expect based on regulatory developments, eventually will be a competitor for long distance services as well. Major competitors in our markets for the provision of single-source solutions include WinStar Communications, Inc. and Teligent, Inc. Network Plus is a competitor in our market for the provision of long distance and, to some extent, local services. Competitors for our data services also include AT&T Local (Teleport) and MCI Worldcom (Brooks Fiber and MFS). Our competitors for long distance services include all the major carriers such as AT&T, MCI Worldcom and Sprint.

The continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors. Many of these combined entities have or will have resources far greater than ours. These combined entities may provide a single package of telecommunications products that is in direct competition with our products. These combined entities may be capable of offering these products sooner and at more competitive rates than we can.

Competition from Single-Source Providers. The number of single-source providers has increased because of the current regulatory trend toward fostering competition and the continued consolidation of telecommunications service providers. Many single-source providers and long distance carriers have committed substantial resources to building their own networks or to purchasing carriers with complementary facilities. Through these strategies, a competitor can offer single-source local, long distance and data services similar to those that we will offer. The alternative strategies available to these competitors may provide them with greater flexibility and a lower cost structure.

Once the Regional Bell Operating Companies, or RBOCs, are allowed to offer in-region long distance services under the terms of Section 271 of the Telecommunications Act, they will be in a position to offer local and long distance services similar to the services we offer. The FCC must approve RBOC provision of in-region long distance services and can only do so upon finding that the RBOC has complied with the 14-point checklist outlined in Section 271 of the Telecommunications Act. This 14-point checklist is designed to ensure that RBOC competitors have the ability to provide local telephone services in competition with the RBOC. To date, only New York Telephone d/b/a Bell Atlantic-NY has been granted Section 271 authority; however, it is expected that other applications will be approved in the upcoming year.

Although the Telecommunications Act and other federal and state regulatory initiatives will provide us with new business opportunities, as competition increases regulators are likely to provide the ILECs with more pricing flexibility. Our revenues may be adversely affected if the ILECs elect to lower their rates and sustain these lower rates over time. We believe that we may be able to offset the effect of lower rates by offering new services to our target customers, but we cannot assure you that this will occur. In addition, if future regulatory decisions give ILECs increased pricing flexibility or other regulatory relief, such decisions could have a material adverse effect on our business.

Competition for Provision of Local Exchange Services. In most local exchange markets, ILECs, including RBOCs, continue to hold near-monopoly positions. We also face competition or prospective competition from one or more integrated communications providers, and from other competitive providers, including providers who do not own their own network. Many of these competitors are larger and better capitalized than we are. Some carriers have entered into interconnection agreements with ILECs and either have begun, or in the near future likely will begin, offering local exchange service in each of our markets. Further, as of February 8, 1999, the largest long distance carriers were permitted to bundle local and long distance services. This removes one of our competitive advantages. Other entities that currently offer or are potentially capable of offering switched services include cable television companies, electric utilities, other long distance carriers, microwave carriers, and large customers who build private networks.

Wireless telephone system operators are also competitors in the provision of local services. Cellular, personal communications service, and other commercial mobile radio services providers may offer wireless services to fixed locations, rather than just to mobile customers. This ability to provide fixed as well as mobile services will enable wireless providers to offer wireless local loop service and other services to fixed locations (e.g., office and apartment buildings) in direct competition with us and other providers of wireline telephone service. In addition, the FCC recently auctioned substantial blocks of spectrum for fixed use including local exchange services. We expect exploitation of this spectrum to increase competition in the local market.

The World Trade Organization, or WTO, concluded an agreement that could result in additional competitors entering the U.S. local and long-distance markets. Under the WTO agreement, the United States committed to open telecommunications markets to foreign-owned carriers. The FCC has adopted streamlined procedures for processing market entry applications from foreign carriers, making it easier for such carriers to compete in the U.S. We cannot predict whether foreign-owned carriers will enter our markets as a result of the WTO agreement.

Competition for Provision of Long Distance Services. The long distance market is significantly more competitive than the local exchange market. In the long distance market numerous entities compete for the same customers. In addition, customers frequently change long distance providers in response to lower rates or promotional incentives by competitors. This results in a high average rate of customer loss, or churn, in the long distance market. The FCC recently adopted the Coalition for Affordable Local and Long Distance Service (CALLS) proposal which will further reduce access charges paid by long distance carriers by $3.2 billion. The FCC's new rules also shift the imposition of the presubscribed interexchange carrier charge, or PICC, currently assessed by the RBOC on the long distance carrier, on to the end user. RBOCs will be permitted to recover its cost for presubscription through an increase in its Subscriber Line Charge (SLC). Accordingly, prices in the long distance market are expected to significantly decline.

Data and Internet Services. The market for high speed data services and access to the internet is highly competitive. We expect competition in this market to continue to intensify. Our competitors in this market will include internet service providers and other telecommunications companies, including large interexchange carriers and RBOCs. Many of these competitors have greater financial, technological and marketing resources than those available to us. Pursuant to those obligations set forth under Section 251 of the Act, ILECs are now required to provide advanced services through an unregulated affiliate. We cannot yet predict the effect that this requirement will have on our ability to obtain facilities and services from ILECs and on the competition that we will face from ILECs in the data services market.

Government Regulation

The local and long distance telephony services and, to a lesser extent, the data services we provide are regulated by federal, state, and, to some extent, local government authorities. The FCC has jurisdiction over all telecommunications common carriers to the extent they provide interstate or international communications services or access thereto. Each state regulatory commission has jurisdiction over the same carriers with respect to the provision of intrastate communications services. Local governments sometimes impose franchise or licensing requirements on telecommunications carriers and regulate construction activities involving public rights-of-way. Changes to the regulations imposed by any of these regulators could have a material adverse effect on our business, operating results and financial condition.

In recent years, the regulation of the telecommunications industry has been in a state of flux as the United States Congress and various state legislatures have passed laws seeking to foster greater competition in telecommunications markets. The FCC and state utility commissions have adopted many new rules to implement this legislation and encourage competition. These changes, which are still incomplete, have created new opportunities and challenges for us and our competitors. The following summary of regulatory developments and legislation is not intended to describe all present and proposed federal, state and local regulations and legislation affecting the telecommunications industry. Some of these and other existing federal and state regulations are the subject of judicial proceedings, legislative hearings and administrative proposals which could change, in varying degree, the manner in which this industry operates. We cannot predict the outcome of these proceedings, or their impact on the telecommunications industry at this time.

Federal Regulation

We are currently not subject to price cap or rate of return regulation at the federal level and are not currently required to obtain FCC authorization for the installation, acquisition or operation of our domestic interexchange network facilities. However, we must comply with the requirements of common carriage under the Communications Act. We are subject to the general requirement that our charges and terms for our telecommunications services be "just and reasonable" and that we not make any "unjust or unreasonable discrimination" in our charges or terms. The FCC has jurisdiction to act upon complaints against any common carrier for failure to comply with its statutory obligations. The US Court of Appeals recently upheld the FCC's 1996 mandatory detariffing rules for domestic interexchange service. Pursuant to the new rules, long distance providers must cancel tariffs for interstate service by January 31, 2001. The Company does not anticipate any material impact as a result of these rules.

Comprehensive amendments to the Communications Act were made by the Telecommunications Act, which was signed into law on February 8, 1996. The Telecommunications Act effected changes in regulation at both the federal and state levels that affect virtually every segment of the telecommunications industry. The stated purpose of the Telecommunications Act is to promote competition in all areas of telecommunications. While it may take years for the industry to feel the full impact of the Telecommunications Act, it is already clear that the legislation provides us with new opportunities and challenges.

The Telecommunications Act greatly expands the interconnection requirements on the ILECs by requiring the ILECs to:

- provide physical co-location, which allows companies such as us and other competitive local exchange carriers to install and maintain their own network termination equipment in ILEC central offices, and virtual collocation only if requested or if physical collocation is demonstrated to be technically infeasible;
- unbundle components of their local service networks so that other providers of local service can compete for a wide range of local services customers; and establish "wholesale" rates for their services to promote resale by competitive local exchange carriers.

In addition, all local exchange carriers must:

- establish number portability, which will allow a customer to retain its existing phone number if it switches from the local exchange carrier to a competitive local service provider;
- provide nondiscriminatory access to telephone poles, ducts, conduits and rights-of-way.
- compensate other local exchange carriers on a reciprocal basis for traffic originated on one local exchange carrier and terminated on the other local exchange carrier.

The FCC is charged with establishing national guidelines to implement certain portions of the Telecommunications Act. The FCC issued its interconnection order on August 8, 1996. On July 18, 1997, however, the United States Court of Appeals for the Eighth Circuit issued a decision vacating the FCC's pricing rules, as well as certain other portions of the FCC's interconnection rules, on the grounds that the FCC had improperly intruded into matters reserved for state jurisdiction. On January 25, 1999, the Supreme Court largely reversed the Eighth Circuit's order, holding that the FCC has general jurisdiction to implement the local competition provisions of the Telecommunications Act. In so doing, the Supreme Court stated that the FCC has authority to set pricing guidelines for unbundled network elements, to prevent ILECs from disaggregating existing combinations of network elements, and to establish "pick and choose" rules regarding interconnection agreements. "Pick and choose" rules would permit a carrier seeking interconnection to "pick and choose" among the terms of service from other interconnection agreements between the ILECs and other competitive local exchange carriers. This action reestablishes the validity of many of the FCC rules vacated by the Eighth Circuit. Although the Supreme Court affirmed the FCC's authority to develop pricing guidelines, the Supreme Court did not evaluate the specific pricing methodology adopted by the FCC and has remanded the case to the Eighth Circuit for further consideration. Thus, while the Supreme Court resolved many issues, including the FCC's jurisdictional authority, other issues remain subject to further consideration by the courts and the FCC.

In September 1999, the FCC issued a new order which redefined those unbundled network elements that ILECs must provide to competitive local exchange carriers. Specifically, the FCC modified rules which eliminate the requirement that the incumbent provide unbundled access to Directory Assistance and Operator Services. The FCC's rules requiring incumbents to provide unbundled local switching was modified such that the incumbent is no longer required to offer local switching to larger carriers located in Metropolitan Service Areas (MSAs).

In March of this year, the U.S. Court of Appeals vacated portions of the FCC's collocation rules. Specifically, the Court vacated the FCC's definition of what types of equipment must be collocated, its rules allowing collocators to cross connect their equipment with other collocated carriers, and its rule prohibiting ILECs from requiring carriers from using separate or isolated rooms or floors. It is uncertain, what impact the vacation of these rules will have on the Company. In November, 1999, the FCC issued rules that allow competitive local exchange carriers to offer data services over the same line that a consumer uses for voice services without the competitive local exchange carrier having to provide the voice service.

Under the Communications Act, ILECs who don't qualify for rural exemption pursuant to Section 251 of the Act have an obligation to negotiate with us in good faith to enter into interconnection agreements. We will need interconnection agreements to provide enhanced connectivity to our network and to provide local dial tone services. If we cannot reach agreement, either side may petition the applicable state commission to arbitrate remaining disagreements. These arbitration proceedings can last up to 9 months. Moreover, state commission approval of any interconnection agreement resulting from negotiation or arbitration is required, and any party may appeal an adverse decision by the state commission to federal district court. The potential cost in resources and delay from this process could harm our ability to compete in certain markets, and there is no guarantee that a state commission would resolve disputes, including pricing disputes in our favor.

The Telecommunications Act permits RBOCs to provide long distance services outside their local service regions immediately, and will permit them to provide in-region long distance service upon demonstrating to the FCC and state regulatory agencies that they have adhered to the Telecommunication Act's 14- point competitive checklist. Some RBOCs have filed applications with various state public utility commissions and the FCC seeking approval to offer in-region long distance service. Some states have denied these applications while others have approved them. However, to date, with the exception of Bell Atlantic-New York, the FCC has denied each of the RBOC's applications brought before it because it found that the RBOC had not sufficiently made its local network available to competitors. The approval of additional RBOC applications is expected in the upcoming year.

In May 1997, the FCC released an order establishing a significantly expanded universal service regime to subsidize the cost of telecommunications service to high cost areas, as well as to low-income customers and qualifying schools, libraries, and rural health care providers. Providers of interstate telecommunications services, like us, as well as certain other entities, must pay for these programs. We are also eligible to receive funding from these programs if we meet certain requirements. Our share of the payments into these subsidy funds will be based on our share of certain defined telecommunications end-user revenues. Currently, the FCC is assessing such payments on the basis of a provider's revenue for the previous year. Various states are also in the process of implementing their own universal service programs. The FCC and most states permit carriers to recover this charge from its end users. Consequently, the existing surcharge structure does not materially impact the Company's costs.

On November 1, 1996, the FCC issued an order that required nondominant interexchange carriers, like us, to cease filing tariffs for our domestic interexchange services. The order required mandatory detariffing and gave carriers nine months to withdraw federal tariffs and move to contractual relationships with their customers. Subsequently stayed and later upheld by US court of Appeals, the FCC detariffing rules went back into effect in April, 2000. Carriers must cancel interstate interexchange services tariffs by January 31, 2001. The Company currently maintains contractual arrangements with all of its customer base and therefore anticipates little or no impact from the reinstatement of these rules. Also reinstated are the FCC rules that carriers make specific public disclosure on the carrier's website of their rates, terms and conditions for domestic interstate service and the requirement that carriers file annual certifications indicating that the carrier is complying with geographic rate averaging and rate integration obligations under Section 254(g) of the Act.

The FCC's determination last year that dial-up calls to Internet Service Providers were not subject to reciprocal compensation was remanded by the DC circuit court pending reconsideration. Moreover, several states are considering this issue, and several states have held that local exchange carriers do not need to pay reciprocal compensation for calls terminating at internet service providers. In addition, one RBOC has petitioned the FCC for a ruling that telephone-to-telephone calls made over the internet are subject to regulation as a telecommunications service under the Communications Act. Although the FCC has suggested that such internet-based telephone-to-telephone calls may be considered a telecommunications service, it has not reached a final decision on that issue. We cannot predict the effect that the FCC's resolution of these issues will have on our business.

On November 17, 1999, the Federal Communications Commission (FCC) approved the transfer of Lockheed Martin's Communications Industry Services (CIS) group to NeuStar, Inc, who now has responsibility for administering and assigning local telephone numbers in each geographic region in the United States. In July 1996, the FCC released rules requiring all local exchange carriers to have the capability to permit both residential and business consumers to retain their telephone numbers when switching from one local service provider to another, known as "number portability." In May 1999, the FCC initiated a proceeding to address the problem of the declining availability of area codes and phone numbers. On March 31, 2000, the FCC adopted new area code optimization rules. It is uncertain what impact these rules will have on the Company's offerings.

A customer's choice of local or long distance telecommunications company is encoded in a customer record, which is used to route the customer's calls so that the customer is served and billed by the desired company. A user may change service providers at any time, but the FCC and some states regulate this process and require that specific procedures be followed. When these procedures are not followed, particularly if the change is unauthorized or fraudulent, the process is known as "slamming." Slamming is such a significant problem that it was addressed in detail by Congress in the Telecommunications Act, by some state legislatures, and by the FCC in recent orders. The FCC has levied substantial fines for slamming. The risk of financial damage and business reputation from slamming is significant. Even one slamming complaint could cause extensive litigation expenses for us. The FCC's slamming rules (which originally covered only long distance) apply to local service as well. In addition, the FCC recently adopted revised slamming rules which virtually eliminates the possibility for Carrier compensation for charges associated with the unauthorized switch of a consumer's service. The new rules also require Commission notification of all unauthorized changes.

Last year the FCC adopted technical requirements for wireline, cellular, and broadband Personal Communications Services (PCS) carriers to comply with the assistance capability requirements of the Communications Assistance for Law Enforcement Act of 1994 (CALEA). Specifically, the FCC required that all capabilities of the Telecommunications Industry Association (TIA) interim standard (J-STD-025) and six of nine "punch list" capabilities requested by the Department of Justice (DoJ)/Federal Bureau of Investigation (FBI) be implemented by wireline, cellular, and broadband PCS carriers.

With the exception of packet-mode communications, the FCC required that all capabilities of the interim standard be implemented by the CALEA compliance date of June 30, 2000. The FCC required that a packet-mode communications capability and the six punchlist capabilities be implemented by September 30, 2001. The Company does not anticipate incurring any significant additional costs as a result of the FCC's adoption of these rules.

State Regulation

To the extent that we provide telecommunications services which originate and terminate in the same state, we are subject to the jurisdiction of that state's public service commission. As our local service business and product lines expand, we will offer more intrastate service and become increasingly subject to state regulation. The Telecommunications Act maintains the authority of individual state utility commissions to preside over rate and other proceedings, as discussed above, and impose their own regulation of local exchange and interexchange services so long as such regulation is not inconsistent with the requirements of the Telecommunications Act. For instance, states may impose tariff and filing requirements, consumer protection measures and obligations to contribute to universal service, and other funds.

We are subject to requirements in some states to obtain prior approval for, or notify the state commission of, any transfers of control, sales of assets, corporate reorganizations, issuances of stock or debt instruments and related transactions. Although we believe such authorizations could be obtained in due course, there can be no assurance that the FCC or state commissions would grant us authority to complete any of these transactions.

We have state regulatory authority to provide competitive local exchange and/or local resold services and interexchange services in twelve states. We also have state regulatory authority to provide intrastate interexchange services throughout the continental U.S.

The Telecommunications Act generally preempts state statutes and regulations that restrict the provision of competitive local services. States, however, may still restrict competition in some rural areas. As a result of this preemption, we will be free to provide the full range of local, long distance, and data services in any state. While this action greatly increases our potential for growth, it also increases the amount of competition to which we may be subject.

Local Government Regulation

We may be required to obtain from municipal authorities, street opening and construction permits to install our facilities in some cities. In some of the areas where we provide service, we are subject to municipal franchise requirements requiring us to pay license or franchise fees either on a percentage of gross revenue, flat fee or other basis. The Telecommunications Act requires municipalities to charge nondiscriminatory fees to all telecommunications providers, but it is uncertain how quickly this requirement will be implemented by particular municipalities in which we operate or plan to operate or whether it will be implemented without a legal challenge.

Employees

As of June 19, 2000, we employed 640 persons. None of our employees are represented by a collective bargaining agreement.

ITEM 2. PROPERTIES

Our headquarters and technology center are located in leased space in Waltham, Massachusetts. We have a back-up network operations center in Springfield, Massachusetts. We also lease offices in nine states. Although we believe that our leased facilities are adequate at this time, we expect to lease both additional sales facilities in connection with our planned expansion in existing markets and into new markets.

ITEM 3. LEGAL PROCEEDINGS

(a) Pending Legal Proceedings.

We are party to suits and regulatory proceedings arising in the normal course of business which we believe are not material individually or in the aggregate.

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

None.

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

Our common stock is listed on the Nasdaq National Market under the symbol "CPTL." Following is the range of high and low trading prices on the Nasdaq National Market for our common stock for the periods indicated. All prices reflect the March 2000 three-for-two stock split.

	Price Range	
	High	Low
Calendar Year 1998		
Second Quarter	$ 6.58	$4.33
Third Quarter	$ 5.67	$3.17
Fourth Quarter	$ 6.00	$2.67
Calendar Year 1999		
First Quarter	$11.67	$5.59
Second Quarter	$16.00	$8.13
Third Quarter	$14.00	$6.67
Fourth Quarter	$27.83	$9.83
Calendar Year 2000		
First Quarter	$56.13	$22.67

The last sale price of the common stock on the Nasdaq National Market on June 19, 2000 was $39.56. Our common stock was held by 440 stockholders of record.

We have never paid cash dividends on our common stock and we have no plans to do so in the foreseeable future. We intend to retain earnings, if any, to develop and expand our business. In addition, the terms of our creditfacility and the Series B preferred stock restrict our ability to pay cash dividends on our common stock. We also expect the terms of agreements governing any future indebtedness to restrict our ability to pay cash dividends.

During the fiscal year ended March 31, 2000, we issued the following securities which were not registered under the Securities Act (does not include issuances previously disclosed in our Quarterly Reports on Form 10-Q):

(a) In January and February 2000, we issued a total of 538,023 shares of common stock upon the exercise of outstanding warrants, adjusted for the March 17, 2000 three-for-two stock split.

(b) On March 25, 2000, all of the holders of the Series A Convertible Preferred Stock voluntarily converted their preferred stock into 2,376,660 shares of common stock. The 2,376,660 shares represents the value of the initial investment plus the accrued dividends through the conversion date, adjusted for the March 17, 2000 three-for-two stock split

All of the above securities were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the five years ended March 31, 2000 are derived from our consolidated financial statements. You should read the following financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes.

All earnings per share and weighted average share information included in the accompanying financial statements have been restated to reflect the three-for-two stock split effected in fiscal year ended March 31, 2000.

	Fiscal Year ended March 31,				
	1996	1997	1998	1999	2000
	(dollars in thousands, except per share information)				
Statement of Operations Data:					
Agency revenues	$ 25,492	$ 29,195	$ 24,775	$ —	$ —
Telecommunications revenues	5,383	11,095	16,172	70,964	153,101
Total revenues	30,875	40,290	40,947	70,964	153,101
Cost of telecommunications revenue (excluding depreciation and amortization)	4,242	8,709	14,039	61,866	119,586
Selling, general and administrative expenses	19,349	23,077	29,488	52,521	56,676
Depreciation and amortization	660	743	1,418	3,778	18,754
Income (loss) from operations	6,624	7,761	(3,998)	(47,201)	(41,915)
Income (loss) before extraordinary item	4,094	4,683	(2,498)	(51,238)	(57,073)
Net income (loss)	$4,094	$4,683	$(2,498)	$(51,238)	$(59,504)
Per Share Data:					
Income (loss) per share before extraordinary item					
Basic	0.29	0.33	(.17)	(3.45)	(2.89)
Diluted	0.25	0.29	(.17)	(3.45)	(2.89)
Net income (loss) per share					
Basic	0.29	0.33	(.17)	(3.45)	(3.01)
Diluted	0.25	0.29	(.17)	(3.45)	(3.01)
Other Financial Data					
EBITDA (loss)	$ 7,295	$ 8,519	$ (2,405)	$(43,346)	$(23,153)
Capital expenditures	759	1,222	6,109	36,041	71,187
Net cash provided (used) by operating activities	2,192	3,572	(7,951)	(33,254)	(36,984)
Net cash used in investing activities	759	1,222	4,765	6,282	43,721
Net cash provided by financing activities	119	114	8,479	39,622	98,544

	As of March 31,				
	1996	1997	1998	1999	2000
	(dollars in thousands)				
Balance Sheet Data					
Cash and cash equivalents	$ 3,942	$ [illegible]	$ 2,168	$ 2,284	$ [illegible]
Total assets	12,509	20,186	30,768	69,482	[illegible]
Total long-term debt including current portion			[illegible]	[illegible]	[illegible]
Series A redeemable convertible preferred stock				12,[illegible]	
Stockholders' equity (deficit)	9,495	14,292	[illegible]	(37,[illegible])	[illegible]

EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization. We have provided EBITDA because it is a measure of financial performance commonly used in the telecommunications industry. Other companies may calculate it differently from us. EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States, or GAAP. We do not believe you should consider EBITDA as an alternative to net income (loss) as a measure of results of operations or to GAAP-based cash flow data as a measure of liquidity. Capital expenditures consists of additions to property and equipment acquired for cash or under notes payable and capital leases.

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

Overview

Historically, we have generated agency revenues and telecommunications revenues. Agency revenues consist of commissions we formerly earned as an agent of Bell Atlantic and other Regional Bell Operating Companies, and long distance providers. Telecommunications revenues are generated by our sale of local, long distance, data communications, internet access and other communications services. For the fiscal year ended March 31, 1998, agency commissions accounted for approximately 60% of our revenues, with telecommunications revenues accounting for the other 40%. As a result of our transition to an integrated communications provider, or ICP, strategy in January 1998, agency commissions earned after December 31, 1997 are not material.

Our financial information for the fiscal year ended March 31, 2000 reflects our second full year of operations under our new strategy. Our financial information for fiscal years ended on or before March 31, 1998 primarily reflects our operations as an agent for Bell Atlantic. Because of our transition to our new strategy and our network buildout, most of the financial information for these periods does not reflect our current business and is not comparable to results for subsequent periods.

Results of Operations

Fiscal Year Ended March 31, 2000 Compared to Fiscal Year Ended March 31, 1999.

Total revenues for the fiscal year ended March 31, 2000 were $153,101,000, an increase of 116% from $70,964,000 for the preceding fiscal year. As an integrated communications provider, revenues for fiscal 2000 and 1999 reflect our direct sales of local telecommunications services in addition to our direct sales of other telecommunications services.

A common basis for measurement of an integrated communications provider's progress is the growth in access line equivalents, or ALEs. ALEs are the total number of voice circuits and equivalent data circuits we have in service. Voice circuits are the actual number of voice circuits purchased by our customers. We calculate our equivalent data circuits by dividing the data transmission capacity purchased by our customers by 64 kilobits per second, which represents the capacity necessary to carry one voice circuit. During the quarter ended March 31, 2000, voice and data ALEs in service increased by 45,148, or approximately 17% from the quarter ended December 31, 1999. This brought our total ALEs in service to 314,616 at March 31, 2000. Data ALEs increased by approximately 9% from the quarter ended December 31, 1999 to 62,942, or 20% of total ALEs in service as of March 31, 2000. Data ALEs at March 31, 2000 include ALEs purchased by other carriers including internet service providers.

Costs of telecommunications revenues, excluding depreciation and amortization, increased to $119,586,000 for fiscal 2000 from $61,866,000 for fiscal year 1999 as a result of our increase in direct sales of local telecommunications services. As a percentage of telecommunications revenue, costs of telecommunications revenues were 78% and 87% for fiscal 2000 and 1999, respectively. The decrease in the percentage of the cost of telecommunications revenues primarily reflects lower rates obtained from our major suppliers, Bell Atlantic and Global Crossing.

Selling, general and administrative expenses, excluding depreciation and amortization, increased 8% to $56,677,000 in fiscal 2000 from $52,521,000 for fiscal 1999. This increase was primarily due to the opening of additional branch sales offices and the associated increased number of sales and service employees hired in connection with the transition to the ICP platform. As of March 31, 2000, we had 574 employees including 214 account executives and 144 network coordinators in 30 branch locations throughout New England and New York.

Depreciation and amortization expense increased 396% to $18,754,000 in fiscal 2000 from $3,778,000 in fiscal 1999. This increase was a result of additional expense associated with the equipment and software relating to the network deployment and the upgrade of our information systems. Network equipment and software is being depreciated over 3-5 years, reflecting the risk of rapid technological change.

Interest and other expense increased to $15,158,000 for the fiscal year ended March 31, 2000, as compared to interest and other expense of $5,563,000 for the fiscal year ended March 31, 1999. The increase is due to increased borrowings to fund our operating losses and the deployment of our network, the fees associated with our credit and vendor facilities, and the amortization of the interest expense associated with warrants issued in connection with the financings.

The Company incurred an extraordinary item of $2,430,000 relating to the early extinguishment of the senior secured Goldman Sachs/Fleet credit facility from fiscal year 1999. The cost reflects the unamortized balance of the warrants and closing costs of the credit facility that was repaid in March 2000.

Fiscal Year Ended March 31, 1999 Compared to Fiscal Year Ended March 31, 1998.

Total revenues for the fiscal year ended March 31, 1999 were $70,964,000, an increase of 73% from $40,947,000 for the preceding fiscal year. As an integrated communications provider, revenues for fiscal 1999 reflect our direct sales of local telecommunications services in addition to our direct sales of other telecommunications services. Revenue for fiscal 1998 reflect agency commissions on local telecommunications services for the period April 1, 1997 through December 31, 1997 as well as our direct sales of other telecommunications services for the entire year.

During the quarter ended March 31, 1999, voice and data ALEs in service increased by 38,935, or approximately 38% from the quarter ended December 31, 1998. This brought our total ALEs in service to 142,207 at the end of our first 15 months as an integrated communications provider. Data ALEs increased by approximately 45% from the quarter ended December 31, 1998 to 28,502, or 20% of total ALEs in service as of March 31, 1999. Data ALEs at March 31, 1999 include 6,720 ALEs purchased by other carriers including internet service providers.

Costs of telecommunications revenues, excluding depreciation and amortization, increased to $61,866,000 for fiscal 1999 from $14,039,000 for fiscal year 1998 as a result of our decision to provide local services directly instead of providing local services on an agency basis. However, as a percentage of telecommunications revenue, costs of telecommunications revenues remained at 87% for fiscal 1999 and 1998. We expect that, as a result of an agreement entered into with Bell Atlantic in mid-1999, our costs of reselling Bell Atlantic local lines will decrease. Under the terms of this agreement we will receive up to an additional 15% discount on the wholesale rates Bell Atlantic is required to offer. Under this agreement, we have committed to maintain in service over the next five years a number of resold Bell Atlantic local telephone lines at least equal to 100,000 at the end of the first year and 225,000 at the end of each of the remaining four years.

Selling, general and administrative expenses increased 78% to $52,521,000 in fiscal 1999 from $29,488,000 for fiscal 1998. This increase was primarily due to the increased number of service and technical employees hired and other expenses incurred in connection with operating under our new strategy. Contributing to the increase were approximately $9,886,000 of expenses and charges relating to the litigation and settlement with Bell Atlantic and our decision to terminate our agency agreement with Bell Atlantic. Selling, general and administrative expenses also increased for fiscal 1999 due to increased expenses associated with the network buildout.

Depreciation and amortization expense increased 166% to $3,778,000 in fiscal 1999 from $1,418,000 in fiscal 1998. This increase was a result of the investments we made in equipment and software for our network.

Interest and other expense increased to $5,563,000 for the fiscal year ended March 31, 1999, as compared to interest and other income of $213,000 for the fiscal year ended March 31, 1998. The increase is due to increased borrowings to fund our operating losses and the deployment of our network, the fees associated with our credit and vendor facilities, and the amortization of the interest expense associated with warrants issued in connection with the financings.

The benefit for income taxes, which is limited to refunds available on a loss carryback basis, has been recognized ratably as a percentage of our estimated pre-tax loss over each of the four quarters of the fiscal year. The effective rate of the benefit varied with changes in management's estimates.

Liquidity and Capital Resources

Working capital at March 31, 2000 was $4.7 million compared to a working capital deficit of $6.7 million at March 31, 1999, an increase of $11.4 million. Cash balances at March 31, 2000 and March 31, 1999 totaled $20,093,000 and $2,254,000, respectively.

The increase in working capital is due primarily to the net proceeds realized as a result of the TD Securities (U.S.) Inc. $225 million senior secured facility, the proceeds of which were used to retire the outstanding $75 million senior credit facility and the $25 million vendor financing facility at March 31, 2000.

We will continue to use the balance of the proceeds realized from the senior secured facility and the recently completed $200 million preferred stock financing described below for general corporate purposes including, capital expenditures, working capital and operating losses associated with the continued deployment of our network, further penetration of our existing region and our expansion into new markets throughout the Boston - Washington, D.C. corridor. The Company believes that proceeds available from the preferred stock financing described below, the senior secured facility described below, cash on hand and the amounts expected to be available under its bank and lease financing arrangements will be sufficient to fund its planned capital expenditures, working capital and operating losses for at least the next 12 months. Until utilized, the net proceeds from the credit facility and preferred stock financing are invested in short-term, interest-bearing instruments and other investment-grade securities.

In April 1998, we received $12.0 million from a private placement of our Series A redeemable convertible preferred stock and warrants to Spectrum Equity Investors II, L.P. The preferred stock was voluntarily converted by the holder into 2,376,660 shares of common stock in March 2000.

In September 1998, we obtained a three-year $75 million senior secured credit facility from Goldman Sachs Credit Partners and Fleet National Bank ("Goldman Sachs/Fleet Credit Facility"). In March 2000, we repaid the outstanding balance of approximately $43 million with proceeds from the TD Securities (U.S.) Inc. $225 senior secured credit facility and terminated the Goldman Sachs/Fleet credit facility.

Since September 30, 1998, we have entered into various lease and vendor financing agreements which provide for the acquisition of equipment and software. As of March 31, 2000, the aggregate amount borrowed under these agreements was approximately $35.3 million.

In October 1998, we obtained a $25 million vendor financing facility from Cisco Capital which was terminated upon repayment in March 2000 with proceeds from the TD Securities (U.S.) Inc. $225 senior secured credit facility.

In March 1999, we entered into a Loan Agreement with Toronto Dominion (Texas), Inc. to provide an unsecured standby credit facility for up to $30 million for capital expenditures and other general corporate purposes which has expired. We issued warrants to purchase 103,824 shares of our stock at $7.875 per share to the lender as part of the transaction. This facility was terminated upon repayment in July 1999.

In July 1999, we completed a public offering (including the exercise of the underwriters' overallotment option) of 6,037,500 shares of common stock at $11.50 per share, adjusted for the March 2000 three-for-two stock split with net proceeds of approximately $62.1 million. The proceeds were used for general corporate purposes and continued deployment of the ICN and expansion into new markets throughout New York and Washington D.C.

In March 2000, TD Securities (U.S.) Inc. underwrote a $225 million senior secured credit facility ("TD credit facility") to fund our base plan for expansion of our branch sales offices and our Integrated Communications Network. The proceeds were used to retire the $43 million balance of the $75 million Goldman Sachs/Fleet Credit Facility and to repay in full the $25 million Cisco vendor financing facility. The TD credit facility includes a $50 million senior secured 7-1/2 year revolving credit facility, a $100 million senior secured 7-1/2 year delayed draw term loan and a $75 million senior secured 8 year term loan. As of March 31, 2000, $100 million of the TD credit facility was available.

The TD credit facility funds our base plan for branch and network expansion and provides us with a solid financial foundation for executing additional growth initiatives. As a starting point, we intend to initiate the expansion of our network coverage southward to include Washington D.C., and implement our branch office expansion to cover the same geography.

Subsequent to March 31, 2000, we completed a private placement of $200 million Series B preferred stock financing. The preferred stock is convertible under certain conditions into common stock of the Company at $50 per share. The net proceeds are being used to fund strategic marketing and technology initiatives of our accelerated business plan which include: the purchase of dark fiber and optronics, branch sales office and ICN expansion and new ICN product and application development. These fully funded initiatives are designed to broaden the geographic reach of CTC's Cisco powered ICN, enhance our product portfolio and substantially boost bandwidth availability for both the Company and our customers.

We cannot assure you that if we require funds in addition to the funds made available through the TD credit facility and the preferred stock private placement, such financing will be available, or if available, on terms acceptable to us when needed. If we are unable to obtain such financing when needed, we may postpone or abandon our development and expansion plans which could have a material adverse effect on our business, results of operations and financial condition. The actual timing and amount of our capital requirements may be materially affected by various factors, including the timing and actual cost of the network, the timing and cost of our expansion into new markets, the extent of competition and pricing of telecommunications services by others in our markets, the demand by customers for our services, technological change and potential acquisitions.

Description of Senior Secured Facility

TD Securities (U.S.) Inc. Facility

In March 2000, we entered into a $225 million senior secured credit facility with a consortium of banks. This TD Credit Facility is comprised of a $50 million senior secured revolving credit facility (the "Revolver") with a seven and one-half year term, a $100 million senior, delayed draw term facility with a seven and one-half year term ("Term A") and a $75 million senior secured eight year term loan facility ("Term B"). Advances under the Revolver and Term A bear interest at prime rate plus 1.75-2.5% per annum based upon the total leverage ratio in effect at the time. Term B borrowings bear interest at the prime rate plus 3.25% per annum. As required by the TD Credit Facility, Term B borrowings of $75 million were drawn down in full at the closing date along with borrowings of $25 million under the Revolver. Part of the proceeds were used to pay off the $25 million Cisco vendor financing facility and the outstanding balance of the Goldman Sachs/Fleet credit facility Revolving Line of Credit of approximately $43 million. We paid a one-time up front fee.and other closing costs, which have been capitalized as deferred financing costs and are being amortized as interest expense over the term of the TD Credit Facility. The unamortized balance of deferred financing costs associated with the Goldman Sachs/Fleet credit facility were recognized as an extraordinary item for the fiscal year ended March 31, 2000.

The Company will pay a commitment fee of .75-1.5% per annum, depending on the percentage of the total TD Credit Facility used. Under the terms of the TD Credit Facility, $25 million of the Term A facility must be borrowed as of June 30, 2000 and on certain dates thereafter. At June 30, 2003, the Company will begin to repay the outstanding balances of Term A and Term B on a quarterly basis through the year 2007.

The TD Credit Facility provides for certain financial and operational covenants, including but not limited to minimum access lines installed and billable, minimum quarterly revenue and operating cash flow, and maximum capital expenditures. The Company has also agreed, among other things, not to assume any other secured debt other than capital leases, agree to a merger, sell its assets or declare dividends without the consent of the lenders.

Year 2000 Compliance

Our information technology systems and non-information systems were year 2000 compliant prior to the end of 1999. We did not incur any year 2000 problems in our non-information systems that required any corrective actions and did not experience any interruptions in service as a result of the year 2000 compliance status of any of our vendors. Our systems and applications are effectively processing information in order to support ongoing operations in the year 2000 and beyond.

Overall, we incurred approximately $900,000 in total costs related specifically to year 2000 issues.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") was issued, as amended by SFAS No. 137, which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company is presently analyzing the impact, if any, that the adoption of SFAS No. 133 will have on its financial condition or results of operations.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25." The Company is required to adopt the Interpretation on July 1, 2000. The Interpretation requires that stock options that have been modified to reduce the exercise price be accounted for as variable. The Company modified one stock option in April 1999, which resulted in a stock compensation charge of approximately $2.2 million. No other option grants have been modified by a reduction of the exercise prices, therefore, the adoption of the Interpretation is not expected to have an impact on the Company's consolidated financial statements, unless modifications are made in the future.

Adoption of Staff Accounting Bulletin 101.

The Company will revise its revenue recognition policy for certain recurring monthly fees to be consistent with applicable provisions of Staff Accounting Bulletin 101 ("SAB 101"). Previously, monthly recurring fees for the next month's service were recognized at the time all of the Company's significant performance obligations had been fulfilled and the related monthly service fee became nonrefundable based on the terms of the Company's contract with its customers which require 60 days notice for cancellation.

Since SAB 101 now indicates that nonrefundability of revenues and fulfillment of all significant performance obligations are not a basis for revenue recognition, the Company has determined that deferral of the monthly recurring service fees to the period in which the service is available to the customer is a preferable method of accounting. The impact of the change in recognizing recurring service fees will be reported as a cumulative effect of a change in accounting principle as of April 1, 2000 in accordance with Accounting Principles Board Opinion No. 20, Accounting Changes. The cumulative effect of this change will increase the Company's loss by approximately $1.8 million as of April 1, 2000. This amount represents the income attributable to the deferral, as of that date, of one month's recurring service fee revenue totaling approximately $9.3 million. SAB 101 as amended, allows the Company to implement this change either as of the quarter ending June 30, 2000 or as of the last quarter fiscal 2001 which is the quarter ending March 31, 2001. If the Company adopts as of June 30, 2000, the

Company's interim unaudited consolidated financial statements for the period ending June 30, 2000 will be prepared on the new basis of accounting. If adoption is deferred until the last quarter, previously reported quarterly financial information for fiscal 2001 will be restated so that annual operating results for fiscal 2001 will be presented on the new basis. The Company is currently evaluating the alternatives and has not yet determined the date as of which SAB 101 will be adopted.

There will be no impact to the Company's cash flow from operations as a result of this change. Also, it is believed that the adoption of this change in accounting for fiscal 2000 or prior periods would not have had a material effect on the Company's previously reported results of operations, financial position or cash flows for those periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our exposure to financial risk, including changes in interest rates, relates primarily to outstanding debt obligations. We utilize our senior secured credit facility to fund a substantial portion of our capital requirements. This facility bears interest at a variable interest rate, which is subject to market changes. We have not entered into any interest rate swap agreements, or other instruments to minimize our exposure to interest rate increases but will investigate such options should changes in market conditions occur. We have not had any derivative instruments in the past and do not plan to in the future, other than possibly to reduce our interest rate exposure as described above.

For purposes of specific risk analysis we use sensitivity analysis to determine the impacts that market risk exposure may have on the fair value of our outstanding debt obligations. To perform sensitivity analysis, we assess the risk of loss in fair values from the impact of hypothetical changes in interest rates on market sensitive instruments. We compare the market values for interest risk based on the present value of future cash flows as impacted by the changes in the rates. We selected discount rates for the present value computations based on market interest rates in effect at March 31, 2000. We compared the market values resulting from these computations with the market values of these financial instruments at March 31, 2000. The differences in the comparison are the hypothetical gains or losses associated with each type of risk. As a result of our analysis we determined at March 31, 2000, with respect to our variable rate debt obligations, a 10% increase in interest rates with all other variables held constant would result in increased interest expense and cash expenditures for interest of approximately $1.1 million in fiscal 2000. A 10% decrease in interest rates would result in reduced interest expense and cash expenditures of approximately $1.1 million in fiscal 2000.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

Our executive officers and directors are as follows:

Name	Current Office Held
Robert J. Fabbricatore	Chairman and Chief Executive Officer
Steven P. Milton	President and Chief Operating Officer
John D. Pittenger	Executive Vice President-Finance and Administration, Chief Financial Officer, Treasurer and Secretary
David E. Mahan	Executive Vice President—Marketing and Strategic Planning
Michael H. Donnellan	Vice President—Operations
Thomas Fabbricatore	Vice President—Marketing
Anthony D. Vermette	Vice President—Sales
Frederick Kunzi	Vice President and Chief Technology Officer
Jeffrey C. Lavin	Vice President—Corporate Development
Katherine D. Courage	Director
Henry Hermann	Director
Kevin J. Maroni	Director
J. Richard Murphy	Director
Mark E. Nunnelly	Director
Carl Redfield	Director
Richard J. Santagati	Director
Ralph C. Sillari	Director
Scott M. Sperling	Director
Ralph S. Troupe	Director

Robert J. Fabbricatore, a founder of the Company and a director since its inception in 1980, became Chairman of the Board of Directors in March 1983 and served as President from October 1993 to August 1995. Robert J.Fabbricatore is the brother of Thomas Fabbricatore, Vice President—Marketing.

Steven P. Milton has been employed by the Company since 1984 and has served as President and Chief Operating Officer since August 1995. Prior to that, he held various positions within the Company including Branch Manager, District Manager, Regional Manager and Vice President—Sales and Marketing.

John D. Pittenger has served as Chief Financial Officer since April 14,1999, as Executive Vice President—Finance and Administration since April 1998 and as Treasurer and Secretary of the Company since August 1989. Mr. Pittenger served as Vice President—Finance from 1991 until April 1998, and as Chief Financial Officer from 1989 to April 1998.

David E. Mahan joined the Company in October 1995 as Vice President—Marketing and Strategic Planning and was named Executive Vice President—Marketing and Strategic Planning in November 1999. Prior to joining the Company, Mr.Mahan held a number of senior management level positions with NYNEX, including Vice President—Sales Channel Management from 1993 to 1995.

Michael H. Donnellan has been employed by the Company since 1988 in a number of positions. He was named Vice President—Operations in 1995.

Thomas Fabbricatore joined the Company in 1982. He was named Vice President—Regulatory and Electronic Media in 1991, and was named Vice President—Marketing in November 1998. Thomas Fabbricatore is the brother of Robert J. Fabbricatore.

Anthony D. Vermette has been employed by the Company in a variety of positions since 1987. Mr. Vermette was named Vice President—Sales in 1996.

Frederick Kunzi joined the Company as a Vice President and Chief Technology Officer in August 1998. Mr. Kunzi has over 25 years experience in information technology. From 1985 to September 1998, he was employed by Digital Equipment Corporation, most recently as Senior Manager, Global Network Services where he was responsible for Digital's worldwide enterprise network infrastructure.

Jeffrey C. Lavin joined the Company in June 1998 as Vice President—Corporate Development. Mr. Lavin has 20 years of sales and operational management experience in the telecommunications industry. From December 1996 to May 1998, Mr. Lavin was Vice President of Sales, Americas/Asia Pacific for NovaSoft Systems, Inc., a software development corporation. From 1979 to 1996, Mr. Lavin was employed by Comlink Incorporated, a communication network integrator, most recently as Senior Vice President. Following the acquisition of Comlink in 1996 by Williams Communications, Mr. Lavin served as Vice President and General Manager of Network Systems Integration.

Katherine D. Courage became a director of the Company in April 1999. Ms. Courage is a managing director in the Global Telecommunications and Media Group in the Investment Banking Department of Credit Suisse First Boston, one of the underwriters of our proposed offering of common stock. Prior to joining Credit Suisse First Boston in September 1996, Ms. Courage worked at Salomon Brothers Inc for ten years where she was a managing director in the Global Telecommunications Group. Ms. Courage currently serves as a director of NorthEast Optic Network, Inc. and Lightpath Technologies, Inc. Credit Suisse First Boston Equity Partners, L.P., as a Series B preferred stockholder, has appointed Ms. Courage as its designee to the Company's Board of Directors.

Henry Hermann became a director of the Company in September 1996. Since November 1997, he has operated Hermann Companies, a financial services company. Mr. Hermann is registered as an Investment Advisor with the State of Texas, a Chartered Financial Analyst and, as an independent contractor, offers general securities through SWS Financial. In 1997, he was employed by Kuhns Brothers & Company, Inc., as a principal and Executive Vice President. For the previous nine years, he was employed by WR Lazard, Laidlaw and Luther, Inc., a securities brokerage firm, as Vice President, Securities Analyst and Portfolio Manager. Mr. Hermann has been an NASD Board of Arbitrators Member since 1991.

Kevin J. Maroni became a director of the Company in April 1998 as one of the two designees of the Series A preferred stockholders. Mr. Maroni is a managing general partner of Spectrum which he joined at inception in 1994. Spectrum is a leading private equity fund which manages over $2.7 billion of capital for investment in the communications service and infrastructure industries. Prior to joining Spectrum, he worked at Time Warner Telecommunications and Harvard Management Company. Mr. Maroni is a director of Adero, Inc.; PathNet, Inc.; Formus Communications, Inc.; GlobeNet Communications, LTD., Inc.; and X-Media, Inc. Mr. Maroni received an M.B.A. from Harvard Business School and a B.A. from the University of Michigan.

J. Richard Murphy became a director of the Company in August 1995. Mr. Murphy is a managing director of Baldwin & Clarke Corporate Finance, Inc., a Bedford, New Hampshire investment banking firm which he joined August 2, 1999. Mr. Murphy was the director of the Corporate Advisory Group of Moody, Cavanaugh and Company, LLP, a North Andover, Massachusetts public accounting firm, from April 1996 to August 1999. Mr. Murphy was an officer, director and principal stockholder from 1990 to 1996 of Arlington Data Corporation, a systems integration company located in Amesbury, Massachusetts; from 1992 to 1996 of Arlington Data Consultants, Inc., a company engaged in the installation and maintenance of computer systems and hardware; and from 1994 to 1996 of Computer Emporium, Inc., a company engaged in processing parking violations for municipalities. In June 1996, Arlington Data Corporation filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code.

Mark E. Nunnelly became director of the Company in June 2000 as a designee of Bain Capital, Inc. He joined Bain Capital as a General Partner in 1990 and has served as Managing Director since April 1993. Mr. Nunnelly also serves on the Board of Directors of Domino's, DoubleClick, Stream International, Modus Media International, Eschelon Telecom, and eCredit.com. Mr. Nunnelly received an M.B.A. from Harvard Business School and a B.A. from Centre College.

Carl Redfield became a director of the Company in January 1999. He has been Senior Vice President, Manufacturing and Logistics of Cisco sinceFebruary 1997. From September 1993 to February 1997 he was Vice President of Manufacturing. Mr. Redfield also is a director of VA Linux Systems Inc. and iBasis Inc.

Richard J. Santagati became a director of the Company in September 1991. He has been the President of Merrimack College in North Andover, Massachusetts since 1994. From March 1992 to February 1994, Mr. Santagati was the Chairman of the Board, Chief Executive Officer and President of Artel Communications Corp., a publicly held data communications firm located in Hudson, Massachusetts. Mr. Santagati also serves as a director of Celebrity Solutions, Inc., a software company.

Ralph C. Sillari became a director of the Company in October 1997. Since 1991, Mr. Sillari has been employed by Fleet National Bank where he is currently an Executive Vice President, Manager of Regional Banking.

Scott M. Sperling became a director of the Company in May 2000 as a designee of Thomas H. Lee Company. He has been a Managing Director of Thomas H. Lee Company since July 1994 and is also President of TH Lee, Putnam Capital, Trustee of THL Equity Trust III and Managing Director of THL Equity Advisors IV, LLC. Mr. Sperling is currently a Director of Fisher Scientific International, Inc., GenTek, Inc., Safelite Glass Corp., LiveWire Systems LLC, Wyndham International, GoodHome.com and several private companies. He holds an MBA degree from Harvard University and a B.S. from Purdue University.

Ralph S. Troupe became a director of the Company in May 1999. In October 1999, Mr. Troupe co-founded Callisma (formerly known as Rt.1 Solutions), a network services company focusing on all key aspects of complex network planning, design and implementation, and serves as its President and Chief Executive Officer. From January 1993 to October 1999, Mr. Troupe was employed by International Network Services, most recently as Vice President of North American Field Operations, East. Mr. Troupe holds a B.S. degree from Northeastern University and is a 1998 graduate of the Harvard Business School Advanced Management Program for International Senior Managers.

ITEM 11. EXECUTIVE COMPENSATION*

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

*The balance of the information required by Item 10 of Part III of this Annual Report, and Items 11 through 13 of Part III of this Annual Report are incorporated by reference to the corresponding items in our definitive proxy statement filed with the Securities and Exchange Commission on June 27, 2000.

PART IV

ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(1) Financial Statements:

Consolidated Balance Sheets as of March 31, 2000 and 1999
Consolidated Statements of Operations for the years ended March 31, 2000, 1999 and 1998
Consolidated Statements of Stockholders' Equity (Deficit) for the years ended March 31, 2000, 1999 and 1998
Consolidated Statements of Cash Flows for the years ended March 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts

(3) Exhibits:

The following Exhibits are either filed herewith or have heretofore been filed with the Securities and Exchange Commission and are referred to and incorporated herein by reference to such filings.

Exhibit No.	Title
3.1	Restated Articles of Incorporation (11)
3.2	Certificate of Designation for Series B Convertible Preferred Stock (5)
3.3	Amended and Restated By-Laws (4)
4.1	Form of Common Stock Certificate (3)
10.1	1996 Stock Option Plan, as amended (1)
10.2	1993 Stock Option Plan (3)
10.3	Employee Stock Purchase Plan (2)
10.4	Lease for premises at 360 Second Ave., Waltham, MA (3)
10.5	Sublease for premises at 360 Second Ave., Waltham, MA (3)
10.6	Lease for premises at 110 Hartwell Ave., Lexington, MA (3)
10.7	Lease for premises at 120 Broadway, New York, NY (3)
10.8	Agreement dated February 1, 1996 between NYNEX and CTC Communications Corp. (3)
10.9	Agreement dated May 1, 1997 between Pacific Bell and CTC Communications Corp. (3)
10.10	Agreement dated January 1, 1996 between SNET America, Inc. and CTC Communications Corp. (3)
10.11	Agreement dated June 23, 1995 between IXC Long Distance Inc. and CTC Communications Corp., as amended (3)
10.12	Agreement dated August 19, 1996 between Innovative Telecom Corp. and CTC Communications Corp. (3)
10.13	Agreement dated October 20, 1994 between Frontier Communications
10.14	Agreement dated January 21, 1997 between Intermedia Communications Inc. and CTC Communications Corp. (3)
10.16	Securities Purchase Agreement dated April 10, 1998 among CTC Communications Corp. and the Purchasers named therein (4)

10.17	Registration Rights Agreement dated April 10, 1998 among CTC Communications Corp. and the Holders named therein (4)
10.18	Form of Warrant dated April 10, 1998 (4)
10.19	Loan and Security Agreement dated as of September 1, 1998 by and between CTC Communications Corp., Goldman Sachs Credit Partners L.P. and Fleet National Bank (6)
10.20	Agreement with Cisco Systems Capital Corp. dated as of October 14, 1998 (7)
10.21	Warrant dated July 15, 1998 issued to Spectrum (8)
10.22	Lease for premises at 220 Bear Hill Rd., Waltham, MA (8)
10.23	Warrant dated September 1, 1998 issued to Goldman Sachs & Co. (8)
10.24	Warrant dated September 1, 1998 issued to Fleet National Bank (8)
10.25	1998 Incentive Plan, as amended (1)
10.26	Loan Agreement dated as of March 15, 1999 by and between CTC Communications Corp, TD Dominion (Texas), Inc. and TD Securities (USA), Inc. (9)
10.27	Warrant dated March 24, 1999 issued to Toronto Dominion (Texas), Inc. (9)
10.28	1999 Equity Incentive Plan for Non-Employee Directors (1)
10.29	Series B Preferred Stock Purchase Agreement dated as of March 22, 2000. (5)
10.30	Series B Preferred Stock Registration Rights Agreement dated as of March 22, 2000. (5)
10.31	Amendment No. 1 to Loan and Security Agreement dated as of September 30, 1999 among CTC Communications Corp., Fleet National Bank and Goldman Sachs Credit Partners L.P. (12)
10.32**	Dark Fiber IRU Agreement between Williams Communications, Inc. and CTC Communications Corp. dated as of March 31, 2000 (13)
10.33**	Carrier Services Agreement between Williams Communications, Inc. and CTC Communications Corp. dated as of March 31, 2000 (13)
10.34	$225 Million Credit Agreement with TD Securities (USA) Inc. andthe other parties to the agreement dated as of March 30, 2000 (++)
10.35	Lease for premises at 115-125 Bear Hill Rd., Waltham MA 02451(++)
23	Consent of Ernst & Young LLP (++)
27	Financial Data Schedule (++)
99	Risk Factors (++)

++ Filed herewith.

(1)	Incorporated by reference to an Exhibit filed as part of the Registrant's Registration Statement on Form S-8 (File No. 333-93735).
(2)	Incorporated by reference to an Exhibit filed as part of the Registrant's Registration Statement on Form S-8 (File No. 33-44337).
(3)	Incorporated by reference to an Exhibit filed as part of the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended March 31, 1997.
(4)	Incorporated by reference to an Exhibit filed as part of the Registrant's Current Report on Form 8-K dated May 15, 1998.
(5)	Incorporated by reference to an Exhibit filed as part of the Registrant's Current Report on Form 8-K dated April 19, 2000.
(6)	Incorporated by reference to an Exhibit filed as part of the Registrant's Current Report on Form 8-K dated October 2, 1998.
(7)	Incorporated by reference to an Exhibit filed as part of the Registrant's Current Report on Form 8-K dated November 6, 1998.
(8)	Incorporated by reference to an Exhibit filed as part of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
(9)	Incorporated by reference to an Exhibit filed as part of the Registrant's Registration Statement on Form S-1 (File No. 333-77709).
(10)	Incorporated by reference to an Appendix filed as part of the Registrant's Schedule 14A (Amendment No. 2) filed on June 4, 1999.
(11)	Incorporated by reference to an Exhibit filed as part of the Registrant's Current Report on Form 8-K dated October 1, 1999.
(12)	Incorporated by reference to an Exhibit filed as part of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999

** PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT

(4) Reports on Form 8-K

The Company filed the following reports on Form 8-K during the quarter ended March 31, 2000:

Date	Items Reported
1.	January 26, 2000. Announcement of commitment from Toronto Dominion Bank to underwrite the $225 million senior secured credit facility.
2.	February 22, 2000. Announcement of three-for-two stock split.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED ON THIS 28th DAY OF JUNE 2000.

CTC Communications Group, Inc.

By: /s/ Robert J. Fabbricatore

Chairman and Chief Executive Officer

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES AND EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT IN THE CAPACITIES AND ON THE DATES INDICATED:

SIGNATURE	TITLE	DATE
/s/ Robert J. Fabbricatore Robert J. Fabbricatore	Chairman of the Board and Chief Executive Officer, Director	June 28, 2000
/s/ John D. Pittenger John D. Pittenger	Chief Financial Officer and Chief Accounting Officer	June 28, 2000
/s/ Katherine D. Courage Katherine D. Courage	Director	June 23, 2000
Henry Hermann	Director	
/s/ Kevin J. Maroni Kevin J. Maroni	Director	June 23, 2000
/s/ J. Richard Murphy J. Richard Murphy	Director	June 26, 2000
/s/ Mark E. Nunnelly Mark E. Nunnelly	Director	June 26, 2000
Carl Redfield	Director	
/s/ Richard J. Santagati Richard J. Santagati	Director	June 26, 2000
/s/ Ralph C. Sillari Ralph C. Sillari	Director	June 23, 2000
/s/ Scott M. Sperling Scott M. Sperling	Director	June 26, 2000
/s/ Ralph S. Troupe Ralph S. Troupe	Director	June 26, 2000

CTC Communications Corp.

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Report of Independent Auditors

Board of Directors

CTC Communications Group, Inc.

We have audited the accompanying consolidated balance sheets of CTC Communications Group, Inc.,as of March 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended March 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CTC Communications Group, Inc. at March 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

May 18, 2000 except for Note 2, as to which the date is June 26, 2000.
Boston, Massachusetts

CTC Communications Group, Inc.
Consolidated Balance Sheets

	March 31, 2000	March 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,093,156	$ 2,254,258
Accounts receivable, less allowance for doubtful accounts of $2,000,000 and $1,717,000 in 2000 and 1999, respectively	39,965,335	19,200,931
Prepaid commissions	2,040,482	2,500,000
Prepaid expenses and other current assets	1,437,051	1,022,198
Amounts due from officers and employees	98,500	55,572
Income taxes receivable	0	2,313,070
Total current assets	63,634,524	27,346,029
Property and equipment:		
Property and equipment	120,604,893	49,417,689
Accumulated depreciation and amortization	(29,369,433)	(10,615,766)
	91,235,460	38,801,923
Deferred financing costs, net of amortization	3,099,424	3,229,865
Other assets	4,263,944	104,085
Total assets	$162,233,352	$ 69,481,902
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$ 46,328,757	$27,439,488
Accrued salaries and related taxes	2,482,800	1,656,367
Current portion of obligations under capital leases	8,413,414	3,230,077
Current portion of notes payable to banks	1,749,342	1,705,141
Total current liabilities	58,974,313	34,031,073
Obligations under capital leases, net of current portion	15,031,108	8,004,366
Notes payable to banks, net of current portion	103,928,207	51,918,492
Commitments and contingencies		
Series A redeemable convertible preferred stock, par value $1.00 per share; authorized 1,000,000 shares in 1999, 726,631 shares issued and outstanding at March 31, 1999	0	12,671,797
Stockholders' deficit:		
Preferred Stock, par value $1.00 per share; authorized 10,000,000 shares in 2000, no shares issued and outstanding at March 31, 2000	0	0
Common Stock, par value $.01 per share; authorized 100,000,000 shares, 25,773,578 and 10,352,513 shares (15,528,769 shares after 3-for-2 stock split in March 2000) issued and outstanding at March 31, 2000 and 1999, respectively	257,736	103,525
Additional paid in capital	90,652,020	8,386,816
Deferred compensation	(106,410)	(212,410)
Retained deficit	(106,503,622)	(45,390,732)
	(15,700,276)	(37,112,801)
Amounts due from stockholders	0	(31,025)
Total stockholders' deficit	(15,700,276)	(37,143,826)
Total liabilities and stockholders' deficit	$162,233,352	$69,481,902

See accompanying notes

CTC Communications Group, Inc
Consolidated Statements of Operations

	Year Ended March 31,		
	2000	1999	1998
Revenues:			
Telecommunications revenue	$153,100,934	$ 70,963,692	$16,171,716
Agency commission revenue	0	0	24,775,420
Total revenues	153,100,934	70,963,692	40,947,136
Operating costs and expenses:			
Cost of telecommunications revenues (excluding depreciation and amortization)	119,585,548	61,865,904	14,038,565
Selling, general and administrative expenses	56,676,773	52,521,397	29,488,097
Depreciation and amortization	18,753,667	3,778,083	1,417,866
Total costs and expenses	195,015,988	118,165,384	44,944,528
Loss from operations	(41,915,054)	(47,201,692)	(3,997,392)
Other income (expense):			
Interest income	996,283	184,312	145,012
Interest expense	(16,162,835)	(5,825,328)	(106,465)
Other income	8,519	77,724	174,395
Total other income (expense)	(15,158,033)	(5,563,292)	212,942
Loss before income taxes and extraordinary item	(57,073,087)	(52,764,984)	(3,784,450)
Income tax benefit	0	(1,527,000)	(1,286,760)
Loss before extraordinary item	(57,073,087)	(51,237,984)	(2,497,690)
Extraordinary item - early extinguishment of debt	(2,430,456)	0	0
Net loss	$(59,503,543)	$(51,237,984)	$(2,497,690)
Loss per common share before extraordinary item			
Basic and diluted	$ (2.89)	$ (3.45)	$ (0.17)
Net loss per common share:			
Basic and diluted	$ (3.01)	$ (3.45)	$ (0.17)
Weighted average number of shares used in computing net loss per common share:			
Basic and diluted	20,320,626	15,196,052	14,829,000

See accompanying notes

CTC Communications Group, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional		Retained		Amount	
	Shares	Par Value	Paid-In Capital	Deferred Compensation	Earnings (Deficit)	Treasury Stock	Due From Stockholders	Total
Balance at March 31, 1997	9,629,407	$96,294	$4,758,454	—	$9,572,750	—	$(135,825)	$14,291,673
Issuance of stock pursuant to employee stock purchase plan	9,844	98	71,662	—	—	—	—	71,760
Exercise of employee stock options	376,387	3,764	347,222	—	—	—	—	350,986
Acquisition of treasury stock	—	—	—	—	—	(271,072)	—	(271,072)
Retirement of treasury stock	(34,977)	(350)	(270,722)	—	—	271,072	—	—
Deferred compensation	—	—	339,088	(318,410)		—	—	20,678
Net loss	—	—	—	—	(2,497,690)	—	—	(2,497,690)
Balance at March 31, 1998	9,980,661	99,806	5,245,704	(318,410)	7,075,060	—	(135,825)	11,966,335
Issuance of stock pursuant to employee stock purchase plan	14,700	147	98,252	—	—	—	—	98,399
Exercise of employee stock options	366,482	3,665	235,806	—	—	—	(31,025)	208,446
Acquisitions of treasury stock	—	—	—	—	—	(107,462)	—	(107,462)
Retirement of treasury stock	(9,330)	(93)	(107,369)	—	—	107,462	—	—
Deferred compensation	—	—	—	106,000	—	—	—	106,000
Receipt of amounts due from stockholders	—	—	—	—	—	—	135,825	135,825
Issuance of common stock purchase warrants	—	—	2,914,423	—	—	—	—	2,914,423
Preferred stock dividend	—	—	—	—	(1,079,364)	—	—	(1,079,364)
Accretion of offering costs related to redeemable convertible preferred stock	—	—	—	—	(28,000)	—	—	(28,000)
Accretion of warrants related to Series A Redeemable Convertible Preferred Stock	—	—	—	—	(120,444)	—	—	(120,444)
Net loss	—	—	—	—	(51,237,984)	—	—	(51,237,984)
Balance at March 31, 1999	10,352,513	103,525	8,386,816	(212,410)	(45,390,732)	—	(31,025)	(37,143,826)
Issuance of stock pursuant to employee stock purchase plan	16,875	169	183,465	—	—	—	—	183,634
Exercise of employee stock options	1,339,979	13,400	7,179,737	—	—	—	—	7,193,137
Issuance of common stock	4,025,000	40,250	61,758,528	—	—	—	—	61,798,778
Issuance of common stock due to stock split	7,740,882	77,408	(77,408)	—	—	—	—	—
Noncash stock compensation	10,503	105	2,456,934	—	—	—	—	2,457,039
Acquisition of treasury stock	—	—	—	—	—	(3,494,121)	—	(3,494,121)
Retirement of treasury stock	(88,834)	(888)	(3,493,233)	—		3,494,121	—	
Deferred compensation	—	—	—	106,000				106,000
Receipt of amounts due from stockholders	—	—	—	—	—		31,025	31,025
Accretion of offering costs related to Series A convertible preferred stock	—	—			(112,000)			(112,000)
Accretion of warrants related to Series A convertible preferred stock					(296,888)			(296,888)
Preferred stock dividend					(1,200,459)		—	[illegible]
Conversion of Series A convertible preferred stock to common stock	[illegible]	[illegible]	[illegible]					[illegible]
Net loss					(59,503,543)			(59,503,543)
Balance at March 31, 2000	[illegible]	[illegible]	$90,652,020	$(106,410)	$(106,503,622)			[illegible]

See accompanying notes

CTC Communications Group, Inc.
Consolidated Statements of Cash Flows

	Year Ended March 31,		
	2000	1999	1998
Operating Activities:			
Net loss	$(59,503,543)	$(51,237,984)	$(2,497,690)
Adjustments to reconcile net loss to net cash used in operating activities:			
Extraordinary item-early extinguishment of debt	2,430,456	0	0
Depreciation and amortization	18,753,667	3,778,083	1,417,866
Interest related to warrants and certain fees	2,754,556	1,103,960	0
Provision for doubtful accounts	1,528,564	4,988,698	1,421,000
Deferred income taxes	0	1,597,000	(1,068,760)
Stock-based compensation	2,563,039	106,000	20,678
Gain on sale of property and equipment	0	0	(143,333)
Changes in operating assets and liabilities:			
Accounts receivable	(22,292,968)	(6,901,446)	(7,804,363)
Prepaid commissions	459,518	(2,212,700)	0
Prepaid expenses and other current assets	(414,853)	(517,762)	(382,937)
Amounts due from officers and employees	(42,928)	29,182	0
Income taxes receivable	2,313,070	(122,731)	(2,152,579)
Deferred financing costs and other assets	(5,247,944)	(3,831,046)	4,800
Accounts payable and accrued expenses	18,889,269	19,067,013	3,240,446
Accrued salaries and related taxes	826,433	900,208	0
Deferred revenue and other	0	0	(6,588)
Net cash used by operating activities	(36,983,664)	(33,253,525)	(7,951,460)
Investing Activity			
Additions to property and equipment	(41,667,211)	(6,282,234)	(4,765,025)
Deposits for property and equipment	(2,053,900)	0	0
Net cash used in investing activities	(43,721,111)	(6,282,234)	(4,765,025)
Financing Activities			
Proceeds from the issuance of Series A Redeemable convertible preferred stock, net of offering costs	0	11,861,321	0
Proceeds from the issuance of common stock	65,681,228	230,408	151,674
Amounts due from stockholders, net	31,025	104,800	0
Borrowings under notes payable	185,165,892	51,461,924	8,327,071
Repayment of notes payable	(147,996,587)	(23,177,071)	0
Repayment of capital lease obligations	(4,337,885)	(859,295)	0
Net cash provided by financing activities	98,543,673	39,622,087	8,478,745
Increase in cash and cash equivalents	17,838,898	86,328	(4,237,740)
Cash and cash equivalents at beginning of year	2,254,258	2,167,930	6,405,670
Cash and cash equivalents at end of year	$20,093,156	$ 2,254,258	$2,167,930
Supplemental disclosure of cash flow information:			
Cash paid for interest	$13,408,279	$ 2,666,613	$57,886
Cash paid (received) for income taxes	$(2,463,571)	$(3,001,000)	$2,160,527
Noncash investing and financing activities:			
Receipt of common stock from exercise of stock options and warrants	$ 3,494,121	$ 107,462	$ 271,072
Network and related equipment acquired under capital leases	$16,547,964	$10,747,665	$1,343,573
Network and related equipment acquired under notes payable	$12,972,029	$19,010,820	$ 0
Common stock purchase warrants issued in connection with notes payable and Series A Redeemable convertible preferred stock	$0	$ 2,914,423	$ 0
Conversion of Series A convertible preferred stock to common stock	$14,280,948	$ 0	$ 0

See accompanying notes

CTC Communications Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2000

1. Nature of Business

The Company

CTC Communications Group, Inc., through its wholly-owned operating subsidiary, CTC Communications Corp. (the "Company") is an integrated communications provider ("ICP"), which offers voice and data services predominantly to medium and larger-sized business customers in New England and New York State. Prior to becoming an ICP in January 1998, the Company had been a sales agent for Bell Atlantic Corp. ("Bell Atlantic") since 1984. The Company has also offered long distance and data services under its own brand name since 1994. In late 1998, the Company began deploying a packet-switched network in its existing markets. The Company operates in a single industry segment providing telecommunication service to medium to larger-sized business customers.

As more fully disclosed in Note 14, on May 15, 2000, the Company completed a $200 million privately placed equity financing in the form of 8.25% Series B Convertible Preferred Stock.

As the Company continues to deploy its network, further penetrates its existing region and expands into new markets throughout the Boston-Washington, D.C. corridor, the Company may need significant additional capital. The Company believes that proceeds available from the preferred stock financing described above, the senior secured facility described in Note 7, cash on hand and the amounts expected to be available under its bank and lease financing arrangements will be sufficient to fund its planned capital expenditures, working capital and operating losses for at least the next 12 months. During this period the Company may seek to raise additional capital through the issuance of debt or equity securities, the timing of which will depend on market conditions. The Company may also seek to raise additional capital through vendor financing, equipment lease financing or bank loans.

There can be no assurance that additional financing will be available on terms acceptable to the Company when needed. The agreements governing its existing indebtedness limit its ability to obtain debt financing. If the Company is unable to obtain financing when needed, it may delay or abandon its development and expansion plans. That could have a material adverse effect on its business, results of operations and financial condition. The actual timing and amount of its capital requirements may be materially affected by various factors, including the timing and actual cost of the network, the timing and cost of its expansion into new markets, the extent of competition and pricing of telecommunications services by others in its markets, the demand by customers for its services, technological change and potential acquisitions.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. The Company accounts for internal use software under the provisions of AICPA Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). Capitalization of costs commences when the preliminary project stage, as defined under SOP 98-1, is completed. Amortization on a straight-line basis, commences at the point that the software components have been subjected to all significant testing phases and are substantially complete and ready for their intended use. A significant portion of the network and related equipment costs is subject to the risk of rapid technological change. Accordingly, the Company's useful lives reflect this risk. Depreciation and amortization is provided using the straight-line method over the following estimated useful lives:

Furniture, fixture, and equipment	3-5 years
Network and related equipment	3-5 years

Leasehold improvements and assets under capital leases are amortized over the lesser of the lease term or the useful life of the property, usually 3-5 years.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS No. 121"), the Company reviews its long-lived assets, including property and equipment, and identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets. Impairment is measured at fair value. SFAS No. 121 had no effect on the Company's financial statements.

Revenue Recognition

Telecommunication revenues primarily relate to customer usage of services and recurring monthly fees to customers for certain other services. Revenues related to usage are recognized as usage accrues while recurring monthly fees are recognized at the time all of the Company's significant performance obligations have been fulfilled and the related monthly service fee becomes nonrefundable.

As described below under "Recent Accounting Pronouncements; Adoption of SAB 101", the Company will change its method of accounting for recurring service fees to defer this revenue to the period in which the related service is available to the customer.

Agency revenue is recognized when all of the Company's performance obligations related to the placement of a customer's service order with a carrier have been fulfilled. If this revenue is based on usage, revenues are recognized as usage accrues.

Deferred Financing Costs

In connection with certain financing arrangements consummated during fiscal 2000 and 1999, the Company capitalized $3,099,424 and $3,835,846 of deferred financing costs, respectively. These costs represent professional and debt origination fees. The March 31, 2000 financing arrangement is being amortized over the life of the agreement. Due to the early extinguishment of the fiscal 1999 financing arrangements, the unamortized balance of the deferred financing costs and unamortized value of the warrants relating to these agreements was recognized as an extraordinary expense item in the fiscal year ended March 31, 2000. For the fiscal years ended March 31, 2000 and March 31, 1999, the Company recorded amortization, excluding the extraordinary expense item, of $1,743,958 and $605,981, respectively, related to deferred financing costs associated with the fiscal 1999 financing arrangements.

Income Taxes

The Company provides for income taxes under the liability method prescribed by SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes are recognized for the future tax consequences of differences between the tax and financial accounting bases of assets and liabilities at each year end. Deferred income taxes are based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income (loss). Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Income (Loss) Per Share

The Company's income (loss) per share information is prepared in conformity with SFAS No. 128 "Earnings per Share" ("SFAS No. 128"). SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is similar to the previously reported fully diluted earnings per share. All income (loss) per share amounts for all periods have been presented, and where appropriate, restated to conform to the SFAS No. 128 requirements. All income (loss) per share information for all periods presented in the accompanying consolidated financial statements and related notes have been adjusted to reflect a three-for-two stock split effected March 17, 2000.

Risks and Uncertainties

Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk principally consist of cash, cash equivalents and accounts receivable. Concentration of credit risk with respect to accounts receivable in fiscal 2000 was minimized by the large number of customers across New England and New York State. The Company reduces its risk of loss through periodic review of customer creditworthiness and generally does not require collateral.

Segment Information

Effective April 1, 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 superseded FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. The adoption of SFAS 131 did not affect results of operations, financial position, or the footnote disclosure, as the Company operates in a single industry segment. The Company will continue to assess the impact of SFAS No. 131 and modify its reporting and disclosure requirements if necessary.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") was issued, as amended by SFAS No. 137, which establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company is presently analyzing the impact, if any, that the adoption of SFAS No. 133 will have on its financial condition or results of operations.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25." The Company is required to adopt the Interpretation on July 1, 2000. The Interpretation requires that stock options that have been modified to reduce the exercise price be accounted for as variable. The Company modified one stock option in April 1999, which resulted in a stock compensation charge of approximately $2.2 million. No other option grants have been modified by a reduction of the exercise prices, therefore, the adoption of the Interpretation is not expected to have an impact on the Company's consolidated financial statements, unless modifications are made in the future.

Adoption of Staff Accounting Bulletin 101.

The Company will revise its revenue recognition policy for certain recurring monthly fees to be consistent with applicable provisions of Staff Accounting Bulletin 101 ("SAB 101"). Previously, monthly recurring fees for the next month's service were recognized at the time all the Company's significant performance obligations had been fulfilled and the related monthly service fee became nonrefundable based on the terms of the Company's contract with its customers which require 60 days notice for cancellation.

Since SAB 101 now indicates that nonrefundability of revenues and fulfillment of all significant performance obligations are not a basis for revenue recognition, the company has determined that deferral of the monthly recurring service fees to the period in which the service is available to the customer is a preferrable method of accounting. The impact of the change in recognizing recurring service fees will be reported as a cumulative effect of a change in accounting principle as of April 1, 2000 in accordance with Accounting Principles Board Opinion No. 20, Accounting Changes. The cumulative effect of this change will increase the Company's loss by approximately $1.8 million as of April 1, 2000. This amount represents the income attributable to the deferral, as of that date, of one month's recurring service fee revenue totaling approximately $9.3 million. SAB 101 as amended, allows the Company to implement this change either as of the quarter ending June 30, 2000 or as of the last quarter of fiscal 2001 which is the quarter ending March 31, 2001. If the Company adopts as of June 30, 2000, the Company's interim unaudited consolidated financial statements for the period ending June 30, 2000 will be prepared on the new basis of accounting. If adoption is deferred until the last quarter, previously reported quarterly financial information for fiscal 2001 will be restated so that annual operating results for fiscal 2001 will be presented on the new basis. The Company is currently evaluating the alternatives and has not yet determined the date as of which SAB 101 will be adopted.

There will be no impact to the Company's cash flow from operations as a result of this change. Also, it is believed that the adoption of this change in accounting for fiscal 2000 or prior periods would not have had a material effect on the Company's previously reported results of operations, financial position or cash flows for those periods.

3. Property and Equipment

Property and equipment, at cost, and related accumulated depreciation and amortization balances are as follows:

	March 31,	
	2000	1999
Furniture, fixtures and equipment	$ 7,768,569	$ 4,353,950
Network and related equipment	80,536,390	31,309,749
Leasehold improvements	3,660,732	1,657,752
Assets under capital lease	28,639,202	12,091,238
	120,604,893	49,417,689
Less accumulated depreciation and amortization	29,369,433	10,615,766
	$91,235,460	$38,801,923

Assets under capital lease principally consist of network and related equipment. Capitalized interest of $415,000 was recorded in the fiscal year ended March 31, 2000.

4. Bell Atlantic Litigation

In December 1997, the Company terminated its agency contract and filed suit against Bell Atlantic in Federal District Court for breach of contract, including the failure of Bell Atlantic to pay approximately $11,500,000 of agency commissions owed to the Company. The Company also asserted violations by Bell Atlantic of the antitrust laws and Telecommunications Act. On February 24, 1999 the Company settled the lawsuit. Under terms of the settlement, the Company received cash and other consideration. As a result of the settlement the Company wrote off approximately $1,500,000 of accounts receivable. In connection with the litigation, the Company incurred substantial costs, including legal costs, to recover the Bell Atlantic receivable. During fiscal 2000, 1999 and 1998, the Company incurred $79,000, $8,386,000 and $614,000, respectively, of legal and other costs associated with the litigation.

5. Related-Party Transactions

The installation of certain telecommunications equipment is generally subcontracted to a company controlled by the Chairman of the Company. In addition, equipment is purchased from this company. Amounts paid to this company for hardware and services, based on fair market value, aggregated $1,361,430, $499,257 and $232,775 during fiscal 2000, 1999 and 1998, respectively.

The Company leases office space from trusts in which the Chairman is a beneficiary. Rent expense for these facilities aggregated $51,584, $125,904 and $132,656 in fiscal 2000, 1999 and 1998, respectively. One of those leases expired during fiscal 1999. The remaining lease expires during fiscal 2002.

The Company subleases space to a company controlled by the Chairman of the Company. Terms of the sublease are identical to those included in the Company's lease. Sublease rental income totaled $108,326, $106,293 and $119,416 in fiscal 2000, 1999 and 1998, respectively.

In May 2000, the Company entered into a 15 year lease for approximately 71,250 feet from a limited liability company in which two executive officers, including the Chairman, own a majority of membership interests, and in which four executive officers each own a minority membership interest. The annual base rental under the lease is $1,778,100.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	March 31, 2000	March 31, 1999
Trade accounts payable	$36,571,961	$17,788,702
Accrued cost of telecommunications revenue	3,129,577	5,475,143
Sales tax payable	6,337,569	3,829,809
Other	289,650	345,834
	$46,328,757	$27,439,488

7. Financing Arrangements

In September 1998, the Company entered into a revolving line of credit agreement (the "Revolving Line of Credit") with a consortium of lenders, providing for a three year senior secured credit facility of up to $75,000,000. Advances under the Revolving Line of Credit bear interest at the prime rate plus 1.75% per annum. The outstanding debt is secured by all the Company's assets excluding those acquired through purchase money financing. The Company paid a one-time up front fee of $2,531,250, representing 3.375% of the facility. This one-time up front fee was capitalized as a deferred financing cost and amortized as interest expense over the term of the Revolving Line of Credit. Warrants to purchase an aggregate of 1,461,618 shares of the Company's common stock at an exercise price of $4.50 per share were issued to the lenders in connection with the transaction. The fair value of the warrants of $1,909,848 was amortized and included in interest expense over the term of the Revolving Line of

Credit. Borrowings under the Revolving Line of Credit were repaid from the senior secured credit facility consummated in March 2000 described below.

In October 1998, the Company entered into a three year vendor financing facility (the "Vendor Financing Facility"). Under the terms of the agreement, the Company agreed to a $25,000,000 volume purchase commitment from this vendor. Outstanding borrowings bear interest at 12.5% per annum. Borrowings under the Vendor Financing Facility were repaid from the senior secured credit facility consummated in March 2000 described below.

In March 1999, the Company entered into an unsecured credit facility (as amended on June 30, 1999, the "Credit Facility") with a bank. Under this Credit Facility, the Company may borrow $30,000,000. Warrants to purchase 103,824 shares of the Company's common stock at an exercise price of $7.875 were issued in connection with the Credit Facility. The fair value of the warrants of $329,468 to purchase 103,824 shares of common stock was capitalized and was amortized ratably over the term of the Credit Facility as interest expense. This facility has been repaid.

In March 2000, the Company entered into a $225 million senior secured credit facility (the "Senior Facility") with a consortium of banks. This Senior Facility is comprised of a $50 million senior secured revolving credit facility (the "Revolver") with a seven and one-half year term, a $100 million senior, delayed draw facility with a seven and one-half year term ("Term A") and a $75 million senior secured eight year term loan facility ("Term B"). Advances under the Revolver and Term A bear interest at prime rate plus 1.75-2.5% per annum based upon the total leverage ratio in effect at the time. Term B borrowings bear interest at the prime rate plus 3.25% per annum. As required by the Senior Facility, Term B borrowings of $75 million were made at the closing date along with borrowings of $25 million under the Revolver. The proceeds were used to pay off the $25 million Vendor Financing Facility and the outstanding balance of the Revolving Line of Credit approximating $43 million. The Company paid a one-time up front fee and other closing costs at the closing, which have been capitalized as deferred financing costs and are being amortized as interest expense over the term of the Senior Facility. The unamortized balance of deferred financing costs associated with the Revolving Line of Credit were recognized as an extraordinary item for the fiscal year ended March 31, 2000. The Senior Facility provides for certain financial and operational covenants, including but not limited to minimum access lines installed and billable, minimum quarterly revenue and operating cash flow, and maximum capital expenditures. The Company will pay a commitment fee of .75-1.5% per annum, depending on the percentage of the total Senior Facility used. Under the terms of the Senior Facility, $25 million of Term A must be borrowed as of June 30, 2000 and on certain dates thereafter. At June 30, 2003, the Company will begin to repay the outstanding balances of Term A and Term B on a quarterly basis through the year 2007.

Notes payable to banks, net of the unamortized discount of related warrants, consisted of the following:

	March 31, 2000	March 31, 1999
Revolving Line of Credit	$ 0	$34,288,388
Senior Facility	100,000,000	0
Vendor Financing Facility	0	15,425,998
Notes payable for network and related equipment	5,677,549	3,909,247
	105,677,549	53,623,633
Less current portion	(1,749,342)	(1,705,141)
	$103,928,207	$51,918,492

Long-term debt matures as follows:

Year ending March 31:	
2001	$1,749,342
2002	1,488,477
2003	1,534,289
2004	1,655,341
2005	750,000
2006	3,250,000
2007	15,750,000
2008	79,500,000
	$105,677,549

8. Leases

The Company leases office facilities under long-term lease agreements classified as operating leases. The following is a schedule of future minimum lease payments, net of sublease income, for operating leases as of March 31, 2000:

	Operating Leases	Sublease Rental Income	Net
Year ending March 31:			
2001	$5,481,543	$(153,420)	$5,328,123
2002	5,838,289	(154,420)	5,683,869
2003	5,439,956	(157,420)	5,282,536
2004	4,880,242	(160,620)	4,719,622
2005	3,948,552	(83,725)	3,864,827
Thereafter	24,150,175	0	24,150,175
Net future minimum lease payments	$49,738,757	$(709,605)	$49,029,152

Rental expense for operating leases aggregated $2,470,340, $1,779,608 and $1,121,916 in fiscal 2000, 1999 and 1998, respectively. Sublease rental income amounted to $108,326, $106,293 and $119,416 in fiscal 2000, 1999 and 1998, respectively.

The Company leases certain assets, principally network and related equipment, under capital leases. At March 31, 2000, the Company has capitalized leased equipment totaling $28,639,202 with related accumulated amortization of $5,362,189. Obligations under capital leases mature as follows:

Year ending March 31:	
2001	$9,704,656
2002	9,135,853
2003	5,753,238
2004	876,611
2005	362,241
Thereafter	0
	25,832,599
Less amount representing interest	(2,388,077)
Present value of minimum lease payments	23,444,522
Less current portion of obligations under capital leases	(8,413,414)
Obligations under capital leases, net of current portion	$15,031,108

9. Telecommunications Agreements

On January 15, 1996, the Company entered into a four-year non-exclusive agreement with a long-distance service provider for the right to provide long distance service to the Company's customers at prices affected by volume attainment levels during the term of the agreement. The Company is not obligated to purchase any minimum levels of usage over the term of the agreement, but rates may be adjusted due to the failure of achieving certain volume commitments. These provisions had no effect on the financial statements for the year ended March 31, 2000.

On October 20, 1994, the Company entered into a three-year non-exclusive agreement with a long-distance service provider for the right to provide long distance service to the Company's customers at fixed prices by service during the term of the agreement. On May 6, 1998, the Company entered into an amendment to the agreement which extended the term of the agreement through October 2000. On March 31, 1999, the Company entered into an amendment which provides that the Company shall be liable for a minimum aggregate usage commitment of $50,000,000. Based upon existing and expected usage, these provisions had no effect on the financial statements for the year ended March 31, 2000.

Prior to the execution of the agreements described above, and through March 31, 1999, the Company also had provided long distance service to customers under an informal non-exclusive arrangement with another long distance service provider. The Company is not obligated to purchase any minimum level of usage and there are no other performance obligations.

On January 8, 1999, the Company entered into agreements with two communications companies for the provision of transmission and co-location facilities for the Company's initial network build-out in New England and New York State. The agreements, which total $11,600,000 of expenditures by the Company over three years, provide for connectivity between the Company's 22 network hub sites and two fully redundant network operations centers.

In fiscal years 1999 and 2000, the Company entered into agreements with a supplier of local services which allow for additional discounts and rebates if certain volume and access line requirements are met. The Company met these requirements in fiscal year 2000 and expects to meet these requirements for the remainder of the agreements.

On March 31, 2000, the Company entered into a 20 year agreement to purchase an exclusive, indefeasible right of use of optical dark fibers from a fiber optic engineering and construction company. The agreement also includes co-location facilities at points of presence and transmission site locations and ongoing fiber maintenance services provided by the supplier. The Company's total estimated commitment is approximately $115 million.

10. Stockholders' Equity (Deficit)

In connection with the reorganization of the Company into a holding company structure in September 1999, each share of Common Stock, $.01 par value, and each share of Series A Convertible Preferred Stock, $1.00 par value, of CTC Communications Corp., was converted into one share of Common Stock, $.01 par value, and one share of Series A Convertible Preferred Stock, $1.00 par value, of CTC Communications Group, Inc. ("CTC Group"). CTC Group is authorized to issue up to 100 million shares of common stock, $.01 par value, and 10 million shares of preferred stock, $1.00 par value. As a result of the reorganization, CTC Communications Corp. became a wholly-owned subsidiary of CTC Group.

On March 17, 2000, the Company effected a three-for-two stock split for stockholders of record as of March 6, 2000. All common stock information presented in Note 10 herein has been adjusted to reflect the stock split.

At March 31, 2000, 6,789,496 shares of common stock are reserved for future issuance upon exercise of outstanding stock options and common stock purchase warrants and conversion of outstanding preferred stock.

Preferred Stock

The dividends, liquidation preference, voting rights and other rights of each series of preferred stock, when issued, are to be designated by the Board of Directors prior to issuance.

In April 1998, the Company completed a private placement of Series A Redeemable Convertible Preferred Stock ("Series A") through the issuance of 666,666 shares of Series A with an initial liquidation amount per share of $18. Proceeds to the Company aggregated $12,000,000 for the Series A and warrants to purchase 200,000 shares of common stock at an exercise price of $6 per share. Of the $12,000,000 in proceeds, $417,332 had been ascribed to the warrants and $11,582,668 to the Series A. Each share of Series A accrued a cumulative dividend equal to an annual rate of 9% of the $18 per share initial liquidation amount, compounded every six months, which had the effect of increasing the Series A preference amount.

On March 25, 2000, the Series A stockholders voluntarily converted their shares of preferred stock into 2,376,660 shares of common stock. The 2,376,660 shares represents the value of the initial investment plus the accrued dividends through the conversion date, adjusted for the 3-for-2 stock dividend effected on March 17, 2000.

On July 13, 1998, the Company received a commitment letter from a Series A stockholder to purchase at the Company's option, an additional $5,000,000 of preferred stock on the same terms and conditions as the Series A issued in April 1998. No shares of Series A were issued under this commitment letter which expired on June 30, 1999.

At March 31, 2000, no shares of preferred stock were issued and outstanding.

Common Stock Purchase Warrants

As of March 31, 2000, the Company had outstanding warrants in connection with the issuance of the Series A and the financing arrangements disclosed in Note 7 to purchase an aggregate of 883,123 shares of common stock at exercise prices ranging from $4.50 to $7.87 with exercise periods extending through March 2009. The values of the warrants range from $1.96 to $4.76 and were determined using a Black-Scholes pricing methodology. Significant assumptions include an interest rate of 5.21%, an expected volatility of 50% and an expected life of the warrants of 2.5 to 3 years.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan (the "ESPP") which enables participating employees to purchase Company shares at 85% of the lower of the market prices prevailing on two valuation dates as defined in the ESPP. Individuals can contribute up to 5% of their base salary. The Company made no contributions to the ESPP during the fiscal years ended March 31, 2000, 1999 and 1998. Indicated below is a summary of shares of common stock purchased by the ESPP.

Date	Shares Purchased	Purchase Price
February 2000	10,533	$10.38
July 1999	14,779	$ 5.03
February 1999	11,945	$ 4.46
July 1998	10,105	$ 4.46
February 1998	6,609	$ 5.53
July 1997	8,157	$ 4.32

Stock Option Plans

Under the terms of its 1993 Incentive Stock Option Plan, 1996 Stock Option Plan and 1998 Incentive Plan, (collectively, the "Plans"), the Company may grant qualified and non-qualified incentive stock options for the purchase of common stock to all employees and, except for the 1993 Stock Option Plan, to members of the Board of Directors. The Plans generally provide that the option price will be fixed by a committee of the Board of Directors but for qualified incentive stock options will not be less than 100% (110% for 10% stockholders) of the fair market value per share on the date of grant. Non-qualified options are granted at no less than 85% (110% for 10% stockholders) of the fair market value per share on the date of grant. No options have a term of more than ten years and options to 10% stockholders may not have a term of more than five years.

In the event of termination of employment, other than by reason of death, disability or with the written consent of the Company, all options granted to employees are terminated. Vesting is determined by the Board of Directors.

Under the terms of the 1999 Equity Incentive Plan for Non-Employee Directors, at each annual meeting at which a non-employee director is reelected or is continuing as a director, he or she will be granted a five-year, non-discretionary, option to purchase 15,000 shares of common stock, at an exercise price equal to 100% of the fair market value of the common stock on the day before the date of the grant. The options are exercisable on the grant date. In addition to the foregoing options, the administrator also has the authority to award options to eligible directors in amounts and on terms as it determines. These options are referred to as discretionary options. The exercise price of discretionary options will be set by the administrator and will become exercisable and expire as the administrator determines, but no options will expire later than 10 years from the date of grant. If a director dies, or otherwise ceases to be a director, all options, including those issued under the 1993, 1996, 1998 and 1999 Plans, not then exercisable will immediately terminate, unless the board of directors otherwise determines. Any exercisable options will remain exercisable for a period of one year following death or three months following other termination of the individual's status as a director, but in no event beyond the fifth anniversary of the date of grant in the case of formula options and beyond the tenth anniversary of the date of the grant in the case of discretionary options. Upon a merger or consolidation, which results in a 50% change in ownership, a transfer of all or substantially all of the Company's assets, or a dissolution or liquidation of the Company, all options, including the 1993, 1996, 1998 and 1999 plans, not then exercisable will become exercisable and all unexercised options will terminate upon the consummation of the transaction. However, in lieu of termination, the board of directors may cause the acquiring or surviving corporation to assume all options outstanding under the plan or provide replacement options on substantially the same terms, with any necessary adjustments. In addition to the option grants, the plan allows each non-employee director to elect annually in advance to receive his or her fees in the form of deferred grants of common stock rather than cash.

Stock Based Compensation

Pro forma information regarding net loss and net loss per common share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options granted under the Plans and shares issued pursuant to the ESPP under the fair value method of SFAS No. 123. The fair value for these options and shares issued pursuant to the ESPP was estimated at the dates of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Options			ESPP		
	2000	1999	1998	2000	1999	1998
Expected life (years)	3.69	3.09	2.96	0.50	0.50	0.50
Interest rate	6.12%	4.82%	5.93%	6.08%	5.05%	5.43%
Volatility	84.12%	83.69%	85.14%	82.73%	91.23%	64.67%
Dividend yield	0.00	0.00	0.00	0.00	0.00	0.00

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the expense related to estimated fair value of the options is recognized over the options' vesting period. The Company's pro forma net loss and loss per common share, which has been adjusted to reflect the March 2000 three-for-two stock split, are as follows:

	2000	1999	1998
Pro forma net loss	$(66,276,203)	$(56,003,004)	$(4,586,368)
Pro forma net loss per common share (Basic and Diluted)	$ (3.26)	$ (3.77)	$ (0.31)

The effects on fiscal 1998, 1999 and 2000 pro forma net loss and loss per common share of expensing the estimated fair value of stock options and shares issued pursuant to the ESPP are not necessarily representative of the effects on reporting the results of operations for future years as the periods presented only include the effects of option grants under the Company's plans.

A summary of the Company's stock option activity, and related information for the years ended March 31, which has been adjusted to reflect the March 17, 2000 three-for-two stock split, follows:

	2000		1999		1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	5,423,714	$ 4.70	4,447,511	$3.67	2,929,668	$2.91
Options granted	2,137,569	15.08	1,945,500	5.77	4,186,500	4.74
Options terminated	(411,950)	4.67	(419,574)	4.33	(2,104,076)	5.57
Options exercised	(1,242,960)	3.37	(549,723)	0.44	(564,581)	0.62
Outstanding at end of year	5,906,373	$ 8.91	5,423,714	$ 4.70	4,447,511	$3.67
Exercisable at end of year	1,630,865		1,442,666		1,047,375	
Weighted-average fair value of options granted during the year	$ 8.87		$ 3.20		$ 2.67	

The following table presents weighted-average price and life information about significant option groups outstanding at March 31, 2000:

	Options Outstanding				Options Exercisable
Range Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life—Years	Average Exercise Price	Weighted Number Exercisable	Weighted Average Exercise Price
$ 0.00-5.35	2,917,905	2.5	$ 4.57	1,028,864	$ 4.60
5.35-10.70	1,251,198	3.9	8.27	420,351	7.78
10.70-16.05	1,253,522	4.9	11.63	165,150	10.96
16.05-21.40	121,500	6.3	17.68	1,500	19.25
21.40-26.75	74,999	6.5	23.77	0	0
26.75-32.10	77,249	6.4	27.62	0	0
32.10-37.45	33,000	5.9	36.52	0	0
37.45-42.80	152,000	5.9	38.66	15,000	38.67
42.80-48.15	18,500	7.7	46.68	0	0
48.15-53.50	6,500	7.2	53.38	0	0
	5,906,373			1,630,865	

11. Benefit Plans

Defined Contribution Plan (the "401(k) Plan")

The Company maintains a defined contribution plan (the "401(k) Plan") which covers all employees who meet certain eligibility requirements and complies with Section 401(k) of the Internal Revenue Code ("IRC"). Participants may make contributions to the 401(k) Plan up to 15% of their compensation, as defined under the terms of the 401(k) Plan, up to the maximum established by the IRC.

The Company may make a matching contribution of an amount to be determined by the Board of Directors, but subject to a maximum of 6% of compensation contributed by each participant. Company contributions vest ratably over three years. Company contributions to the 401(k) Plan were $486,434, $358,100 and $310,788 in fiscal 2000, 1999 and 1998, respectively.

12. Loss Per Share

Loss per common share has been calculated as follows:

	2000	1999	1998
Numerator:			
Loss before extraordinary item	$(57,073,087)	$(51,237,984)	$(2,497,690)
Extraordinary item-early extinguishment of debt	(2,430,456)	0	0
Net loss	(59,503,543)	(51,237,984)	(2,497,690)
Less preferred stock dividends and accretion to redemption value of preferred stock	(1,609,351)	(1,227,808)	—
Equals: numerator for Basic and Diluted loss per common share	(61,112,894)	(52,465,792)	(2,497,690)
Denominator:			
Denominator for Basic and Diluted loss per common share-weighted average shares	20,320,626	15,196,052	14,829,000
Basic and diluted loss per common share	$ (3.01)	$ (3.45)	$ (0.17)
Basic and diluted loss per common share-extraordinary item	$ (0.12)	$ 0	$ 0
Basic and diluted loss per common share-before extraordinary item	$ (2.89)	$ (3.45)	$ (0.17)

13. Income Taxes

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

	2000	1999	1998
Current:			
Federal	$ 0	$ (3,124,000)	$ (218,000)
State	0	0	0
	0	(3,124,000)	(218,000)
Deferred tax provision (benefit)		1,597,000	(1,068,760)
	$ 0	$ (1,527,000)	$(1,286,760)

Significant components of the Company's deferred tax liabilities and assets as of March 31, are as follows:

	2000	1999
Deferred tax assets:		
Bad debt allowance	$ 810,000	$ 695,000
Accruals and allowances, other	585,000	40,000
Compensation	242,000	0
Net operating loss carryforward	45,771,000	22,560,000
Total deferred tax asset	47,408,000	23,295,000
Deferred tax liability:		
Other expenses	(44,000)	(46,000)
Depreciation	(42,000)	(784,000)
Total deferred tax liability	(86,000)	(830,000)
Net deferred tax asset before valuation allowance	47,322,000	22,465,000
Valuation allowance	(47,322,000)	(22,465,000)
Net deferred tax asset	$ 0	$ 0

Management has provided a valuation allowance against deferred tax assets due to the uncertainty that the Company will realize these assets. The Company believes that, based upon a number of factors, the available objective evidence creates sufficient uncertainty regarding the realization of the deferred tax assets such that a full valuation allowance has been recorded. The Company will continue to assess the realization of the deferred tax assets based on actual and forecasted operating results.

At March 31, 2000, the Company had federal and state net operating loss carryforwards of approximately $112,000,000, which may be used to reduce future income tax liabilities, and expire through 2020. Changes in the Company's ownership will subject the net operating loss carryforwards to limitations pursuant to Sections 382 of the IRC.

The income tax expense is different from that which would be obtained by applying the enacted statutory federal income tax rate to loss before income taxes. The items causing this difference are as follows:

	2000	1999	1998
Tax (benefit) at U.S. statutory rate	$(20,231,000)	$(17,940,000)	$(1,286,760)
State income taxes, net of federal benefit	(3,867,000)	(3,616,000)	0
Valuation allowance and other	24,098,000	20,029,000	0
	$ 0	$ (1,527,000)	$(1,286,760)

14. Subsequent Events

Subsequent to March 31, 2000, the Company completed a $200 million preferred stock financing with Bain Captial Inc., Thomas H. Lee Partners, L.P. and CSFB Private Equity. The investment is in the form of 8.25% Series B convertible preferred stock which converts to common stock at $50 per share. Bain Capital and Thomas H. Lee each invested $75 million and CSFB Private Equity has invested $50 million. The $200 million will be used to fund strategic marketing and technological initiatives of the Company's business plan.

15. Quarterly Information (Unaudited)

A summary of operating results and net loss per share for the quarterly periods in the two years ended March 31, 2000 is set forth below:

	Quarter Ended				
	June 30	September 30	December 31	March 31	Total
Year ended March 31, 2000					
Total revenues	$31,046,851	$ 35,109,155	$ 40,369,021	$ 46,575,907	$153,100,934
Loss before extra-ordinary item	(15,118,813)	(12,293,504)	(14,216,531)	(15,444,239)	(57,073,087)
Net loss	(15,118,813)	(12,293,504)	(14,216,531)	(17,874,695)	(59,503,543)
Loss per common share before extraordinary item	(.99)	(.61)	(.67)	(.69)	(2.89)
Net loss per share - Basic and diluted	(.99)	(.61)	(.67)	(.80)	(3.01)
Year ended March 31, 1999					
Total revenues	$12,835,685	$ 14,516,189	$ 19,024,531	$ 24,587,287	$ 70,963,692
Net loss	(8,029,000)	(10,732,624)	(11,480,025)	(20,996,335)	(51,237,984)
Net loss per share - Basic and diluted	(.54)	(.73)	(.79)	(1.38)	(3.45)

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

CTC COMMUNICATIONS GROUP, INC.

	Col. A	Col. B	Col. C	Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts	Deductions(a)	Balance at End of Period
Year ended March 31, 2000:					
Allowance for doubtful accounts	$1,717,000	$1,528,564	0	$1,245,564	$2,000,000
Year ended March 31, 1999:					
Allowance for doubtful accounts	$ 492,000	$4,988,698	0	$3,763,698	$1,717,000
Year ended March 31, 1998:					
Allowance for doubtful accounts	$ 377,000	$1,421,000	0	$1,306,000	$ 492,000

(a) Bad debts written off, net of collections.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-44337) pertaining to the Employee Stock Purchase Plan of CTC Communications Group, Inc. (as successor to CTC Communications Corp.), the Registration Statement (Form S-8 No. 333-17613) pertaining to the 1996 Stock Option Plan of CTC Communications Group, Inc., the Registration Statement (Form S-8 No. 333-68767) pertaining to the 1998 Incentive Plan, the 1996 Stock Option Plan and the Employee Stock Purchase Plan of CTC Communications Group, Inc. and the Registration Statement (Form S-8 No. 333-93735) pertaining to the 1999 Equity Incentive Plan for Non-Employee Directors, the 1998 Incentive Plan and the 1993 Stock Option Plan of CTC Communications Group, Inc., of our report dated May 18, 2000 except for Note 2, as to which the date is June 26, 2000, with respect to the consolidated financial statements and schedule of CTC Communications Group, Inc. included in the Annual Report (Form 10-K) for the year ended March 31, 2000.

Boston, Massachusetts
June 26, 2000

Ernst & Young LLP

EXHIBIT 99.1

RISK FACTORS

From time to time we have, and may in the future make, forward-looking statements, based on our then-current expectations, including statements made in Securities and Exchange Commission filings, in press releases and oral statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve risks and uncertainties, and actual results could differ materially from those expressed or implied in the forward- looking statements for a variety of reasons. These reasons include, but are not limited to, factors outlined below. We do not undertake to update or revise our forward-looking statements publicly even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

BECAUSE OUR REVENUES PRIOR TO JANUARY 1998 RESULTED FROM A BUSINESS STRATEGY WE ARE NO LONGER PURSUING, YOU MAY HAVE DIFFICULTY EVALUATING US.

We began offering local services under our own brand name in January 1998 and began providing network services to customers since September 1999. As a result, we can only provide limited historical operating and financial information about our current business strategy for you to evaluate.

IF WE DO NOT SUCCESSFULLY EXECUTE OUR NEW BUSINESS STRATEGY, WE MAY BE UNABLE TO COMPETE EFFECTIVELY.

Our business strategy is complex and requires that we successfully complete many tasks, a number of which we must complete simultaneously. If we are unable to effectively implement or coordinate the implementation of these multiple tasks, we may be unable to compete effectively in our markets and our financial results may suffer.

OUR INCURRENCE OF NEGATIVE CASH FLOWS AND OPERATING LOSSES DURING THE NEXT SEVERAL YEARS MAY ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

During recent periods we have experienced substantial net losses, operating losses and negative cash flow. Our expenses have increased significantly, and we expect our expenses to continue to increase as we deploy our network and implement our business plan. Accordingly, we expect to incur significant operating losses, net losses and negative cash flow during the next several years, which may adversely affect the price of our common stock.

IF OUR NETWORK DOES NOT FUNCTION PROPERLY, WE WILL BE UNABLE TO PROVIDE THE TELECOMMUNICATIONS SERVICES ON WHICH OUR FUTURE PERFORMANCE WILL IN LARGE PART DEPEND.

Because the design of our network has not been widely deployed, we cannot assure you that our network will provide the functionality that we expect. We also cannot be sure that we will be able to incorporate local dial tone capabilities into our network because this technology has not been widely implemented. Without this capability we will not be able to provide on our network all of our target customers' fixed line telecommunications services.

IF WE DO NOT OBTAIN INTERCONNECTION AGREEMENTS WITH OTHER CARRIERS, WE WILL BE UNABLE TO PROVIDE ENHANCED SERVICES ON OUR NETWORK.

Negotiation of interconnection agreements with incumbent local exchange carriers, or ILECs, can take considerable time, effort and expense, and these agreements are subject to federal, state and local regulation. We may not be able to effectively negotiate the necessary interconnection agreements. Without these interconnection agreements, we will be unable to provide enhanced connectivity to our network and local dial tone services and to achieve the financial results we expect.

BECAUSE OF OUR LIMITED EXPERIENCE, WE MAY NOT BE ABLE TO PROPERLY OR TIMELY DEPLOY, OPERATE AND MAINTAIN OUR NETWORK, WHICH COULD MATERIALLY ADVERSELY AFFECT OUR FINANCIAL RESULTS.

The failure of our network equipment to operate as anticipated or the inability of equipment suppliers to timely supply such equipment could materially and adversely affect our financial results.

Because we have limited experience operating and maintaining telecommunications networks, we may not be able to deploy our network properly or do so within the time frame we expect. In addition, we may encounter unanticipated difficulties in operating and maintaining out network. If network implementation does not occur in a timely and effective manner, our financial results could be adversely affected.

OUR HIGH LEVERAGE CREATES FINANCIAL AND OPERATING RISK THAT COULD LIMIT THE GROWTH OF OUR BUSINESS.

We have a significant amount of indebtedness. As of March 31, 2000, we had approximately $129.1 million of total indebtedness outstanding. We do not expect to generate sufficient cash flow from operations to repay our existing credit facilities. We have incurred substantial debt financing to fund our business plan. Our high leverage could have important consequences to us, including.

- limiting our ability to obtain necessary financing for future working capital, capital expenditures, debt service requirements or other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business;
- placing us at a competitive disadvantage to competitors with less leverage;
- increasing our vulnerability in the event of a downturn in our business or the economy generally;
- requiring that we use a substantial portion of our cash flow from operations for debt service and not for other purposes.

WE MAY BE UNABLE TO OBTAIN THE ADDITIONAL CAPITAL WE WILL REQUIRE TO FUND OUR OPERATIONS AND FINANCE OUR GROWTH ON ACCEPTABLE TERMS OR AT ALL, WHICH COULD CAUSE US TO DELAY OR ABANDON OUR DEVELOPMENT AND EXPANSION PLANS.

We will need significant additional capital to expand our business plan. We cannot assure you that capital will be available to us when we need it or at all. If we are unable to obtain capital when we need it, we may delay or abandon our expansion plans. That could have a material adverse effect on our business and financial condition.

OUR MARKET IS HIGHLY COMPETITIVE, AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY, ESPECIALLY AGAINST ESTABLISHED COMPETITORS WITH GREATER FINANCIAL RESOURCES AND MORE EXPERIENCE.

We operate in a highly competitive environment. We have no significant market share in any market in which we operate. We will face substantial and growing competition from a variety of data transport, data networking, telephony service and integrated telecommunications service providers. We also expect that the incumbent local exchange carriers ultimately will be able to provide the range of services we currently offer. Many of our competitors are larger and better capitalized than we are, are incumbent providers with long-standing customer relationships, and have greater name recognition. We may not be able to compete effectively against our competitors.

OUR INFORMATION SYSTEMS MAY NOT PRODUCE ACCURATE AND PROMPT BILLS WHICH COULD CAUSE A LOSS OR DELAY IN THE COLLECTION OF REVENUE AND COULD ADVERSELY AFFECT OUR RELATIONS WITH OUR CUSTOMERS.

We depend on our information systems to bill our customers accurately and promptly. Because of the deployment of our network and our expansion plans, we are continuing to upgrade our information systems. Our failure to identify all of our information and processing needs or to adequately upgrade our information systems could delay our collection efforts, cause us to lose revenue and adversely affect our relations with our customers.

WE MAY NOT RECEIVE TIMELY AND ACCURATE CALL DATA RECORDS FROM OUR SUPPLIERS WHICH COULD CAUSE A LOSS OR DELAY IN THE COLLECTION OF REVENUE AND COULD ADVERSELY AFFECT OUR RELATIONS WITH OUR SUPPLIERS.

Our billing and collection activities are dependent upon our suppliers providing us with accurate call data records. If we do not receive accurate call data records in a timely manner, our collection efforts could suffer and we could lose revenue. In addition, we pay our suppliers according to our calculation of the charges based upon invoices and computer tape records provided by these suppliers. Disputes may arise between us and our suppliers because these records may not always reflect current rates and volumes. If we do not pay disputed amounts, a supplier may consider us to be in arrears in our payments until the amount in dispute is resolved, which could adversely affect our relations with our suppliers.

WE DEPEND ON THE NETWORKS AND SERVICES OF THIRD PARTY PROVIDERS TO SERVE OUR CUSTOMERS AND OUR RELATIONSHIPS WITH OUR CUSTOMERS COULD BE ADVERSELY AFFECTED BY FAILURES IN THOSE NETWORKS AND SERVICES.

We depend on other carriers for the switching and transmission of our customer traffic. After we complete deploying our network, we will still rely to some extent on others for switching and transmission of customer traffic. We cannot be sure that any third party switching or transmission facilities will be available when needed or on acceptable terms.

Although we can exercise direct control of the customer care and support we provide, most of the services we currently offer are provided by others. These services are subject to physical damage, power loss, capacity limitations, software defects, breaches of security and other factors which may cause interruptions in service or reduced capacity for our customers. These problems, although not within our control, could adversely affect customer confidence and damage our relationships with our customers.

INCREASES IN CUSTOMER ATTRITION RATES COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

Our customers may not continue to purchase local, long distance, data or other services from us. Because we have been selling voice and data telecommunications under our own brand name for a short time, our customer attrition rate is difficult to evaluate. We could lose customers as a result of national advertising campaigns, telemarketing programs and customer incentives provided by major competitors as well as for other reasons not in our control as well as a result of our own performance. Increases in customer attrition rates could have a material adverse effect on our results of operations.

WE MAY BE UNABLE TO EFFECTIVELY MANAGE OUR GROWTH, WHICH COULD MATERIALLY ADVERSELY AFFECT ALL ASPECTS OF OUR BUSINESS.

We are pursuing a business plan that will result in rapid growth and expansion of our operations if we are successful. This rapid growth would place significant additional demands upon our current management and other resources. Our success will depend on our ability to manage our growth. To accomplish this we will have to train, motivate and manage an increasing number of employees. Our failure to manage growth effectively could have a material adverse effect on our business, results of operations and financial condition.

WE MAY BE UNABLE TO RETAIN OR REPLACE OUR SENIOR MANAGEMENT OR HIRE AND RETAIN OTHER HIGHLY SKILLED PERSONNEL UPON WHICH OUR SUCCESS WILL DEPEND.

We believe that our continued success will depend upon the abilities and continued efforts of our management, particularly members of our senior management team. The loss of the services of any of these individuals could have a material adverse effect on our business, results of operations and financial condition. Our success will also depend upon our ability to identify, hire and retain additional highly skilled sales, service and technical personnel. Demand for qualified personnel with telecommunications experience is high and competition for their services is intense. If we cannot attract and retain the additional employees we need, we will be unable to successfully implement our business strategy.

CHANGES TO THE REGULATIONS APPLICABLE TO OUR BUSINESS COULD INCREASE OUR COSTS AND LIMIT OUR OPERATIONS.

We are subject to federal, state, and local regulation of our local, long distance, and data services. The outcome of the various administrative proceedings at the federal and state level and litigation in federal and state courts relating to this regulation as well as federal and state legislation may increase our costs, increase competition and limit our operations.

RAPID TECHNOLOGICAL CHANGES IN THE TELECOMMUNICATIONS INDUSTRY COULD RENDER OUR SERVICES OR NETWORK OBSOLETE FASTER THAN WE EXPECT OR REQUIRE US TO SPEND MORE THAN WE CURRENTLY ANTICIPATE.

The telecommunications industry is subject to rapid and significant changes in technology. Any changes could render our services or network obsolete, require us to spend more than we anticipate or have a material adverse effect on our operating results and financial condition. Advances in technology could also lead to more entities becoming our direct competitors. Because of this rapid change, our long-term success will increasingly depend on our ability to offer advanced services and to anticipate or adapt to these changes, such as evolving industry standards. We cannot be sure that:

- we will be able to offer the services our customers require;
- our services will not be economically or technically outmoded by current or future competitive technologies;
- our network or our information systems will not become obsolete;
- we will have sufficient resources to develop or acquire new technologies or introduce new services that we need to effectively compete; or
- our cost of providing service will decline as rapidly as the costs of our competitors.

WE MAY PURSUE ACQUISITIONS WHICH COULD DISRUPT OUR BUSINESS AND MAY NOT YIELD THE BENEFITS WE EXPECT.

We may pursue strategic acquisitions as we expand. Acquisitions may disrupt our business because we may:

- experience difficulties integrating acquired operations and personnel into our operations;
- divert resources and management time;
- be unable to maintain uniform standards, controls, procedures and policies
- enter markets or businesses in which we have little or no experience; and
- find that the acquired business does not perform as we expected.

OUR EXISTING PRINCIPAL STOCKHOLDERS, EXECUTIVE OFFICERS AND DIRECTORS CONTROL A SUBSTANTIAL AMOUNT OF OUR VOTING SHARES AND WILL BE ABLE TO SIGNIFICANTLY INFLUENCE ANY MATTER REQUIRING SHAREHOLDER APPROVAL.

Our officers and directors and parties related to them now control approximately 34.9% of the voting power of our outstanding capital stock. Robert J. Fabbricatore, our Chairman and Chief Executive Officer, controls approximately 15.6% of our voting power. Therefore, the officers and directors are able to significantly influence any matter requiring shareholder approval.

FLUCTUATIONS IN OUR OPERATING RESULTS COULD ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

Our annual and quarterly revenue and results could fluctuate as a result of a number of factors, including:

- variations in the rate of timing of customer orders,
- variations in our provisioning of new customer services,
- the speed at which we expand our network and market presence,
- the rate at which customers cancel services, or churn,
- costs of third party services purchased by us, and
- competitive factors, including pricing and demand for competing services.

Also, our revenue and results may not meet the expectations of securities analysts and our stockholders. As a result of fluctuations or a failure to meet expectations, the price of our common stock could be materially adversely affected.

OUR STOCK PRICE IS LIKELY TO BE VOLATILE.

The trading price of our common stock is likely to be volatile. The stock market in general, and the market for technology and telecommunications companies in particular, has experienced extreme volatility. This volatility has often been unrelated to the operating performance of particular companies. Other factors that could cause the market price of our common stock to fluctuate substantially include:

- announcements of developments related to our business, or that of our competitors, our industry group or our customers;
- fluctuations in our results of operations;
- hiring or departure of key personnel;
- a shortfall in our results compared to analysts' expectations and changes in analysts' recommendations or projections;
- sales of substantial amounts of our equity securities into the marketplace;
- regulatory developments affecting the telecommunications industry or data services; and
- general conditions in the telecommunications industry or the economy as a whole.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, for the fiscal year ended March 31, 1999.

Commission File Number 0-13627

CTC COMMUNICATIONS CORP.

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2731202**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
220 Bear Hill Road Waltham, Massachusetts	**02451**
(Address of principal executive offices)	**(Zip Code)**

(781) 466-8080

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
None	None

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

Title of Each Class: **Common Stock ($.01 Par Value)**

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates was approximately $127,208,131 on July 9, 1999, based on the closing sales price of the registrant's common stock as reported on the Nasdaq National Market as of such date.

On July 9, 1999, 10,397,504 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I

ITEM 1. *BUSINESS*

Overview

We are a rapidly growing single-source provider of voice and data telecommunications services, or integrated communications provider, with 15 years of marketing, sales and service experience. We target predominantly medium and larger-sized business customers who seek greater capacity for voice and data traffic, a single provider for their telecommunications requirements and improved levels of service. We have a large, experienced sales force consisting of 164 sales people supported by 101 network consultants. Our sales force is located close to our customers in 25 sales branches primarily in New England and New York State.

We are currently deploying our own state-of-the-art network facilities to carry telecommunications traffic. Our network uses packet-switching, a technology which transmits data in discrete packages. It also uses internet protocol, which is a method that allows computers with different architectures and operating systems to communicate over the internet, and asynchronous transfer mode, or ATM, architecture, which allows the network to transmit multiple types of media, such as voice, data and video. The first phase of our network includes 22 Cisco Systems advanced data switches and two network operations centers. We are interconnecting our facilities with leased transmission capacity over fiber optic cable strands from Level 3 Communications and NorthEast Optic Network.™ Cisco has reviewed and approved our network design and has designated our network as a Cisco Powered Network. In May 1999, we began testing of our network with some of our customers. By late summer, we expect to begin providing, and billing for, commercial service to a limited number of customers on our network.

We became an integrated communications provider in January 1998. Prior to that, we were the largest independent sales agent for NYNEX Corp. (now Bell Atlantic), based on agency revenues. At the end of 1997, before leaving the Bell Atlantic agency program, we were managing relationships for approximately 7,000 customers, representing over 280,000 local access lines and over $200 million in annual local telecommunications spending. As of March 31, 1999, after only 15 months as an integrated communications provider, we were serving over 9,000 customers and had over 142,000 access lines and equivalent circuits, or ALEs. ALEs are the total number of voice circuits and equivalent data circuits we have in service. Voice circuits are the actual number of voice circuits purchased by our customers, while equivalent data circuits represent the data transmission capacity purchased by our customers divided by 64 kilobits per second, which is the capacity necessary to carry one voice circuit.

Our Services

We offer the following services:

Local Telephone Services. We offer connections between customers' telecommunications equipment and the local telephone network, which we currently lease from incumbent local exchange carriers. For large customers or customers with specific requirements, we integrate their private systems with analog or digital connections. We also provide all associated call processing features as well as continuously connected private lines for both voice and data applications.

Long Distance Telephone Services. We offer a full range of domestic and international long distance services, including "1+" outbound calling, inbound toll free service, standard and customized calling plans. We also offer related services such as calling cards, operator assistance and conference calling.

High Speed Data Services. We offer a wide array of both continuously connected and switched high speed digital data services. Switched or high speed digital data services include ISDN, frame relay and ATM products.

Internet Services. We offer high speed, continuously connected internet access and services through various digital connections. In addition, we offer switched digital access to the internet via ISDN. We provide the necessary communications hardware, configuration support and other support services on a 24-hour, 7-day a week basis.

Wholesale Services to Internet Service Providers. We provide a full array of local services to internet service providers including telephone numbers and switched and continuously connected access to the internet.

Future Service Offerings. Following deployment of the network, we may offer the following additional services: hosting of web-sites, electronic commerce over the internet, data security and storage services, systems integration, consulting and network monitoring services, customized private networks and other data, and voice and sophisticated network products.

Our Integrated Communications Network

We began deploying the first phase of our state-of-the-art, packet-switched network in January 1999. We will be able to offer a broad array of sophisticated services over our network. We believe our network will enable us to improve margins, enhance network and service quality and broaden our range of product offerings. We also believe that our network will ultimately enable us to deliver voice and data services across a single multi-service connection. We expect our network to lower customers' overall telecommunications costs and stimulate demand for new services.

The first phase of our network includes 22 Cisco advanced data switches and two network operation centers. Our primary network operations center is located in our Waltham, Massachusetts technology center. Our fully redundant back-up network operations center is located in Springfield, Massachusetts. We are interconnecting our facilities with leased transmission capacity over fiber optic cable strands from Level 3 Communications and NorthEast Optic Network. Initially, we have obtained high capacity connections between our switches providing multiple, back-up connections. The initial transmission infrastructure will consist of fiber optic rings with the ability to automatically re-route data in either direction covering the southern, western and eastern New England regions. This SONET technology provides for the use of redundant circuits and allows data to travel to its destination along many different paths.

The network will also allow us to take advantage of available technology to meet increasing customer demands for reliable, high capacity voice, data and video connections. We have also arranged to co-locate our switching hubs in Level 3 Communications and NorthEast Optic Network facilities along selected fiber routes. We expect to work with Cisco to test various new Cisco technologies in our technology center. We expect this to better position us to adopt developing Cisco technology at an early stage.

We intend to access our customer locations from our network through our PowerPath^{SM} services. These will include a variety of high capacity technologies, including digital subscriber line, or DSL, service which permits high speed connections over existing telephone lines, leased high capacity wireline circuits, or T-1s, wireless technologies and fiber optic facilities, as available. Initially, we will offer continuously connected long distance and data services over our network. We believe that these services represent over 50% of our target customers' fixed line telecommunications spending. The balance represents local dial tone services which we currently obtain from other carriers. We plan to incorporate local dial tone service into our packet-switching architecture as that technology matures.

Our network strategy to incorporate local dial tone functionality at a later stage will allow us to simplify the transitioning of existing customers onto our network because our customer will not have to disconnect from the incumbent local exchange carrier and then reconnect to our network. To transition our customers onto our network, we will simply be required to reprogram our customer's systems to direct long distance and data traffic to our network. This strategy will also allow our customers to retain their existing phone numbers as well as have the built-in redundancy of the separate physical connection to the incumbent local exchange carrier. At a later stage, once customers can use the same telephone number irrespective of who provides their telecommunications service, we will be able to more easily transition our customers' local dial tone service onto our network.

Sales and Customer Care

We market telecommunications services by developing long-term business relationships with our customers and offering them comprehensive management of their telecommunications requirements. Each of our customers is assigned a local dedicated team consisting of a sales executive and a network consultant. This team provides a single point of contact for our customer's needs. This team works together with the customer to design, implement and maintain an integrated telecommunications solution. This team also reviews and updates the customer's services on a regular basis. We believe that providing localized, high quality customer care promotes continued sales of new services and reduces customer churn.

Sales and Service Infrastructure. Our branches are currently staffed with over 300 individuals, representing approximately 80% of our employees. As of July 9, 1999, there were 164 sales executives, 101 network consultants, 26 branch/regional managers and 16 service managers located in 25 sales branches serving markets in Connecticut, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont.

Customer Sales and Service Model. At their first meeting with a prospective customer, our sales executives analyze the customer's current telecommunications usage and costs. Sales executives then outline the range of services and potential savings we offer and make recommendations to optimize the customer's current network. Sales executives also discuss the benefits of our comprehensive customer care program and develop account management plans designed to balance network expense and utility. Sales executives and network consultants continue to review the customer's telecommunications usage and requirements and update the customer's suite of services and network design. We believe the relationship-intensive approach of assigning sales executives and network consultants to each customer account results in high customer satisfaction and retention rates.

Our sales executives regularly participate in training programs on subjects such as solution-oriented sales, comprehensive customer care, network design and other technical features of our services. We seek to motivate and retain our sales executives through extensive training and a commission structure that supports our relationship oriented sales and service policies.

Customer Care. Our network consultants are trained in our service offerings and are responsible for customer care. Network consultants are located in each of our sales branches and are assigned directly to individual customer accounts in direct support of the sales executives. Our localized, multi-step customer care process provides an ongoing and comprehensive service program to our customers. This process ranges from long-term consultative planning to day-to-day handling of service issues.

Our customer care program is designed to provide prompt action in response to customer inquiries and complaints. The local sales branches are staffed 11 hours a day, 5 days a week. At other times, incoming calls automatically roll over to a central customer care center which is staffed 24 hours a day, 7 days a week. We believe that our network consultants are motivated to provide the highest level of customer care because a significant portion of their compensation is based on customer retention and satisfaction.

Our Information Systems

Our information systems include five central applications which fully integrate our sales and account management, customer care, provisioning, billing and financial processes. Automation of each of these processes is designed for high transaction volumes, accuracy, timely installation, accurate billing feeds and quality customer service. Data entered in one application is generally exported into all other applications. Each branch office is connected via frame relay to the central processor. Our employees have online access to our information systems from their branch desktops or docking stations.

We also have an electronic interface to most of our major suppliers. When a sales executive places an order for one of these suppliers, our information systems electronically direct it to the appropriate supplier and monitors any delays in provisioning the order. Once the order is provisioned, our information systems automatically remove it from the in-process order file, update the customer's service inventory and network configuration, initiate billing, post the sales executive's commission and update our financial reports.

Our information systems include the following applications:

Account and Sales Management. Our account management application is the hub of our information systems. It stores all of our customer-related information, such as location detail, contact information, transaction history and account profile. Our account management application also automatically exports data to our customized sales application. Our sales application is a fully-integrated database that provides sales personnel with access to information for pricing services, customized sales proposals, customer correspondence, sales performance, referencing methods and procedures, service descriptions, competitive information and historical profiles of our current and prospective customers. These historical profiles include details of installed services, recent transactions and billing history. Our sales system can be used both on- and off-line. All entries made while off-line are automatically updated to the central processor and all relevant data is simultaneously exported to the other central applications each time a salesperson connects to the network.

Customer Care. Our network consultants use our account care application to review installed services, make additions, changes and deletions to accounts, initiate and track repair and service work and review past billing for any customer. This closed loop application provides automatic follow up and records all transactions in a customer history file. Service orders and repair requests input in our account care application are automatically exported into our provisioning application.

Provisioning. We generally direct customer orders through our provisioning application electronically to our major suppliers. We track these orders through our account care application from initiation through completion. If any delay in provisioning occurs, the proactive nature of this application alerts the sales executive or network consultants who can take corrective action and notify the customer of the delay. Once the order has been filled the information is automatically fed to our billing application.

Billing and Customer Interface. Our billing application allows us to provide our customers a single bill for all the services we provide. Our billing application also allows the customer to review historic bill detail, perform customized usage analyses and download information directly to their own accounting applications. Using a secure Web-based application called IntelliVIEW, our customers have near real-time online access to our billing application. Using IntelliVIEW, our customers are able to review and analyze their bills and related information. Customer billing statements are also available on CD ROM, diskette or paper. Paper statements generated by our billing application offer our customers different management formats.

Financial. Data from our billing application is automatically exported to our financial application. Our financial application tracks and prepares reports on sales activity, commissions, branch operations, branch profitability and cash flows. The financial application also compiles this data for our periodic financial reports. In addition, this application provides internal controls for revenue tracking and costing. The integrated nature of our information systems allows us to operate each branch as a separate profit and loss center.

We are actively upgrading our information systems in order to support our network. We have selected Oracle's relational database for our data repository and warehouse. We will integrate our business applications described above with the data repository. Customers, vendors, partners and internal users, will access our business applications using either UNIX, Windows 95 or standard internet browsers. We expect that our upgraded information systems will allow us to grow and expand our business, replace and upgrade business applications without impacting other applications and provide us with reliable data.

Competition

We operate in a highly competitive environment. We have no significant market share in any market in which we operate. We will face substantial and growing competition from a variety of data transport, data networking and telephony service providers. We will face competition from single-source providers and from providers of each individual telecommunications service. Many of these competitors are larger and better capitalized than we are. Also, many of our competitors are incumbent providers, with long standing relationships with their customers and greater name recognition.

Bell Atlantic is a competitor for local and data services, and, we expect based on regulatory developments, eventually will be a competitor for long distance services as well. Major competitors in our markets for the provision of single-source solutions include WinStar Communications, Inc. and Teligent, Inc. Network Plus is a competitor in our market for the provision of long distance and, to some extent, local services. Competitors for our data services also include AT&T Local (Teleport) and MCI Worldcom (Brooks Fiber and MFS). Our competitors for long distance services include all the major carriers such as AT&T, MCI Worldcom and Sprint.

In addition, the continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors. Examples of some of these alliances include: Bell Atlantic's proposed acquisition of GTE, SBC's proposed merger with Ameritech, AT&T's acquisition of TCI and proposed acquisition of Media One, US West's proposed merger with Global Crossing, Global Crossing's proposed acquisition of Frontier Corp., Qwest's proposed acquisition of US West and Frontier Corp. and SBC's acquisition of SNET. Many of these combined entities have or will have resources far greater than ours. These combined entities may provide a single package of telecommunications products that is in direct competition with our products. These combined entities may be capable of offering these products sooner and at more competitive rates than we can.

Competition from Single-Source Providers. The number of single-source providers has increased because of the current regulatory trend toward fostering competition and the continued consolidation of telecommunications service providers. Many single-source providers and long distance carriers have committed substantial resources to building their own networks or to purchasing carriers with complementary facilities. Through these strategies, a competitor can offer single-source local, long distance and data services similar to those that we will offer. The alternative strategies available to these competitors may provide them with greater flexibility and a lower cost structure.

Once the Regional Bell Operating Companies, or RBOCs, are allowed to offer in-region long distance services under the terms of Section 271 of the Telecommunications Act, they will be in a position to offer local and long distance services similar to the services we offer. No RBOC is currently permitted to provide long distance services for calls originating in their region. We cannot assure you that this will continue to be the case. The FCC must approve RBOC provision of in-region long distance services and can only do so upon finding that the RBOC has complied with the 14-point checklist outlined in Section 271 of the Telecommunications Act. This 14-point checklist is designed to ensure that RBOC competitors have the ability to provide local telephone services in competition with the RBOC. The FCC has not yet found that any RBOC has complied with the 14-point checklist.

Although the Telecommunications Act and other federal and state regulatory initiatives will provide us with new business opportunities, as competition increases regulators are likely to provide the incumbent local exchange carriers with more pricing flexibility. Our revenues may be adversely affected if the incumbent local exchange carriers elect to lower their rates and sustain these lower rates over time. We believe that we may be able to offset the effect of lower rates by offering new services to our target customers, but we cannot assure you that this will occur. In addition, if future regulatory decisions give incumbent local exchange carriers increased pricing flexibility or other regulatory relief, such decisions could have a material adverse effect on our business.

Competition for Provision of Local Exchange Services. In the local exchange market, incumbent local exchange carriers, including RBOCs, continue to hold near-monopoly positions. We also face competition or prospective competition from one or more integrated communications providers, and from other competitive providers, including providers who do not own their own network. Many of these competitors are larger and better capitalized than we are. Some carriers have entered into interconnection agreements with incumbent local exchange carriers and either have begun, or in the near future likely will begin, offering local exchange service in each of our markets. Further, as of February 8, 1999, the largest long distance carriers were permitted to bundle local and long distance services. This removes one of our competitive advantages. Other entities that currently offer or are potentially capable of offering switched services include cable television companies, electric utilities, other long distance carriers, microwave carriers, and large customers who build private networks.

Wireless telephone system operators are also competitors in the provision of local services. Cellular, personal communications service, and other commercial mobile radio services providers may offer wireless services to fixed locations, rather than just to mobile customers. This ability to provide fixed as well as mobile services will enable wireless providers to offer wireless local loop service and other services to fixed locations (e.g., office and apartment buildings) in direct competition with us and other providers of traditional fixed telephone service. In addition, the FCC recently auctioned substantial blocks of spectrum for fixed use including local exchange services. We expect exploitation of this spectrum to increase competition in the local market.

The World Trade Organization recently concluded an agreement that could result in additional competitors entering the U.S. local and long-distance markets. Under the WTO agreement, the United States committed to open telecommunications markets to foreign-owned carriers. The FCC has adopted streamlined procedures for processing market entry applications from foreign carriers, making it easier for such carriers to compete in the U.S. We cannot predict whether foreign-owned carriers will enter our markets as a result of the WTO agreement.

Competition for Provision of Long Distance Services. The long distance market is significantly more competitive than the local exchange market. In the long distance market numerous entities compete for the same customers. In addition, customers frequently change long distance providers in response to lower rates or promotional incentives by competitors. This results in a high average rate of customer loss, or churn, in the long distance market. Prices in the long distance market have declined significantly in recent years and are expected to continue to decline. Competition in this market will further increase once RBOCs are permitted to offer long distance services.

Data and Internet Services. The market for high speed data services and access to the internet is highly competitive. We expect competition in this market to continue to intensify. Our competitors in this market will include internet service providers and other telecommunications companies, including large interexchange carriers and RBOCs. Many of these competitors have greater financial, technological and marketing resources than those available to us. Recently, various RBOCs have filed petitions with the FCC requesting regulatory relief in connection with the provision of their own data services. In response to these petitions, the FCC issued a decision that data services generally are telecommunications services that, when provided by incumbent local exchange carriers, are subject to the unbundling, resale, and other independent local exchange carrier obligations prescribed in Section 251 of the Telecommunications Act. Petitions have been filed with the FCC asking them to reconsider this decision. The FCC also has initiated a proceeding to determine whether independent local exchange carriers will be able to escape their Section 251 obligations by providing data services through "truly" separate affiliates, whether the FCC will require incumbent local exchange carriers to unbundle their data services equipment and resell data services, and whether the FCC will grant RBOCs relief for the provision of data services. We cannot predict the effect that this proceeding will have on our ability to obtain facilities and services from incumbent local exchange carriers and on the competition that we will face from incumbent local exchange carriers in the data services market.

Government Regulation

The local and long distance telephony services and, to a lesser extent, the data services we provide are regulated by federal, state, and, to some extent, local government authorities. The FCC has jurisdiction over all telecommunications common carriers to the extent they provide interstate or international communications

The FCC is charged with establishing national guidelines to implement certain portions of the Telecommunications Act. The FCC issued its interconnection order on August 8, 1996. On July 18, 1997, however, the United States Court of Appeals for the Eighth Circuit issued a decision vacating the FCC's pricing rules, as well as certain other portions of the FCC's interconnection rules, on the grounds that the FCC had improperly intruded into matters reserved for state jurisdiction. On January 25, 1999, the Supreme Court largely reversed the Eighth Circuit's order, holding that the FCC has general jurisdiction to implement the local competition provisions of the Telecommunications Act. In so doing, the Supreme Court stated that the FCC has authority to set pricing guidelines for unbundled network elements, to prevent incumbent local exchange carriers from disaggregating existing combinations of network elements, and to establish "pick and choose" rules regarding interconnection agreements. "Pick and choose" rules would permit a carrier seeking interconnection to "pick and choose" among the terms of service from other interconnection agreements between the incumbent local exchange carriers and other competitive local exchange carriers. This action reestablishes the validity of many of the FCC rules vacated by the Eighth Circuit. Although the Supreme Court affirmed the FCC's authority to develop pricing guidelines, the Supreme Court did not evaluate the specific pricing methodology adopted by the FCC and has remanded the case to the Eighth Circuit for further consideration. Thus, while the Supreme Court resolved many issues, including the FCC's jurisdictional authority, other issues remain subject to further consideration by the courts and the FCC. We cannot predict the ultimate disposition of those matters. We also cannot predict the possible impact of this decision, including the portion dealing with unbundled network elements, on existing interconnection agreements between incumbent local exchange carriers and competitive local exchange carriers or on agreements that may be negotiated in the future.

Although most of the FCC rules that the Supreme Court was considering were upheld, the Court vacated the FCC's rule that identifies the unbundled network elements that incumbent local exchange carriers must provide to competitive local exchange carriers. The FCC recently initiated a new proceeding to reexamine whether it will identify which unbundled network elements incumbent local exchange carriers must provide, and, if so, how to identify those elements. It is unclear how the FCC will decide this issue or the effect that the FCC's decision will have on our business or operations.

The FCC recently adopted new rules designed to make it easier and less expensive for competitive local exchange carriers to obtain collocation at incumbent local exchange carrier central offices by, among other things, restricting the incumbent local exchange carriers' ability to prevent certain types of equipment from being collocated and requiring incumbent local exchange carriers to offer alternative collocation arrangements to competitive local exchange carriers. The FCC also initiated a new proceeding to address line sharing, which, if implemented, would allow competitive local exchange carriers to offer data services over the same line that a consumer uses for voice services without the competitive local exchange carrier having to provide the voice service. While we expect that the FCC's new collocation rules will be beneficial to us, we cannot be certain that these new rules will be implemented in a favorable manner. Moreover, incumbent local exchange carriers or other parties may ask the FCC to reconsider some or all of its new collocation rules, or may appeal these rules in federal court. We cannot predict the outcome of these actions or the effect they may have on our business.

Under the Communications Act, incumbent local exchange carriers have an obligation to negotiate with us in good faith to enter into interconnection agreements. We will need interconnection agreements to provide enhanced connectivity to our network and to provide local dial tone services. If we cannot reach agreement, either side may petition the applicable state commission to arbitrate remaining disagreements. These arbitration proceedings can last up to 9 months. Moreover, state commission approval of any interconnection agreement resulting from negotiation or arbitration is required, and any party may appeal an adverse decision by the state commission to federal district court. The potential cost in resources and delay from this process could harm our ability to compete in certain markets, and there is no guarantee that a state commission would resolve disputes, including pricing disputes in our favor. Moreover, as explained above, the FCC rules governing pricing standards for access to the networks of the traditional telephone companies are currently being challenged in federal court. If the courts overturn the FCC's pricing rules, the FCC may adopt a new pricing methodology that would require us to pay a higher price to traditional telephone companies for interconnection. This could have a detrimental effect on our business.

The Telecommunications Act permits RBOCs to provide long distance services outside their local service regions immediately, and will permit them to provide in-region long distance service upon demonstrating to the FCC and state regulatory agencies that they have adhered to the Telecommunication Act's 14-point competitive checklist. Some RBOCs have filed applications with various state public utility commissions and the FCC seeking approval to offer in-region long distance service. Some states have denied these applications while others have approved them. However, to date, the FCC has denied each of the RBOC's applications brought before it because it found that the RBOC had not sufficiently made its local network available to competitors. We anticipate that a number of RBOCs will file additional applications in 1999.

In May 1997, the FCC released an order establishing a significantly expanded universal service regime to subsidize the cost of telecommunications service to high cost areas, as well as to low-income customers and qualifying schools, libraries, and rural health care providers. Providers of interstate telecommunications services, like us, as well as certain other entities, must pay for these programs. We are also eligible to receive funding from these programs if we meet certain requirements, but we are not currently planning to do so. Our share of the payments into these subsidy funds will be based on our share of certain defined telecommunications end-user revenues. Currently, the FCC is assessing such payments on the basis of a provider's revenue for the previous year. Various states are also in the process of implementing their own universal service programs. We are currently unable to quantify the amount of subsidy payments that we will be required to make and the effect that these required payments will have on our financial condition. Moreover, the FCC's universal service rules remain subject to judicial appeal and further FCC review. Additional changes to the universal service program could increase our costs.

On November 1, 1996, the FCC issued an order that required nondominant interexchange carriers, like us, to cease filing tariffs for our domestic interexchange services. The order required mandatory detariffing and gave carriers nine months to withdraw federal tariffs and move to contractual relationships with their customers. This order subsequently was stayed by a federal appeals court, and it is unclear at this time whether the detariffing order will be implemented. In June 1997, the FCC issued another order stating that non-dominant local exchange carriers, like us, could withdraw their tariffs for interstate access services provided to long distance carriers. The FCC continues to require that carriers obtain authority to provide service between the United States and foreign points and file tariffs for international service. If the FCC's orders become effective, nondominant interstate services providers will no longer be able to rely on the filing of tariffs with the FCC as a means of providing notice to customers of prices, terms and conditions under which they offer their interstate services. If we cancel our FCC tariffs as a result of the FCC's orders, we will need to implement replacement contracts which could result in substantial administrative expenses.

In March 1999, the FCC adopted further rules that, while still maintaining mandatory detariffing, nonetheless require long distance carriers to make specific public disclosures on the carriers' Internet websites of their rates, terms and conditions for domestic interstate services. The effective date for these rules is also delayed until a court decision on the appeal of the FCC's detariffing order.

Recently, the FCC has determined that both continuous access and dial-up calls from a customer to an internet service provider, are interstate, not local, calls, and, therefore, are subject to the FCC's jurisdiction. The FCC has initiated a proceeding to determine the effect that this regulatory classification will have on the obligation of a local exchange carrier to pay reciprocal compensation for dial-up calls to internet service providers that originate on one local exchange carrier network and terminate on another local exchange carrier network. Moreover, several states are considering this issue, and one state has held that local exchange carriers do not need to pay reciprocal compensation for calls terminating at internet service providers. In addition, one RBOC has petitioned the FCC for a ruling that telephone-to-telephone calls made over the internet are subject to regulation as a telecommunications service under the Communications Act. Although the FCC has suggested that such internet-based telephone-to-telephone calls may be considered a telecommunications service, it has not reached a final decision on that issue. We cannot predict the effect that the FCC's resolution of these issues will have on our business.

In August 1997, the FCC issued rules transferring responsibility for administering and assigning local telephone numbers from the RBOCs and a few other local exchange carriers to a neutral entity in each geographic region in the United States. In August 1996, the FCC issued new numbering regulations that prohibit states from creating new area codes that could unfairly hinder local exchange carriers by requiring their customers to use 10 digit dialing while existing independent local exchange carrier customers use 7 digit dialing. These regulations also prohibit incumbent local exchange carriers which are still administering central office numbers pending selection of the neutral administrator from charging "code opening" fees to competitors unless they charge the same fee to all carriers including themselves. In addition, each carrier is required to contribute to the cost of numbering administration through a formula based on net telecommunications revenues. In July 1996, the FCC released rules requiring all local exchange carriers to have the capability to permit both residential and business consumers to retain their telephone numbers when switching from one local service provider to another, known as "number portability." In May 1999, the FCC initiated a proceeding to address the problem of the declining availability of area codes and phone numbers.

A customer's choice of local or long distance telecommunications company is encoded in a customer record, which is used to route the customer's calls so that the customer is served and billed by the desired company. A user may change service providers at any time, but the FCC and some states regulate this process and require that specific procedures be followed. When these procedures are not followed, particularly if the change is unauthorized or fraudulent, the process is known as "slamming." Slamming is such a significant problem that it was addressed in detail by Congress in the Telecommunications Act, by some state legislatures, and by the FCC in recent orders. The FCC has levied substantial fines for slamming. The risk of financial damage and business reputation from slamming is significant. Even one slamming complaint could cause extensive litigation expenses for us. The FCC recently decided to apply its slamming rules (which originally covered only long distance) to local service as well.

State Regulation

To the extent that we provide telecommunications services which originate and terminate in the same state, we are subject to the jurisdiction of that state's public service commission. As our local service business and product lines expand, we will offer more intrastate service and become increasingly subject to state regulation. The Telecommunications Act maintains the authority of individual state utility commissions to preside over rate and other proceedings, as discussed above, and impose their own regulation of local exchange and interexchange services so long as such regulation is not inconsistent with the requirements of the Telecommunications Act. For instance, states may impose tariff and filing requirements, consumer protection measures and obligations to contribute to universal service, and other funds.

We are subject to requirements in some states to obtain prior approval for, or notify the state commission of, any transfers of control, sales of assets, corporate reorganizations, issuances of stock or debt instruments and related transactions. Although we believe such authorizations could be obtained in due course, there can be no assurance that the FCC or state commissions would grant us authority to complete any of these transactions.

We have state regulatory authority to provide competitive local exchange services and interexchange services in nine states. We also have state regulatory authority to provide interexchange services in approximately 31 additional states. In some states, in which we have or have had de minimis intrastate interexchange revenues, we have not obtained authorization to provide such interexchange services or have allowed such authorization to lapse. We have either subsequently obtained, or are in the process of applying to obtain, the appropriate authorization in these states.

The Telecommunications Act generally preempts state statutes and regulations that restrict the provision of competitive local services. States, however, may still restrict competition in some rural areas. As a result of this preemption, we will be free to provide the full range of local, long distance, and data services in any state. While this action greatly increases our potential for growth, it also increases the amount of competition to which we may be subject.

Local Government Regulation

We may be required to obtain from municipal authorities street opening and construction permits to install our facilities in some cities. In some of the areas where we provide service, we are subject to municipal franchise requirements requiring us to pay license or franchise fees either on a percentage of gross revenue, flat fee or other basis. The Telecommunications Act requires municipalities to charge nondiscriminatory fees to all telecommunications providers, but it is uncertain how quickly this requirement will be implemented by particular municipalities in which we operate or plan to operate or whether it will be implemented without a legal challenge.

Employees

As of July 9, 1999, we employed 393 persons. None of our employees are represented by a collective bargaining agreement.

ITEM 2. *PROPERTIES*

Our headquarters and technology center are located in leased space in Waltham, Massachusetts. We have a back-up network operations center in Springfield, Massachusetts. We also lease offices in eight states. Although we believe that our leased facilities are adequate at this time, we expect to lease a significant number of additional sales facilities in connection with our planned expansion in existing markets and into new markets.

ITEM 3. *LEGAL PROCEEDINGS*

(a) Pending Legal Proceedings.

We are party to suits and regulatory proceedings arising in the normal course of business which we believe are not material individually or in the aggregate.

(b) Legal Proceedings Terminated in the Fourth Quarter.

In December 1997, we terminated our agency contract and filed suit against Bell Atlantic for, among other things, breach of contract, including the failure of Bell Atlantic's retail division to pay agency commissions owed to us. This litigation was settled on February 24, 1999. Under the terms of the settlement, we will receive cash and other consideration. Both parties have agreed to keep the specific terms of the settlement confidential.

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

None.

PART II

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

Our common stock is listed on the Nasdaq National Market under the symbol "CPTL." Following is the range of high and low trading prices on the Nasdaq National Market for the CTC Communications common stock for the periods indicated.

	Price Range	
	High	**Low**
Calendar Year 1997		
Second Quarter	$10.00	$6.88
Third Quarter	$ 9.75	$7.06
Fourth Quarter	$15.94	$8.00
Calendar Year 1998		
First Quarter	$14.94	$5.13
Second Quarter	$ 9.88	$6.50
Third Quarter	$ 8.50	$4.75
Fourth Quarter	$ 9.00	$4.00
Calendar Year 1999		
First Quarter	$17.50	$8.38

The last sale price of the common stock on the Nasdaq National Market on June 10, 1999 was $19.375. Our common stock was held by 497 stockholders of record.

We have never paid cash dividends on our common stock and we have no plans to do so in the foreseeable future. We intend to retain earnings, if any, to develop and expand our business. In addition, the terms of the credit and vendor facilities and the Series A preferred stock restrict our ability to pay cash dividends on our common stock. We also expect the terms of agreements governing any future indebtedness to restrict our ability to pay cash dividends.

During the quarter ended March 31, 1999, CTC Communications sold the following securities that were not registered under the Securities Act:

(a) 53,352 shares of common stock for an aggregate consideration of $66,585 pursuant to the exercise of employee incentive stock options by employees of CTC Communications.

(b) On January 15, 1999, CTC Communications issued to Relational Funding Corporation, in consideration for the provision of a master equipment lease agreement, warrants to purchase 55,555 shares of common stock at a purchase price of $9.00 per share.

(c) On March 24, 1999, CTC Communications issued to Toronto Dominion (Texas), Inc. in consideration for the provision of a standby credit facility in the aggregate amount of up to $30 million, warrants to purchase an aggregate of 69,216 shares of common stock at a purchase price of $11.1825 per share.

All of the above shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering.

ITEM 6. *SELECTED FINANCIAL DATA*

The following selected financial data for the five years ended March 31, 1999 are derived from our financial statements which have been audited by Ernst & Young LLP, independent auditors. You should read the following financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes.

All earnings per share and weighted average share information included in the accompanying financial statements have been restated to reflect the five-for-four stock split effected in fiscal year ended March 31, 1995, and the three-for-two stock split and the two-for-one stock split effected in fiscal year ended March 31, 1996.

	Fiscal Year ended March 31,				
	1995	1996	1997	1998	1999
	(dollars in thousands, except per share information)				
Statement of Operations Data					
Agency revenues	$18,898	$25,492	$29,195	$24,775	$ —
Telecommunications revenues	3,038	5,383	11,095	16,172	70,964
Total revenues	21,936	30,875	40,290	40,947	70,964
Cost of telecommunications revenue (excluding depreciation and amortization)	2,451	4,242	8,709	14,039	61,866
Selling, general and administrative expenses	16,663	19,349	23,077	29,488	52,521
Depreciation and amortization	656	660	743	1,418	3,778
Income (loss) from operations	2,166	6,624	7,761	(3,998)	(47,201)
Net income (loss)	1,472	4,094	4,683	(2,498)	(51,238)
Earnings (loss) per share					
Basic	0.18	0.43	0.49	(.25)	(5.18)
Diluted	0.17	0.38	0.43	(.25)	(5.18)
Other Financial Data					
EBITDA (loss)	$ 2,932	$ 7,295	$ 8,519	$ (2,405)	(43,346)
Capital expenditures	599	759	1,222	6,109	36,041
Net cash provided (used) by operating activities	1,580	2,192	3,572	(7,951)	(33,254)
Net cash used in investing activities	599	759	1,222	4,765	6,282
Net cash provided by financing activities	171	119	114	8,479	39,622

	As of March 31,				
	1995	1996	1997	1998	1999
	(dollars in thousands)				
Balance Sheet Data					
Cash and cash equivalents	$ 2,391	$ 3,942	$ 6,406	$ 2,168	$ 2,254
Total assets	7,726	12,509	20,186	30,768	69,492
Total long-term debt, including current portion	—	—	—	9,673	64,858
Series A redeemable convertible preferred stock	—	—	—		12,672
Stockholders' equity (deficit)	5,526	9,495	14,292	11,966	(37,144)

EBITDA consists of income (loss) before interest, income taxes, depreciation and amortization. We have provided EBITDA because it is a measure of financial performance commonly used in the telecommunications industry. Other companies may calculate it differently from us. EBITDA is not a measurement of financial performance under generally accepted accounting principles, or GAAP. We do not believe you should consider EBITDA as an alternative to net income (loss) as a measure of results of operations or to GAAP-based cash flow data as a measure of liquidity. Capital expenditures consists of additions to property and equipment acquired for cash or under notes payable and capital leases.

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

Overview

Historically, we have generated agency revenues and telecommunications revenues. Agency revenues consist of commissions we earned as an agent of Bell Atlantic and other Regional Bell Operating Companies, and long distance providers. Telecommunications revenues are generated by our sale of local, long distance, data communications, internet access and other communications services. For the fiscal year ended March 31, 1998, agency commissions accounted for approximately 60% of our revenues, with telecommunications revenues accounting for the other 40%. As a result of our transition to an integrated communications provider strategy in January 1998, agency commissions earned after December 31, 1997 are not material.

Our financial information for the fiscal year ended March 31, 1999 reflects a full year of operations under our new strategy. Our financial information for fiscal years ended on or before March 31, 1998 primarily reflects our operations as an agent for Bell Atlantic. Because of our transition to our new strategy and our network buildout, most of the financial information for these periods does not reflect our current business and is not comparable to results for subsequent periods.

Results of Operations

Fiscal Year Ended March 31, 1999 Compared to Fiscal Year Ended March 31, 1998

Total revenues for the fiscal year ended March 31, 1999 were $70,964,000, an increase of 73% from $40,947,000 for the preceding fiscal year. As an integrated communications provider, revenues for fiscal 1999 reflect our direct sales of local telecommunications services in addition to our direct sales of other telecommunications services. Revenue for fiscal 1998 reflect agency commissions on local telecommunications services for the period April 1, 1997 through December 31, 1997 as well as our direct sales of other telecommunications services for the entire year.

A common basis for measurement of an integrated communications provider's progress is the growth in access line equivalents, or ALEs. ALEs are the total number of voice circuits and equivalent data circuits we have in service. Voice circuits are the actual number of voice circuits purchased by our customers. We calculate our equivalent data circuits by dividing the data transmission capacity purchased by our customers by 64 kilobits per second, which represents the capacity necessary to carry one voice circuit. During the quarter ended March 31, 1999, voice and data ALEs in service increased by 38,935, or approximately 38% from the quarter ended December 31, 1998. This brought our total ALEs in service to 142,207 at the end of our first 15 months as an integrated communications provider. Data ALEs increased by approximately 45% from the quarter ended December 31, 1998 to 28,502, or 20% of total ALEs in service as of March 31, 1999. Data ALEs at March 31, 1999 include 6,720 ALEs purchased by other carriers including internet service providers.

Costs of telecommunications revenues, excluding depreciation and amortization, increased to $61,866,000 for fiscal 1999 from $14,038,000 for fiscal year 1998 as a result of our decision to provide local services directly instead of providing local services on an agency basis. However, as a percentage of telecommunications revenue, costs of telecommunications revenues remained at 87% for fiscal 1999 and 1998. We expect that, as a result of a recent agreement we entered into with Bell Atlantic, our costs of reselling Bell Atlantic local lines will decrease. Under the terms of this agreement we will receive up to an additional 15% discount on the wholesale rates Bell Atlantic is required to offer. Under this agreement, we have committed to maintain in service over the next five years a number of resold Bell Atlantic local telephone lines at least equal to 100,000 at the end of the first year and 225,000 at the end of each of the remaining four years.

Selling, general and administrative expenses increased 78% to $52,521,000 in fiscal 1999 from $29,488,000 for fiscal 1998. This increase was primarily due to the increased number of service and technical employees hired and other expenses incurred in connection with operating under our new strategy. Also contributing to the increase were approximately $9,887,000 of expenses and charges relating to the litigation and settlement with Bell Atlantic. Selling, general and administrative expenses also increased for fiscal 1999 due to increased expenses associated with the network buildout.

Depreciation and amortization expense increased 166% to $3,778,000 in fiscal 1999 from $1,418,000 in fiscal 1998. This increase was a result of the investments we made in equipment and software for our network.

Interest and other expense increased to $5,563,000 for the fiscal year ended March 31, 1999, as compared to interest and other income of $213,000 for the fiscal year ended March 31, 1998. The increase is due to increased borrowings to fund our operating losses and the deployment of our network, the fees associated with our credit and vendor facilities, and the amortization of the interest expense associated with warrants issued in connection with the financings.

The benefit for income taxes, which is limited to refunds available on a loss carryback basis, has been recognized ratably as a percentage of our estimated pre-tax loss over each of the four quarters of the fiscal year. The effective rate of the benefit varied with changes in management's estimates.

Fiscal Year Ended March 31, 1998 Compared to Fiscal Year Ended March 31, 1997

The results for the fiscal year ended March 31, 1998 reflect our decision to leave the Bell Atlantic agency program in December 1997 and our commencement of operations as an integrated communications provider. This decision adversely affected revenues and expenses to a certain extent in the third quarter as we prepared for this transition and significantly affected revenues in the fourth quarter after the transition had been effected. Total revenues of $40,947,000 for fiscal 1998 were essentially flat as compared to $40,290,000 for the fiscal year ended March 31, 1997. Agency revenues decreased 15% to $24,775,000 for fiscal 1998 from $29,195,000 in fiscal 1997, primarily as a result of fourth quarter revenues of only $194,000, as compared to $8,354,000 for the same period of fiscal 1997. This decrease reflects the fact that we left the Bell Atlantic agency program in December 1997, and thus no Bell Atlantic agency revenues were reported in the fourth quarter of fiscal 1998. Telecommunications revenues increased 46% to $16,172,000 for fiscal 1998 from $11,095,000 for fiscal 1997. This increase reflects the increased sales of long distance, internet access, and data services as well as the commencement of our sale of local telecommunications services as an integrated communications provider in the fourth quarter of fiscal 1998. Although local telecommunications sales increased during the fourth quarter, they were significantly less than we expected as a result of the imposition of the temporary restraining order in connection with the Bell Atlantic litigation initiated in February 1998, which required us to sell these local services only to new customers, resulting in a longer sales cycle. This temporary restraining order was dissolved in August 1998.

Costs of telecommunications revenues, excluding depreciation and amortization, increased 61% to $14,038,000 for fiscal 1998 from $8,709,000 for fiscal 1997. As a percentage of telecommunications revenues, cost of telecommunications revenues was 87% for fiscal 1998 as compared to 78% for fiscal 1997. This overall increase was due primarily to increased sales of telecommunications services and increased costs for those services sold. Due largely to the initiation of local telecommunications sales in the fourth fiscal quarter, cost of telecommunications revenues for this period increased 127% to $5,944,000 from $2,615,000 for the same period in fiscal 1997. These increases as a percentage of revenues were attributable to fixed costs associated with the sale of local telecommunications services, lower long distance rates extended to customers in advance of rate decreases from one of our long distance suppliers, increased costs associated with adding new customers and services, and costs associated with phasing out our debit calling card program.

Selling, general and administrative expenses increased 28% to $29,488,000 in fiscal 1998 from $23,077,000 in fiscal 1997. This increase was a result of the increased number of sales and service employees hired in connection with our transition to an integrated communications provider, increased payments of commission and bonuses, increased corporate and administrative expenses, expenses related to new branch openings and $614,000 of costs incurred attributable to our litigation with Bell Atlantic.

Depreciation and amortization expense increased 91% to $1,418,000 in fiscal 1998 from $743,000 in fiscal 1997. This increase was attributable to increased depreciation associated with greater capital expenditures.

Liquidity and Capital Resources

Prior to March 1998, we had funded our working capital and operating expenditures primarily from cash flow from operations. Commencing in April 1998, we have funded our transition to an integrated communications provider, expansion of our sales branches, operating losses and the deployment of our network by raising additional equity capital and through bank, vendor and lease financing.

In April 1998, we received $12.0 million from our private placement of our Series A redeemable convertible preferred stock and warrants to Spectrum Equity Investors II, L.P. We also received a commitment on June 30, 1998 from Spectrum to purchase, at our option, an additional $5.0 million of preferred stock on the same terms and conditions as the Series A preferred stock. This option expired on June 30, 1999 without our issuing any additional shares of preferred stock.

On September 1, 1998, we entered into a senior secured credit facility with Goldman Sachs Credit Partners and Fleet National Bank. Under the terms of this senior secured credit facility, the lenders have provided a three-year credit facility to us consisting of revolving loans in the aggregate amount of up to $75.0 million. Under our senior secured credit facility we may borrow $15.0 million unconditionally and an additional $60.0 million based on trailing 120 days accounts receivable collections, reducing to trailing 90 days accounts receivable collections by March 31, 2000. As of March 31, 1999, we had availability of $45.2 million under this senior secured credit facility of which we had borrowed approximately $36.1 million.

On October 14, 1998, we entered into an agreement with Cisco Capital for up to $25.0 million of vendor financing. Under the terms of the agreement, we have agreed to a three-year, $25.0 million volume purchase commitment of Cisco equipment and services and Cisco Capital has agreed to advance funds as these purchases occur. Up to $10.0 million of the vendor facility can be utilized for costs associated with the integration of Cisco equipment and related peripherals. Under the terms of the vendor facility, we are required to pay interest on funds advanced under the facility at an annual rate of 12.5%. As of March 31, 1999, we had borrowed $15.4 million under the vendor facility.

Since September 30, 1998, we have entered into various lease and vendor financing agreements which provide for the acquisition of up to $16.2 million of equipment and software. As of March 31, 1999, the aggregate amount borrowed under these agreements was approximately $14.0 million.

In order to provide liquidity, we entered into a loan agreement dated as of March 15, 1999 with Toronto Dominion (Texas), Inc. to provide an unsecured standby credit facility for up to $30.0 million for capital expenditures and other general corporate purposes. Originally, $10.0 million of this facility was immediately available, with the remaining $20.0 million becoming available only if we raised an additional $5.0 million of proceeds from the issuance of equity. Toronto Dominion has waived the requirement that we raise any equity, and therefore, the entire $30.0 million is now available to us. As of July 9, 1999, we had borrowed $6.0 million under this facility. Availability under this facility will be reduced by any proceeds of our common stock offering described below. If we raise at least $30.0 million in that offering, the facility will terminate upon the closing of the offering.

We have filed a registration statement for a public offering of up to 3,725,000 shares of our common stock. There can be no assurance, however, that this offering will be consummated.

As we continue to deploy our network, further penetrate our existing region and expand into new markets throughout the Boston—Washington, D.C. corridor, we will need significant additional capital. We believe that the availability under our standby facility with Toronto Dominion, together with cash on hand, the proceeds of our bank, lease and vendor financing arrangements and the amounts we expect to be available under our credit and vendor facilities will be sufficient to fund our capital requirements for at least the next 12 months. During this period we will seek to raise additional capital through the issuance of debt and possibly equity securities, the timing of which will depend on market conditions, and which could occur in the near future. We may also seek to raise additional capital through further equity offerings, vendor financing, equipment lease financing and bank loans.

We cannot assure you that additional financing will be available on terms acceptable to us when we need it. The agreements governing our existing indebtedness limit our ability to obtain debt financing. If we are unable to obtain financing when we need it, we may delay or abandon our development and expansion plans. That could have a material adverse effect on our business, results of operations and financial condition. The actual timing and amount of our capital requirements may be materially affected by various factors, including the timing and actual cost of the network, the timing and cost of our expansion into new markets, the extent of competition and pricing of telecommunications services by others in our markets, the demand by customers for our services, technological change and potential acquisitions.

On February 24, 1999, we settled a lawsuit against Bell Atlantic Corp. Under the terms of the settlement agreement we received cash and will receive other consideration to satisfy claims of commissions we earned while we were an agent for Bell Atlantic. Both parties have agreed to keep the specific terms of the settlement confidential. We do not expect to incur any additional material costs related to this matter subsequent to March 31, 1999.

Working capital deficit at March 31, 1999 was $6.7 million compared to a working capital surplus of $12.0 million at March 31, 1998, a decrease of $18.7 million. This decrease is due primarily to the increase in accounts payable and accrued expenses associated with our transition to an integrated communications provider. We will fund this deficit through borrowings under our credit facilities, which are long term liabilities. Cash balances at March 31, 1999 and March 31, 1998 totaled approximately $2.3 million and $2.2 million, respectively.

Year 2000 Compliance

Our State of Readiness

We have evaluated the effect of the year 2000 problem on our information systems. We are implementing plans to permit our systems and applications to effectively process information in order to support ongoing operations in the year 2000 and beyond. We believe our information technology systems and non-information systems will be year 2000 compliant by the end of 1999.

In connection with the deployment of our new network, we have designed a new database architecture for our computer systems which we expect will be year 2000 compliant. We expect installation of the network and related network control software to be completed in the summer of 1999. We expect installation of our new information systems related to our new network to be completed in the third or fourth quarter of 1999. We began testing our network, and these new systems when we first began installation, and we expect testing to continue. We are also upgrading our current information systems to be year 2000 compliant in case we have not completed installing our new systems by the end of 1999. Approximately 40% of our existing information systems are now year 2000 compliant. We expect to complete this upgrade in the third or fourth quarter of 1999. While we expect that all significant information systems will be year 2000 compliant in the third or fourth quarter of 1999, we cannot assure you that all year 2000 problems in the new system will be identified or that the necessary corrective actions will be completed in a timely manner. We expect our non-information systems to be year 2000 compliant in the third or fourth quarter of 1999.

We have requested certification from our significant vendors and suppliers demonstrating their year 2000 compliance. Approximately 80% of vendors and suppliers have delivered these certifications. We will continue to seek additional certifications. However, we cannot assure you that we will receive any additional certifications. Generally these certifications state that our vendors and suppliers are year 2000 compliant but do not require any affirmative action if these certifications are inaccurate. We intend to continue to identify critical vendors and suppliers and communicate with them about their plans and progress in addressing year 2000 problems. We cannot assure you that the systems of these vendors and suppliers will be timely converted. We also cannot assure you that any failure of their systems to be year 2000 compliant will not adversely affect our operations.

Our Costs of Year 2000 Remediation

We have incurred approximately $120,000 in costs to date related specifically to year 2000 issues and expect to incur an additional approximately $380,000 through the end of 1999. However, we cannot assure you that the costs associated with year 2000 problems will not be greater than we anticipate.

Our Year 2000 Risk

Based on the efforts described above, we currently believe that our systems will be year 2000 compliant in a timely manner. We have completed the process of identifying year 2000 issues in our information systems and non-information systems and expect to complete any remediation efforts in the third and fourth quarters of 1999.

We cannot assure you that our operations and financial results will not be affected by year 2000 problems. We may experience interruptions in service and not receive billing information in a timely manner if either our systems or those of our vendors or suppliers are not year 2000 compliant in a timely manner. It is possible that we could experience other serious year 2000 difficulties that we cannot presently predict.

Our Contingency Plans

We have begun upgrading our current information systems as part of our contingency plans in case our new systems are not installed before the end of 1999. In addition, we intend to seek to identify alternate service providers in case our current providers are unable to adequately deliver services in the year 2000.

Description of Senior Secured Facilities

Fleet/Goldman Credit Facility

As of September 1, 1998, we entered into a senior secured credit facility with Goldman Sachs Credit Partners, L.P., or GSCP, and Fleet National Bank, or Fleet. GSCP and Fleet provided us with a three-year senior secured credit facility consisting of revolving loans in the aggregate amount of up to $75 million. Advances under the facility bear interest at 1.75% over the prime rate. Advances under the facility are secured by a first priority perfected security interest on all of our assets, except that we have the ability to exclude assets we acquire through purchase money financing. In addition, we are required to pay a commitment fee of 0.5% per annum on any unused amounts under the facility. We are also required to pay a monthly line fee of $150,000 per month. In connection with this credit facility we issued to Goldman Sachs & Co. warrants to purchase 662,600 shares of our common stock and to Fleet National Bank warrants to purchase 311,812 shares of our common stock. We may borrow $15 million unconditionally and $60 million based on trailing 120 days accounts receivable collections, reducing to the trailing 90 days of collections by March 31, 2000. If we wish to prepay the loan during the first 18 months we must pay a prepayment penalty of 2% of the aggregate amount of the facility. As of March 31, 1999, we had borrowed $36,145,000 under this credit facility.

Under this credit facility, we have agreed, among other things, to maintain minimum quarterly net revenues, to achieve minimum EBITDA targets for rolling six-month periods measured at the end of each fiscal quarter and to achieve a minimum quarterly target of provisioned ALEs.

We have also agreed that we will not, without the prior written consent of the lenders, with various exceptions:

- create, incur or assume any secured indebtedness,
- create, incur or assume any liens,
- enter into any merger, consolidation, reorganization, recapitalization or reclassification of our stock,
- sell, lease, assign, transfer or otherwise dispose of any of our assets,
- declare or pay any cash dividends or purchase, acquire or redeem any of our stock,
- make, acquire or incur any liabilities in connection with the acquisition of any entity or the acquisition of all or substantially all of the assets of any entity,
- make capital expenditures in excess of $32 million for the period from September 1, 1998 to March 31, 2000 and $87 million for the period from April 1, 2000 through September 1, 2001.

Events of default under this credit facility include:

- failure to make payments on the loan,
- failure to observe various covenants,
- insolvency proceedings,
- the filing of any governmental liens in an amount exceeding $2 million,
- the filing of any judgment liens in an amount exceeding $2 million,
- default on a material agreement with obligations exceeding $2 million,
- payment of any subordinated indebtedness, except as specifically permitted,
- any material misrepresentation or misstatement in any warranty or representation,
- the limitation or termination of any guaranty, or
- the occurrence of a change of control, except in connection with the reorganization.

Cisco Capital Vendor Facility

On October 14, 1998, we entered into a three-year vendor facility for up to $25 million with Cisco Capital. We have agreed to a three year, $25 million total volume purchase commitment of Cisco equipment and services. Cisco Capital has agreed to advance funds as these purchases occur. We can also use the facility for working capital costs associated with the integration and operation of Cisco solutions and related equipment.

Under the terms of the vendor facility and an intercreditor agreement between Cisco Capital and GSCP, we have agreed to give Cisco Capital a senior security interest in all products Cisco provides to us or other products purchased with the proceeds of the first $15 million advanced under the facility and a subordinate security interest in all of our other assets. We are required to repay 5% of the outstanding amount of the first $15 million of indebtedness advanced under the facility at the end of each of the ninth, tenth and eleventh quarterly periods during the term of the facility. We are required to pay interest on funds advanced under the facility at an annual rate of 12.5%. In addition to other amounts, we are also required to pay a commitment fee of .50% per annum on any unused amounts under the facility.

This vendor facility limits or restricts, except as permitted under our senior secured credit facility and other than other various exceptions, our ability to: merge with or acquire all of the assets of any entity; sell or dispose of assets; purchase or otherwise acquire the capital stock or assets of any person, or extend any credit to any person; declare or pay any cash dividends; or redeem or purchase any capital stock.

This vendor facility also limits or restricts, among other things, our ability to: incur additional indebtedness; amend, modify or waive some provisions of our senior secured facility; voluntarily repay any subordinated debt; or amend or modify any document or instrument governing subordinated debt. Events of default under the vendor facility include:

- failure to make payments on the loan,
- any representation or warranty is incorrect when made or deemed made,
- failure to perform or observe our covenants,
- insolvency proceedings,
- failure to pay any amounts due or observe any covenants under our senior secured facility or other indebtedness in an amount over $2 million which failure results in the acceleration of such indebtedness,
- failure to pay under, or be in breach of, any other agreement with Cisco, Cisco Capital, or their subsidiaries,

- failure of any guarantor to perform or observe any covenant contained in any guaranty,
- any event of default in any other loan documents as defined therein,
- revocation of any consent, authorization or other approval necessary to enable us to borrow under the vendor facility,
- the occurrence of a change of control, as defined therein,
- any payment of indebtedness subordinated to the vendor facility, except as expressly permitted, and
- the entrance of various judgments against us.

Toronto Dominion (Texas), Inc. Facility

In March 1999, we entered into a Loan Agreement with Toronto Dominion (Texas), Inc., or TD, to provide an unsecured standby credit facility for up to $30 million for capital expenditures and other general corporate purposes. Under the terms of the this standby facility, as amended on June 30, 1999, $30 million is immediately available. We must pay a commitment fee of $450,000. Additional commitment fees are payable if the standby facility is still outstanding on the dates six months, nine months and one year after the closing. In addition, we pay a quarterly availability fee on unfunded amounts and a funding fee if we draw on the standby facility. Draws under the standby facility will initially bear interest at 7.00% over the three-month US Dollar deposit LIBOR rate and increase quarterly thereafter. We issued warrants to purchase 69,216 shares of CTC Communication's common stock at $11.8125 per share to TD as part of the transaction and we may issue contingent warrants to purchase up to 573,913 shares of common stock at $11.8125 per share to TD if advances under the facility are outstanding six months after the closing. We must repay draws with the proceeds from future issuances of equity or debt securities or from future bank financings. To date, we have not utilized the facility.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Our exposure to financial risk, including changes in interest rates, relates primarily to outstanding debt obligations. We utilize our senior secured credit facility to fund a substantial portion of our capital requirements. This facility bears interest at a variable interest rate, which is subject to market changes. We have not entered into any interest rate swap agreements, or other instruments to minimize our exposure to interest rate increases but will investigate such options should changes in market conditions occur. We have not had any derivative instruments in the past and do not plan to in the future, other than possibly to reduce our interest rate exposure as described above.

For purposes of specific risk analysis we use sensitivity analysis to determine the impacts that market risk exposure may have on the fair value of our outstanding debt obligations. To perform sensitivity analysis, we assess the risk of loss in fair values from the impact of hypothetical changes in interest rates on market sensitive instruments. We compare the market values for interest risk based on the present value of future cash flows as impacted by the changes in the rates. We selected discount rates for the present value computations based on market interest rates in effect at March 31, 1999. We compared the market values resulting from these computations with the market values of these financial instruments at March 31, 1999. The differences in the comparison are the hypothetical gains or losses associated with each type of risk. As a result of our analysis we determined at March 31, 1999 a 10 percent decrease in the levels of interest rates with all other variables held constant would result in an increase in the fair value of our fixed rate debt obligations by approximately $1.9 million. A 10% increase in the levels of interest rates with all other variables held constant would result in a decrease in the fair value of our outstanding fixed rate debt obligations by approximately $2.0 million. With respect to our variable rate debt obligations a 10% increase in interest rates would result in increased interest expense and cash expenditures for interest of approximately $170,000 in fiscal 1999. A 10% decrease in interest rates would result in reduced interest expense and cash expenditures of approximately $170,000 in fiscal 1999.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

REPORT OF INDEPENDENT AUDITORS

Board of Directors

CTC Communications Corp.

We have audited the accompanying balance sheets of CTC Communications Corp., as of March 31, 1999 and 1998, and the related statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended March 31, 1999. Our audits also included the financial statement schedule listed in the index to financial statements. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CTC Communications Corp. at March 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

May 19, 1999, except for Notes 7 and 10
as to which the date is June 30, 1999.
Boston, Massachusetts

CTC COMMUNICATIONS CORP.

BALANCE SHEETS

	March 31, 1999	March 31, 1998
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,254,258	$ 2,167,930
Accounts receivable, less allowance for doubtful accounts of $1,717,000 and $492,000 in 1999 and 1998, respectively	19,200,931	17,288,183
Prepaid commissions	2,500,000	287,300
Prepaid expenses and other current assets	1,022,198	504,436
Amounts due from officers and employees	55,572	84,754
Income taxes receivable	2,313,070	2,190,339
Total current assets	27,346,029	22,522,942
Property and equipment:		
Property and equipment	49,417,689	13,376,970
Accumulated depreciation and amortization	(10,615,766)	(6,837,683)
	38,801,923	6,539,287
Deferred income taxes	—	1,597,000
Deferred financing costs, net of amortization	3,229,865	—
Other assets	104,085	108,885
	$ 69,481,902	$30,768,114
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities:		
Accounts payable and accrued expenses	$ 27,439,488	$ 8,372,476
Accrued salaries and related taxes	1,656,367	756,159
Current portion of obligations under capital leases	3,230,077	231,796
Current portion of notes payable	1,705,141	1,196,400
Total current liabilities	34,031,073	10,556,831
Obligations under capital leases, net of current portion	8,004,366	1,114,277
Notes payable to banks, net of current portion	51,918,492	7,130,671
Commitments and contingencies		
Series A Redeemable Convertible Preferred Stock, par value $1.00 per share; authorized 1,000,000 shares, 726,631 and no shares issued and outstanding at March 31, 1999 and 1998, respectively (liquidation preference $18,640,023 at March 31, 1999)	12,671,797	—
Stockholders' equity (deficit):		
Common Stock, par value $.01 per share; authorized 25,000,000 shares, 10,352,513 and 9,980,661 shares issued and outstanding at March 31, 1999 and 1998, respectively	103,525	99,806
Additional paid-in capital	8,386,816	5,245,704
Deferred compensation	(212,410)	(318,410)
Retained earnings (deficit)	(45,390,732)	7,075,160
	(37,112,801)	12,102,160
Amounts due from stockholders	(31,025)	(135,825)
Total stockholders' equity (deficit)	(37,143,826)	11,966,335
	$ 69,481,902	$30,768,114

See accompanying notes.

CTC COMMUNICATIONS CORP.

STATEMENTS OF OPERATIONS

	Year Ended March 31,		
	1999	1998	1997
Revenues:			
Telecommunications revenue	$ 70,963,692	$16,171,716	$11,094,838
Agency commission revenue	—	24,775,420	29,195,261
	70,963,692	40,947,136	40,290,099
Operating Costs and Expenses:			
Cost of telecommunications revenues (excluding depreciation and amortization)	61,865,904	14,038,565	8,709,122
Selling, general and administrative expenses	52,521,397	29,488,097	23,076,819
Depreciation and amortization	3,778,083	1,417,866	742,895
	118,165,384	44,944,528	32,528,836
Income (loss) from operations	(47,201,692)	(3,997,392)	7,761,263
Other Income (Expense):			
Interest income	184,312	145,012	201,369
Interest expense	(5,825,328)	(106,465)	(17,753)
Other	77,724	174,395	15,052
	(5,563,292)	212,942	198,668
Income (loss) before income taxes	(52,764,984)	(3,784,450)	7,959,931
Income tax expense (benefit)	(1,527,000)	(1,286,760)	3,277,000
Net income (loss)	$(51,237,984)	$ (2,497,690)	$ 4,682,931
Net Income (Loss) per Common Share:			
Basic	$ (5.18)	$ (0.25)	$ 0.49
Diluted	$ (5.18)	$ (0.25)	$ 0.43
Weighted Average Number of Shares Used in Computing Net Income (Loss) per Common Share:			
Basic	10,130,701	9,886,000	9,600,000
Diluted	10,130,701	9,886,000	10,773,000

See accompanying notes.

CTC COMMUNICATIONS CORP.

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Deferred Compensation	Retained Earnings (Deficit)	Treasury Stock	Amounts Due From Stockholders	Total
Balance at March 31, 1996	9,584,122	$ 95,841	$4,644,988	$ —	$ 4,889,819	$ —	$(135,825)	$ 9,494,823
Issuance of stock pursuant to employee stock purchase plan	8,714	87	70,088	—	—	—	—	70,175
Exercise of employee stock options	36,571	366	43,378	—	—			43,744
Net income					4,682,931	—	—	4,682,931
Balance at March 31, 1997	9,629,407	96,294	4,758,454	—	9,572,750	—	(135,825)	14,291,673
Issuance of stock pursuant to employee stock purchase plan	9,844	98	71,662	—	—	—	—	71,760
Exercise of employee stock options	376,387	3,764	347,222	—	—	—	—	350,986
Acquisition of treasury stock	—	—	—	—	—	(271,072)	—	(271,072)
Retirement of treasury stock	(34,977)	(350)	(270,722)	—	—	271,072	—	—
Deferred compensation	—	—	339,088	(318,410)		—	—	20,678
Net loss	—	—	—	—	(2,497,690)	—	—	(2,497,690)
Balance at March 31, 1998	9,980,661	99,806	5,245,704	(318,410)	7,075,060	—	(135,825)	11,966,335
Issuance of stock pursuant to employee stock purchase plan	14,700	147	98,252	—	—	—	—	98,399
Exercise of employee stock options	366,482	3,665	235,806	—	—	—	(31,025)	208,446
Acquisition of treasury stock	—	—	—	—	—	(107,462)	—	(107,462)
Retirement of treasury stock	(9,330)	(93)	(107,369)	—	—	107,462	—	—
Deferred compensation	—	—	—	106,000	—	—	—	106,000
Receipt of amounts due from stockholders	—	—	—	—	—	—	135,825	135,825
Issuance of common stock purchase warrants	—	—	2,914,423	—	—	—	—	2,914,423
Preferred stock dividend	—	—	—	—	(1,079,364)	—	—	(1,079,364)
Accretion of offering costs related to redeemable convertible preferred stock	—	—	—	—	(28,000)	—	—	(28,000)
Accretion of warrants related to Series A Redeemable Convertible Preferred Stock	—	—	—	—	(120,444)	—	—	(120,444)
Net loss	—	—	—	—	(51,237,984)	—	—	(51,237,984)
Balance at March 31, 1999	10,352,513	$103,525	$8,386,816	$(212,410)	$(45,390,732)	—	$ (31,025)	$(37,143,826)

See accompanying notes.

CTC COMMUNICATIONS CORP.

STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	1999	1998	1997
Operating Activities:			
Net Income (loss)	$(51,237,984)	$(2,497,690)	$4,682,931
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	2,769,925	1,283,509	742,895
Amortization	1,008,158	134,357	—
Interest related to warrants and certain fees	1,103,960	—	—
Provision for doubtful accounts	4,988,698	1,421,000	316,669
Deferred income taxes	1,597,000	(1,068,760)	(289,000)
Stock-based compensation	106,000	20,678	—
Gain on sale of property and equipment	—	(143,333)	—
Changes in operating assets and liabilities:			
Accounts receivable	(6,901,446)	(7,804,363)	(4,664,260)
Prepaid commissions	(2,212,700)	—	—
Prepaid expenses and other current assets	(517,762)	(382,937)	(123,789)
Amounts due from officers and employees	29,182	—	—
Income taxes receivable	(122,731)	(2,152,579)	21,125
Other assets	(3,831,046)	4,800	4,800
Accounts payable and accrued expenses	19,067,013	3,466,394	2,657,149
Accrued salaries and related taxes	900,208	—	—
Accrued income taxes	—	(225,948)	225,948
Deferred revenue and other		(6,588)	(2,714)
Net cash provided by (used in) operating activities	(33,253,525)	(7,951,460)	3,571,754
Investing Activity			
Additions to property and equipment	(6,282,234)	(4,765,025)	(1,221,879)
Net cash used in investing activity	(6,282,234)	(4,765,025)	(1,221,879)
Financing Activities			
Proceeds from issuance of Series A Redeemable Convertible Preferred Stock, net of offering costs.	11,861,321	—	—
Proceeds from issuance of common stock	230,408	151,674	113,919
Amounts due from stockholders, net	104,800	—	—
Borrowings under notes payable	51,461,924	8,327,071	—
Repayment of notes payable	(23,177,071)	—	—
Repayment of capital lease obligations	(859,295)	—	—
Net cash provided by financing activities	39,622,087	8,478,745	113,919
Increase (decrease) in cash and cash equivalents	86,328	(4,237,740)	2,463,794
Cash and cash equivalents at beginning of year	2,167,930	6,405,670	3,941,876
Cash and cash equivalents at end of year	$ 2,254,258	$ 2,167,930	$6,405,670
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 2,666,613	$ 57,886	$ 16,253
Cash paid (received) for income taxes	$ (3,001,000)	$ 2,160,527	$3,318,000
Noncash investing and financing activities:			
Receipt of common stock in exercise of stock options	$ 107,462	$ 271,072	$ —
Network and related equipment acquired under capital leases	$ 10,747,665	$ 1,343,573	$ —
Network and related equipment acquired under notes payable	$ 19,010,820	$ —	$ —
Common stock purchase warrants issued in connection with notes payable and Series A Redeemable Convertible Preferred Stock	$ 2,914,423	$ —	$ —

See accompanying notes.

CTC COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS
March 31, 1999

1. Nature of Business

The Company

CTC Communications Corp. (the "Company") is an integrated communications provider ("ICP"), which offers voice and data services predominantly to medium and larger-sized business customers in New England and New York State. Prior to becoming an ICP in January 1998, the Company had been a sales agent for Bell Atlantic Corp. ("Bell Atlantic") since 1984. The Company has also offered long distance and data services under its own brand name since 1994. In late 1998, the Company began deploying a packet-switched network in its existing markets. The Company operates in a single industry segment providing telecommunication service to medium to larger-sized business customers.

As the Company continues to deploy its network, further penetrates its existing region and expands into new markets throughout the Boston—Washington, D.C. corridor, the Company will need significant additional capital. The Company believes that proceeds available under the unsecured facility described in Note 7 together with cash on hand and the amounts expected to be available under its bank, lease and vendor financing arrangements will be sufficient to fund its planned capital expenditures, working capital and operating losses for at least the next 12 months. During this period the Company will seek to raise additional capital through the issuance of debt or equity securities, the timing of which will depend on market conditions. The Company may also seek to raise additional capital through vendor financing, equipment lease financing or bank loans.

There can be no assurance that additional financing will be available on terms acceptable to the Company when needed. The agreements governing its existing indebtedness limit its ability to obtain debt financing. If the Company is unable to obtain financing when needed, it may delay or abandon its development and expansion plans. That could have a material adverse effect on its business, results of operations and financial condition. The actual timing and amount of its capital requirements may be materially affected by various factors, including the timing and actual cost of the network, the timing and cost of its expansion into new markets, the extent of competition and pricing of telecommunications services by others in its markets, the demand by customers for its services, technological change and potential acquisitions.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. The Company accounts for internal use software under the provisions of AICPA Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). Capitalization of costs commences when the preliminary project stage, as defined under SOP 98-1, is completed. Amortization, on a straight-line basis, commences at the point that the software components have been subjected to all significant testing phases and are substantially complete and ready for their intended use. A significant portion of the network and related equipment costs is subject to the risk of rapid technological change. Accordingly, the Company's useful lives reflect this risk. Depreciation and amortization is provided using the straight-line method over the following estimated useful lives:

Furniture, fixture, and equipment	3-5 years
Network and related equipment	3-5 years

Leasehold improvements and assets under capital leases are amortized over the lesser of the lease term or the useful life of the property, usually 3-5 years.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS No. 121"), the Company reviews its long-lived assets, including property and equipment, and identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future and discounted net cash flows will be less than the carrying amount of the assets. Impairment is measured at fair value. SFAS No. 121 had no effect on the Company's financial statements.

Revenue Recognition

Telecommunications revenue is recognized as usage accrues. Agency revenue is recognized when services are ordered and, if commissions are based on usage, revenues are recognized as usage accrues. Provisions for cancellations are made at the time revenue is recognized, and actual experience prior to the developments described in Note 4 had consistently been within management's estimates.

Deferred Financing Costs

In connection with certain financing arrangements consummated during fiscal 1999, the Company capitalized $3,835,846 of deferred financing costs. These costs represent professional and debt origination fees and are being amortized over the lives of the respective agreements. For the year ended March 31, 1999, the Company recorded amortization of $605,981 related to deferred financing costs.

Income Taxes

The Company provides for income taxes under the liability method prescribed by SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes are recognized for the future tax consequences of differences between the tax and financial accounting bases of assets and liabilities at each year end. Deferred income taxes are based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income (loss). Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Income (Loss) Per Share

In 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128 "Earnings per Share" ("SFAS No. 128"). SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is similar to the previously reported fully diluted earnings per share. All income (loss) per share amounts for all periods have been presented, and where appropriate, restated to conform to the SFAS No. 128 requirements.

Risks and Uncertainties

Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk principally consist of cash, cash equivalents and accounts receivable. Concentration of credit risk with respect to accounts receivable in fiscal 1999 was minimized by the large number of customers across New England and New York State. The Company reduces its risk of loss through periodic review of customer creditworthiness and generally does not require collateral.

Fair Value of Financial Instruments

Under FAS No. 107, "Disclosure About the Fair Value of Financial Instruments," the Company is required to disclose the fair value of financial instruments. At March 31, 1999 and 1998, the Company's financial instruments consist of cash, cash equivalents, accounts receivable, accounts payable and accrued expenses, and notes payable. The fair value of these financial instruments, excluding the notes payable, approximates their cost due to the short-term maturity of these financial instruments. Of the $55, 622,700 total notes payable, the carrying value of $34,288,388 approximates fair value due to the variable interest rates on the note. The carrying value of the remaining notes payable approximates fair value of $19,335,000 due to no material change in interest rates since their issuance in fiscal 1999.

Significant Estimates and Assumptions

The financial statements have been prepared in conformity with generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made by management affect the Company's allowance for doubtful accounts, cancellation of orders and certain accrued expenses. Actual results could differ from those estimates.

Accounting for Stock Options

The Company grants stock options for a fixed number of shares to employees with an exercise price at least equal to the fair value of the shares at the date of the grant. The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Stock options and other stock-based awards to non-employees are accounted for based on the provisions of SFAS No. 123.

Leases

Leases, in which the Company is the lessee, which transfer substantially all of the risks and benefits of ownership are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the lease. Leases which do not meet such criteria are classified as operating leases and the related rentals are charged to expense as incurred.

Segment Reporting

Effective April 1, 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 superseded FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS 131 established standards for the way that public business enterprises report information about operating segments in interim financial reports. SFAS 131 also established standards for related disclosures about products and services, geographic areas, and major customers. The adoption of SFAS 131 did not affect results of operations, financial position, or the footnote disclosure as the Company operates in a single industry segment. The Company will continue to modify its reporting and disclosure requirements if necessary.

Recent Accounting Pronouncements

During 1998, SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("SFAS No. 133") was issued. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133 is effective beginning in 2000. The adoption of SFAS No. 133 is not expected to have a material impact on the financial position or of results of operations of the Company.

3. Property and Equipment

Property and equipment, at cost, and related accumulated depreciation and amortization balances are as follows:

	March 31, 1999	March 31, 1998
Furniture, fixtures and equipment	$ 4,358,950	$ 3,246,237
Network and related equipment	31,309,749	7,946,704
Leasehold improvements	1,657,752	840,456
Assets under capital lease	12,091,238	1,343,573
	49,417,689	13,376,970
Less accumulated depreciation and amortization	10,615,766	6,837,683
	$38,801,923	$ 6,539,287

4. Bell Atlantic Litigation

In December 1997, the Company terminated its agency contract and filed suit against Bell Atlantic in Federal District Court for breach of contract, including the failure of Bell Atlantic to pay approximately $11,500,000 of agency commissions owed to the Company. The Company also asserted violations by Bell Atlantic of the antitrust laws and Telecommunications Act. On February 24, 1999 the Company settled the lawsuit. Under terms of the settlement, the Company received cash and other consideration. As a result of the settlement the Company wrote off approximately $1,500,000 of accounts receivable. In connection with the litigation, the Company incurred $614,000 of legal costs as of March 31, 1998 attributable to the collection effort to recover the Bell Atlantic receivable. During the fiscal 1999 the Company incurred $8,386,000 of legal and other costs associated with the litigation.

5. Related-Party Transactions

The installation of certain telecommunications equipment is generally subcontracted to a company controlled by the Chairman of the Company. In addition, equipment is purchased from this company. Amounts paid to this company for hardware and services, based on fair market value, aggregated $499,257, $232,775 and $97,190 during fiscal 1999, 1998 and 1997, respectively.

The Company leases office space from trusts in which the Chairman is a beneficiary. Rent expense for these facilities aggregated $125,904, $132,656 and $132,656 in fiscal 1999, 1998 and 1997, respectively. One of those leases expired during fiscal 1999. The remaining lease expires during fiscal 2002.

The Company subleases space to a company controlled by the Chairman of the Company. Terms of the sublease are identical to those included in the Company's lease. Sublease rental income totaled $106,293, $119,416 and $80,416 in fiscal 1999, 1998 and 1997, respectively.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	March 31, 1999	March 31, 1998
Trade accounts payable	$17,788,702	$5,837,449
Accrued cost of telecommunications revenue	5,475,143	1,171,119
Sales tax payable	3,829,809	688,033
Bell Atlantic litigation expenses	—	614,000
Other	345,834	61,875
	$27,439,488	$8,372,476

7. Financing Arrangements

In July 1998, the Company consummated a $20,000,000 interim bank credit facility (the "Interim Credit Facility"). In connection with this agreement, the Company issued warrants with a fair value of $109,443 to purchase 55,555 shares of common stock to Spectrum Equity Investors II, L.P. in consideration for the commitment by Spectrum that upon the Company's request on or before June 30, 1999, Spectrum would purchase $5,000,000 of convertible preferred stock. The fair value of the warrants is being amortized and included in interest expense over the one-year term of commitment ending June 30, 1999. Borrowings under the Interim Credit Facility were repaid by proceeds from a revolving line of credit consummated in September 1998, as described below.

In September 1998, the Company entered into a revolving line of credit agreement (the "Revolving Line of Credit") with a consortium of lenders, providing for a three year senior secured credit facility of up to $75,000,000. Advances under the Revolving Line of Credit bear interest at the prime rate plus 1.75% per annum. The outstanding debt is secured by all the Company's assets excluding those acquired through purchase money financing. The Company is required to pay a commitment fee of 0.5% per annum on any unused amounts under the Revolving Line of Credit, as well as a monthly line fee of $150,000. The availability of the initial $15,000,000 is not subject to specific restrictions. However, the availability of the balance of $60,000,000 of the Revolving Line of Credit is based upon trailing 120 day accounts receivable collections, reducing to trailing 90 days of collections by March 31, 2000. The Company paid a one-time up front fee of $2,531,250, representing 3.375% of the facility. This one-time up-front fee has been capitalized as deferred financing costs and is being amortized as interest expense over the term of the Revolving Line of Credit. A termination penalty of $1,500,000 applies during the first eighteen months of the term of the Revolving Line of Credit. Warrants to purchase an aggregate of 974,412 shares of the Company's common stock at an exercise price of $6.75 per share were issued to the lenders in connection with the transaction. The fair value of the warrants of $1,909,848 is being amortized and included in interest expense over the three year term of the Revolving Line of Credit. The Revolving Line of Credit provides for certain financial and operational covenants, including, but not limited to, minimum quarterly revenues, minimum earnings before interest, taxes, depreciation, amortization, and non-recurring charges for rolling six-month periods, and a minimum quarterly number of provisioned access line equivalents. As of March 31, 1999, the Company had availability under the Revolving Line of Credit of $45,200,000. Aggregate outstanding borrowings were $36,145,000 at March 31, 1999. The terms of this Revolving Line of Credit require written consent prior to declaring any cash dividends.

In October 1998, the Company entered into a three year vendor financing facility (the "Vendor Financing Facility"). Under the terms of the agreement, the Company agreed to a $25,000,000 volume purchase commitment from this vendor. The Vendor Financing Facility also provides that up to an aggregate of $10,000,000 may be borrowed to pay for costs associated with the integration of this vendor's equipment. Outstanding borrowings under the Vendor Financing Facility are secured by all products purchased from the vendor, all products purchased by the first $15,000,000 of the Vendor Financing Facility, and a subordinated security interest in all other assets of the Company. Outstanding borrowings bear interest at 12.5% per annum. The Company is also required to pay a facility fee of $15,000 per month and a commitment fee of 0.50% per annum on any unused amounts under the Vendor Financing Facility. The terms provide for repayment, at the end of the ninth, tenth and eleventh quarterly periods, of 5% of the lesser of the outstanding balance, as defined, of the Vendor Financing Facility and $15,000,000. The remaining principal is due at the end of the three year term. As of March 31, 1999, the Company had an outstanding balance of $15,425,998 and availability of $9,574,002. The outstanding balance at March 31, 1999 includes amounts due to suppliers of $2,926,000 financed subsequent to that date. The terms of the Vendor Financing Facility restricts the Company's ability to declare or pay any cash dividends.

In March 1999, the Company entered into an unsecured credit facility (as amended on June 30, 1999, the "Credit Facility") with a bank. Under this Credit Facility, the Company may borrow $30,000,000. Additional commitment fees will be due the bank if an outstanding balance exists on the dates six months, nine months and one year after closing. The Company is required to pay a quarterly availability fee of 1% of the unused balance as well as a fee on any advances. Warrants to purchase 69,216 shares of the Company's common stock at an exercise price of $11.8125 were issued in connection with the Credit Facility and contingent warrants to purchase up to 573,913 shares of common stock at an exercise price of up to $11.8125 per share may be issued to the lender if advances under the Credit Facility are outstanding six months after the closing date of the Credit Facility. The fair value of the warrants of $329,468 to purchase 69,216 shares of common stock has been capitalized and is being amortized ratably over the term of the Credit Facility as interest expense. In the event the contingent warrants are issued, the fair value of the warrants at that date will be determined and amortized over the term of the Credit Facility as interest expense. Interest is payable based upon a variable rate, which increases over the term of the agreement. The Credit Facility expires June 2000. The terms of this Credit Facility require written consent prior to declaring any cash dividends. The Credit Facility provides for certain financial and operational covenants. No amounts were outstanding under this facility at March 31, 1999.

Notes payable, net of the unamortized discount of related warrants, consisted of the following:

	March 31, 1999	March 31, 1998
Revolving Line of Credit	$34,288,388	$ —
Revolving and working capital line of credit	—	7,345,071
Equipment line of credit	—	982,000
Vendor Financing Facility	15,425,998	—
Notes payable for network and related equipment	3,909,247	—
	53,623,633	8,327,071
Less current portion	(1,705,141)	(1,196,400)
	$51,918,492	$ 7,130,671

Long-term debt matures as follows:

Year ending March 31:	
2000	$ 1,705,141
2001	2,059,302
2002	49,859,190
	$53,623,633

8. Leases

The Company leases office facilities under long-term lease agreements classified as operating leases. The following is a schedule of future minimum lease payments, net of sublease income, for operating leases as of March 31, 1999:

	Operating Leases	Sublease Rental Income	Net
Year ending March 31:			
2000	$2,094,925	$(109,897)	$1,985,028
2001	2,007,121	(111,420)	1,895,701
2002	1,912,473	(111,420)	1,801,053
2003	1,668,232	(111,420)	1,556,812
2004	918,614	(111,420)	807,194
Thereafter	273,990	(49,325)	224,665
Net future minimum lease payments	$8,875,355	$(604,902)	$8,270,453

Rental expense for operating leases aggregated $1,779,608, $1,121,916 and $1,001,919 in fiscal 1999, 1998 and 1997, respectively. Sublease rental income amounted to $106,293, $119,416 and $90,016 in fiscal 1999, 1998 and 1997, respectively.

The Company leases certain equipment under capital leases. At March 31, 1999, the Company has capitalized leased equipment totaling $12,091,238 with related accumulated amortization of $955,831. Obligations under capital leases mature as follows:

Year ending March 31:	
2000	$ 4,235,411
2001	4,260,012
2002	3,093,937
2003	1,527,344
2004	78,418
Thereafter	—
	13,195,122
Less amount representing interest	(1,960,679)
Present value of minimum lease payments	11,234,443
Less current portion of obligations under capital leases	(3,230,077)
Obligations under capital leases, net of current portion	$ 8,004,366

9. Telecommunications Agreements

On January 15, 1996, the Company entered into a four-year non-exclusive agreement with a long-distanc service provider for the right to provide long distance service to the Company's customers at prices affected b volume attainment levels during the term of the agreement. The Company is not obligated to purchase an minimum levels of usage over the term of the agreement, but rates may be adjusted due to the failure of achievin certain volume commitments. These provisions had no effect on the financial statements for the year end‹ March 31, 1999.

On October 20, 1994, the Company entered into a three-year non-exclusive agreement with a long-distan‹ service provider for the right to provide long distance service to the Company's customers at fixed prices l service during the term of the agreement. On May 6, 1998, the Company entered into an amendment to tl agreement which extended the term of the agreement through October 2000. On March 31, 1999, the Company entered into an amendment which provides that the Company shall be liable for a minimum aggregate usage commitment of $50,000,000. Based upon existing and expected usage, these provisions had no effect on the financial statements for the year ended March 31, 1999.

Prior to the execution of the agreements described above, and through March 31, 1999, the Company also had provided long distance service to customers under an informal non-exclusive arrangement with another long distance service provider. The Company is not obligated to purchase any minimum level of usage and there are no other performance obligations.

On January 8, 1999, the Company entered into agreements with two communications companies for the provision of transmission and co-location facilities for the Company's initial network build-out in New England and New York State. The agreements, which total $11,600,000 of expenditures by the Company over three years, provide for connectivity between the Company's 22 network hub sites and two fully redundant network operations centers.

10. Stockholders' Equity (Deficit)

At March 31, 1999, 6,357,142 shares of common stock are reserved for future issuance upon exercise of outstanding stock options and common stock purchase warrants and conversion of outstanding preferred stock.

Preferred Stock

The dividends, liquidation preference, voting rights and other rights of each series of preferred stock, when issued, are to be designated by the Board of Directors prior to issuance.

In April 1998, the Company completed a private placement of Series A Redeemable Convertible Preferred Stock ("Series A") through the issuance of 666,666 shares of Series A with an initial liquidation amount per share of $18. Proceeds to the Company aggregated $12,000,000 for the Series A and warrants to purchase 133,333 shares of common stock at an exercise price of $9 per share. Of the $12,000,000 in proceeds, $417,332 has been ascribed to the warrants and $11,582,668 to the Series A. Each share of Series A accrues a cumulative dividend equal to an annual rate of 9% of the $18 per share initial liquidation amount per annum, compounded every six months, which has the effect of increasing the Series A preference amount. The dividend is payable upon redemption, liquidation, or conversion of the Series A.

A majority of the Series A stockholders may require a redemption by the Company after April 9, 2003. Upon liquidation, dissolution, or winding up of the Company, including a 50% change of ownership, holders of Series A would be entitled to receive the payment of a preferential amount before any payment is made with respect to any junior class of stock. The preferential payment would be equal to the greater of the purchase price plus accrued dividends through the date of payment or $25.41, unless the value of common stock into which the Series A converts is higher, in which event the Series A would convert to common stock.

On the date of issuance, 666,666 shares of the Series A were convertible into 1,333,332 shares of common stock based on an initial Series A preference amount of $18.00 per share and a conversion price of $9.00 per share. The number of shares of common stock into which the Series A can be converted increases by an amount equal to the quotient obtained by dividing (i) the amount by which the Series A preference amount increases as a result of the accrued dividend by (ii) $9.00. At March 31, 1999, 666,666 shares of Series A were convertible into 1,453,262 shares of common stock. In addition, the number of shares of common stock into which Series A can be converted also adjusts upon certain dilutive issuances of common stock or securities convertible into or exercisable for common stock. The Series A also provides mandatory conversion by the Company if the average closing trading price, as defined, is at least 300% of the highest conversion price in effect prior to April 10, 2002 or is at least 100% of the highest conversion price thereafter. In the event the mandatory conversion occurs, the number of shares of common stock into which each share of Series A will be converted will be calculated by dividing the greater of the Series A preference amount or $21.39 by the conversion price in effect on the conversion date. The conversion price of $9.00 is subject to adjustment based upon certain issuances of common stock or securities convertible into or exercisable for common stock below the conversion price and for stock splits, combinations, dividends, and similar events. In the event the mandatory conversion occurs, the Company will recognize a $1.6 million dividend as of that date, representing the intrinsic value of this contingent conversion feature. Prior to any liquidation, dissolution, or winding up of the Company, the Series A would automatically convert into common stock if the liquidation amount is less than the amount the holder of Series A would have received had the holder converted to common stock.

Holders of Series A are entitled to a number of votes equal to the lesser of 1) the whole number of common stock they would receive if they converted their Series A plus the number of warrants they hold that were issued in connection with the issuance of Series A shares or 2) the number of shares of Series A held multiplied by 2.476.

On July 13, 1998, the Company received a commitment letter from a Series A stockholder to purchase at the Company's option, an additional $5,000,000 of preferred stock on the same terms and conditions as the Series A issued in April 1998. No shares of Series A were issued under this commitment letter which expired on June 30, 1999.

Common Stock Purchase Warrants

As of March 31, 1999, the Company issued warrants in connection with the issuance of the Series A and the financing arrangements disclosed in Note 7 to purchase an aggregate of 1,288,071 shares of common stock at exercise prices ranging from $6.75 to $11.81 with exercise periods extending through March 2009. The values of the warrants range from $1.96 to $4.76 and were determined using a Black-Scholes pricing methodology. Significant assumptions include the interest rate of 5.21%, an expected volatility of 50% and an expected life of the warrants of 2.5 to 3 years.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan (the "ESPP") which enables participating employees to purchase Company shares at 85% of the lower of the market prices prevailing on two valuation dates as defined in the ESPP. Individuals can contribute up to 5% of their base salary. The Company made no contributions to the ESPP during the three years in the period ended March 31, 1999. Indicated below is a summary of shares of common stock purchased by the ESPP.

In July 1998 and February 1999, the ESPP purchased 6,737 shares and 7,963 shares, respectively, at $6.69 per share.

In July 1997, the ESPP purchased 5,438 shares at $6.48 per share and in February 1998 the ESPP purchased 4,406 shares at $8.29 per share.

In July 1996, the ESPP purchased 2,998 shares at $11.05 per share and in February 1997, the ESPP purchased 5,716 shares at $6.48 per share.

Stock Option Plans

Under the terms of its Employees Incentive Stock Option Plan, as amended, 1985 Stock Option Plan, 1993 Incentive Stock Option Plan, 1996 Stock Option Plan and 1998 Incentive Plan, (collectively, the "Plans"), the Company may grant qualified and non-qualified incentive stock options for the purchase of common stock to all employees and, except for the 1993 Stock Option Plan, to members of the Board of Directors. The Plans generally provide that the option price will be fixed by a committee of the Board of Directors but for qualified incentive stock options will not be less than 100% (110% for 10% stockholders) of the fair market value per share on the date of grant. Non-qualified options are granted at no less than 85% (110% for 10% stockholders) of the fair market value per share on the date of grant. No options have a term of more than ten years and options to 10% stockholders may not have a term of more than five years.

In the event of termination of employment, other than by reason of death, disability or with the written consent of the Company, all options granted to employees are terminated. Vesting is determined by the Board of Directors.

On March 20, 1998, the Board approved the repricing of options to purchase 1,175,500 shares of common stock with a new exercise price of $7.19 per share ($7.91 per share for 10% stockholders).

Stock Based Compensation

Pro forma information regarding net income (loss) and income (loss) per common share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options granted under the Plans and shares issued pursuant to the ESPP under the fair value method of SFAS No. 123. The fair value for these options and shares issued pursuant to the ESPP was estimated at the dates of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Options			ESPP		
	1999	**1998**	**1997**	**1999**	**1998**	**1997**
Expected life (years)	3.09	2.96	3.98	0.50	0.50	0.50
Interest rate	4.82%	5.93%	6.28%	5.05%	5.43%	5.40%
Volatility	83.69	85.14	87.88	91.23	64.67	93.03
Dividend yield	0.00	0.00	0.00	0.00	0.00	0.00

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the expense related to estimated fair value of the options is recognized over the options' vesting period. The Company's pro forma net income (loss) and income (loss) per common share are as follows:

	1999	**1998**	**1997**
Pro forma net income (loss)	$(56,003,004)	$(4,586,368)	$4,094,000
Pro forma income (loss) per common share (Basic)	$ (5.65)	$ (0.46)	$ 0.39

The effects on fiscal 1997, 1998 and 1999 pro forma net income (loss) and income (loss) per common share of expensing the estimated fair value of stock options and shares issued pursuant to the ESPP are not necessarily representative of the effects on reporting the results of operations for future years as the periods presented include only one, two and three years of option grants under the Company's plans.

A summary of the Company's stock option activity, and related information for the years ended March 31 follows:

	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weight Average Exercise Price
Outstanding at beginning of year	2,965,007	$5.50	1,953,112	$4.36	1,995,878	$4.01
Options granted	1,297,000	8.65	2,791,000	7.11	280,539	9.67
Options terminated	(279,716)	6.49	(1,402,718)	8.36	(286,734)	7.54
Options exercised	(366,482)	0.66	(376,387)	.93	(36,571)	1.20
Outstanding at end of year	3,615,809	$7.05	2,965,007	$5.50	1,953,112	$4.36
Exercisable at end of year	961,177		698,250		772,282	
Weighted-average fair value of options granted during the year	$ 4.80		$ 4.01		$ 6.43	

The following table presents weighted-average price and life information about significant option groups outstanding at March 31, 1999:

	Options Outstanding			Options Exercisable	
Range Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life—Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.90-1.10	129,261	0.5	$ 1.10	129,261	$ 1.10
2.70-2.98	238,681	1.0	2.75	238,681	2.75
5.25-5.75	213,000	4.4	5.72	32,500	5.75
6.00-7.06	882,867	3.1	6.48	89,453	6.23
7.19	1,034,500	2.6	7.19	301,498	7.19
7.50-8.69	536,000	4.7	7.58	43,284	7.69
10.12-11.25	356,334	3.9	10.50	84,834	10.51
12.37-13.00	58,500	5.3	12.80	0	0.00
15.00	83,333	3.9	15.00	20,833	15.00
20.00	83,333	3.9	20.00	20,833	20.00
	3,615,809			961,177	

11. Benefit Plans

Defined Contribution Plan (the "401(k) Plan")

The Company maintains a defined contribution plan (the "401(k) Plan") which covers all employees who meet certain eligibility requirements and complies with Section 401(k) of the Internal Revenue Code ("IRC"). Participants may make contributions to the 401(k) Plan up to 15% of their compensation, as defined under the terms of the 401(k) Plan, up to the maximum established by the IRC.

The Company may make a matching contribution of an amount to be determined by the Board of Directors, but subject to a maximum of 6% of compensation contributed by each participant. Company contributions vest ratably over three years. Company contributions to the 401(k) Plan were $358,100, $310,788 and $230,079 in fiscal 1999, 1998 and 1997, respectively.

12. Income (Loss) Per Share

Income (loss) per common share has been calculated as follows:

	1999	1998	1997
Numerator:			
Net income (loss)	$(51,237,984)	$(2,497,690)	$ 4,682,931
Less preferred stock dividends and accretion to redemption value of preferred stock	(1,227,808)	—	—
Equals: numerator for Basic and Diluted income (loss) per common share	$(52,465,792)	$(2,497,690)	$ 4,682,931
Denominator:			
Denominator for Basic income (loss) per common share-weighted average shares	10,130,701	9,886,000	9,600,000
Effect of employee stock options	—	—	1,173,000
Denominator for Diluted income (loss) per common share	10,130,701	9,886,000	10,773,000
Basic income (loss) per common share	$ (5.18)	$ (.25)	$ .49
Diluted income (loss) per common share	$ (5.18)	$ (.25)	$ .43

13. Income Taxes

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

	1999	1998	1997
Current:			
Federal	$(3,124,000)	$ (218,000)	$2,660,000
State	—	—	906,000
	(3,124,000)	(218,000)	3,566,000
Deferred tax provision (benefit)	1,597,000	(1,068,760)	(289,000)
	$(1,527,000)	$(1,286,760)	$3,277,000

Significant components of the Company's deferred tax liabilities and assets as of March 31, are as follows:

	1999	1998
Deferred tax assets:		
Depreciation	$ —	$ 64,000
Bell Atlantic litigation costs	—	249,000
Bad debt allowance	695,000	960,000
Accruals and allowances, other	40,000	305,000
Net operating loss carryforward	22,560,000	96,000
Total deferred tax asset	23,295,000	1,674,000
Deferred tax liability:		
Prepaid expenses	(8,000)	(38,000)
Cash value of life insurance	(38,000)	(39,000)
Depreciation	(784,000)	—
Total deferred tax liability	(830,000)	(77,000)
Net deferred tax asset before valuation allowance	22,465,000	1,597,000
Valuation allowance	(22,465,000)	—
Net deferred tax asset	$ —	$1,597,000

Management has provided a valuation allowance against deferred tax assets as it is more likely than not that the Company will not realize these assets.

At March 31, 1999, the Company had federal and state net operating loss carryforwards of approximately $55,700,000, which may be used to reduce future income tax liabilities, and expire through 2014. Changes in the Company's ownership will subject the net operating loss carryforwards and tax credits to limitations pursuant to Sections 382 and 383 of the IRC.

The income tax expense is different from that which would be obtained by applying the enacted statutory federal income tax rate to income (loss) before income taxes. The items causing this difference are as follows:

	1999	1998	1997
Tax (benefit) at U.S. statutory rate	$(17,940,000)	$(1,286,760)	$2,706,000
State income taxes, net of federal benefit	—	—	552,000
Valuation allowance and other	16,413,000	—	19,000
	$ (1,527,000)	$(1,286,760)	$3,277,000

14. Subsequent Events

Subsequent to year end, the Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission for the purpose of registering the sale by the Company of up to 3,725,000 shares of common stock.

Subsequent to year end the Company initiated a statutory reorganization in which the Company intends to merge, subject to shareholder approval, with a newly formed holding company, CTC Group. In connection with the reorganization, shareholders will have appraisal rights under Massachusetts law to which they are otherwise not entitled. If the reorganization is consummated and stockholders exercise their appraisal rights, the Company would be required by law to acquire their shares for cash at their appraised value. Management believes this will not have a material effect on the Company's financial condition.

15. Quarterly Information (Unaudited)

A summary of operating results and net income (loss) per share for the quarterly periods in the two years ended March 31, 1999 is set forth below:

	Quarter Ended				
	June 30	September 30	December 31	March 31	Total
Year ended March 31, 1999					
Total revenues	$12,835,685	$ 14,516,189	$ 19,024,531	$ 24,587,287	$ 70,963,692
Net loss	(8,029,000)	(10,732,624)	(11,480,025)	(20,996,335)	(51,237,984)
Net loss per share—Basic	(.81)	(1.10)	(1.18)	(2.07)	(5.18)
Net loss per share—Diluted	(.81)	(1.10)	(1.18)	(2.07)	(5.18)
Year ended March 31, 1998					
Total revenues	$11,658,954	$ 11,845,097	$ 11,155,646	$ 6,287,439	$ 40,947,136
Net income (loss)	1,374,000	1,244,000	506,000	(5,621,690)	(2,497,690)
Income (loss) per share—Basic	.13	.13	.05	(.56)	(.25)
Income (loss) per share—Diluted	.14	.12	.05	(.56)	(.25)

The first two quarters of fiscal year 1998 net income per share amounts have been restated to comply with SFAS No. 128.

The fiscal 1999 quarterly net loss and net loss per share for the quarters ended June 30, September 30 and December 31, 1998 disclosed above are different than previously reported on the Company's quarterly reports on Form 10-Q as a result of certain year end adjustments. As a result, net loss and net loss per share increased by $98,000 and $.02, for the quarter ended June 30, 1998, decreased by $251,000 and $.03 for the quarter ended September 30, 1998 and decreased by $517,000 and $.02 for the quarter ended December 31, 1998.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

CTC COMMUNICATIONS CORP.

Description	Col. A Balance at Beginning of Period	Col. B Additions (1) Charged to Costs and Expenses	Col. C (2) Charged to Other Accounts	Col. D Deductions	Col. E Balance at End of Period
Year ended March 31, 1999:					
Allowance for doubtful accounts	$492,000	$4,988,698	$	$3,763,698	$1,717,000
Year ended March 31, 1998:					
Allowance for doubtful accounts	$377,000	$1,421,000	$	$1,306,000(a)	$ 492,000
Year ended March 31, 1997:					
Allowance for doubtful accounts	$190,215	$ 316,669	$	$ 129,884(a)	$ 377,000

(a) Bad debts written off, net of collections.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

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

None.

PART III

ITEM 10. *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

Our executive officers and directors, and their ages as of June 10, 1999, are as follows:

Name	Age	Current Office Held
Robert J. Fabbricatore	56	Chairman and Chief Executive Officer
Steven P. Milton	45	President and Chief Operating Officer
John D. Pittenger	45	Executive Vice President, Chief Financial Officer and Treasurer
David E. Mahan	57	Vice President—Marketing and Strategic Planning
Michael H. Donnellan	45	Vice President—Operations
Thomas Fabbricatore	40	Vice President—Marketing
Anthony D. Vermette	38	Vice President—Sales
Frederick Kunzi	47	Vice President and Chief Technology Officer
Jeffrey C. Lavin	43	Vice President—Corporate Development
Katherine D. Courage	41	Director
Henry Hermann	57	Director
Kevin J. Maroni	36	Director
J. Richard Murphy	54	Director
Robert A. Nicholson	31	Director
Carl Redfield	51	Director
Richard J. Santagati	55	Director
Ralph C. Sillari	44	Director
Ralph S. Troupe	38	Director

Robert J. Fabbricatore, a founder of CTC Communications and a director since its inception in 1980, became Chairman of the Board of Directors in March 1983 and served as President from October 1993 to August 1995. Robert J. Fabbricatore is the brother of Thomas Fabbricatore, Vice President—Marketing.

Steven P. Milton has been employed by CTC Communications since 1984 and has served as President and Chief Operating Officer since August 1995. Prior to that, he held various positions within CTC Communications including Branch Manager, District Manager, Regional Manager and Vice President—Sales and Marketing.

John D. Pittenger has served as Chief Financial Officer since April 14, 1999, as Executive Vice President—Finance and Administration since April 1998 and as Treasurer and Clerk of CTC Communications since August 1989. Mr. Pittenger served as Vice President—Finance from 1991 until April 1998, and as Chief Financial Officer from 1989 to April 1998.

David E. Mahan joined CTC Communications in October 1995 as Vice President—Marketing and Strategic Planning. Prior to joining CTC Communications, Mr. Mahan held a number of senior management level positions with NYNEX, including Vice President—Sales Channel Management from 1993 to 1995.

Michael H. Donnellan has been employed by CTC Communications since 1988 in a number of positions. He was named Vice President—Operations in 1995.

Thomas Fabbricatore joined CTC Communications in 1982. He was named Vice President—Regulatory and Electronic Media in 1991, and was named Vice President—Marketing in November 1998. Thomas Fabbricatore is the brother of Robert J. Fabbricatore.

Anthony D. Vermette has been employed by CTC Communications in a variety of positions since 1987. Mr. Vermette was named Vice President—Sales in 1996.

Frederick Kunzi joined CTC Communications as a Vice President and Chief Technology Officer in September 1998. Mr. Kunzi has over 25 years experience in information technology. From 1985 to September 1998, he was employed by Digital Equipment Corporation, most recently as Senior Manager, Global Network Services where he was responsible for Digital's worldwide enterprise network infrastructure.

Jeffrey C. Lavin joined CTC Communications in June 1998 as Vice President—Corporate Development. Mr. Lavin has 19 years of sales and operational management experience in the telecommunications industry. From December 1996 to May 1998, Mr. Lavin was Vice President of Sales, Americas/Asia Pacific for NovaSoft Systems, Inc., a software development corporation. From 1979 to 1996, Mr. Lavin was employed by Comlink Incorporated, a communication network integrator, most recently as Senior Vice President. Following the acquisition of Comlink in 1996 by Williams Communications, Mr. Lavin served as Vice President and General Manager of Network Systems Integration.

Katherine D. Courage became a director of CTC Communications in April 1999. Ms. Courage is a managing director in the Global Telecommunications and Media Group in the Investment Banking Department of Credit Suisse First Boston, one of the underwriters of the offering. Prior to joining Credit Suisse First Boston in September 1996, Ms. Courage worked at Salomon Brothers Inc for ten years where she was a managing director in the Global Telecommunications Group. Ms. Courage also worked at Merrill Lynch & Co. in the corporate finance department. Ms. Courage currently serves as a director of NorthEast Optic Network, Inc. and Lightpath Technologies, Inc.

Henry Hermann became a director of CTC Communications in September 1996. Since November 1997, he has operated Hermann Companies, a financial services company. Mr. Hermann is registered as an Investment Advisor with the State of Texas, a Chartered Financial Analyst and, as an independent contractor, offers general securities through SWS Financial. In 1997, he was employed by Kuhns Brothers & Company, Inc., as a principal and Executive Vice President. For the previous nine years, he was employed by WR Lazard, Laidlaw and Luther, Inc., a securities brokerage firm, as Vice President, Securities Analyst and Portfolio Manager. Mr. Hermann has been an NASD Board of Arbitrators Member since 1991.

Kevin J. Maroni became a director of CTC Communications in April 1998 as one of the two designees of the Series A preferred stockholders. Mr. Maroni is a general partner of Spectrum which he joined in 1994. Spectrum is a leading private equity fund which manages $1 billion of capital for investment in the communications and media industries. Prior to joining Spectrum, he worked at Time Warner Telecommunications and Harvard Management Company. Mr. Maroni is a director of PathNet, Inc., Formus Communications, Inc., WNP Communications, Inc. and American Cellular Corp.

J. Richard Murphy became a director of CTC Communications in August 1995. Mr. Murphy has been the director of the Corporate Advisory Group of Moody, Cavanaugh and Company, LLP, a North Andover, Massachusetts public accounting firm, since April 1996. Mr. Murphy was an officer, director and principal stockholder from 1990 to 1995 of Arlington Data Corporation, a systems integration company located in Amesbury, Massachusetts; from 1992 to 1996 of Arlington Data Consultants, Inc., a company engaged in the installation and maintenance of computer systems and hardware; and from 1994 to 1996 of Computer Emporium, Inc., a company engaged in processing parking violations for municipalities. In June 1996, Arlington Data Corporation filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code.

Robert A. Nicholson is one of the two designees of the Series A preferred stockholders and became a director of CTC Communications in November 1998. Mr. Nicholson joined Spectrum in 1995 as a Vice President and became a partner in July 1998. From 1990 to 1993, Mr. Nicholson was an Associate Consultant and then

Consultant at Bain & Company, a leading strategy consulting firm, where he was responsible for strategy and operations projects in the communications industry. Mr. Nicholson currently serves as a Director of Navitar Communications Group, Inc., a Canadian competitive local exchange carrier.

Carl Redfield became a director of CTC Communications in January 1999. He has been Senior Vice President, Manufacturing and Logistics of Cisco since February 1997. From September 1993 to February 1997 he was Vice President of Manufacturing. Mr. Redfield also is a director of VA Research Inc. and Paragon Electronics Inc.

Richard J. Santagati became a director of CTC Communications in September 1991. He has been the President of Merrimack College in North Andover, Massachusetts since 1994. From March 1992 to February 1994, Mr. Santagati was the Chairman of the Board, Chief Executive Officer and President of Artel Communications Corp., a publicly held data communications firm located in Hudson, Massachusetts. Mr. Santagati also serves as a director of Celerity Solutions, Inc., a software company.

Ralph C. Sillari became a director of CTC Communications in October 1997. Since 1991, Mr. Sillari has been employed by Fleet National Bank where he is currently an Executive Vice President in the Business and Entrepreneurial Services Division.

Ralph S. Troupe became a director of CTC Communications in May 1999. Since January 1993, Mr. Troupe has been employed by International Network Services, where he is currently Vice President of North American Field Operations, East.

We currently have ten members on our board of directors: three Class I Directors (Messrs. Hermann, Sillari and Redfield), three Class II Directors (Messrs. Murphy and Santagati and Ms. Courage) and four Class III Directors (Messrs. Fabbricatore, Maroni, Nicholson and Troupe). The terms of the Class I, Class II and Class III directors expire upon the election and qualification of their successors at the annual meetings of stockholders held following the end of fiscal years 2001, 1999 and 2000, respectively.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on our review of copies of the filings under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") received by us, we believe that during the fiscal year ended March 31, 1999 our directors, executive officers and beneficial owners of greater than ten percent of our common stock filed all required reports under Section 16 of the Exchange Act, except that each of Thomas Fabbricatore and Anthony Vermette, each an executive officer, inadvertently failed to report on a timely basis one transaction, and Katherine D. Courage, a director filed her Form 3 late.

ITEM 11. *EXECUTIVE COMPENSATION*

The following table provides summary information concerning compensation of CTC Communications' Chief Executive Officer and each of the four other most highly paid executive officers (the "Named Executive Officers") during the fiscal year ended March 31, 1999:

Summary Compensation Table

	Fiscal Year Ended March 31,	Salary	Annual Bonus	Securities Underlying Options (#)(1)	All Other Compensation
Robert J. Fabbricatore,	1999	$240,000	$78,000	150,000	$20,900(2)
Chairman and Chief Executive Officer	1998	240,000	60,000	150,000	19,550(2)
	1997	240,000	60,000	—	18,075(2)
Steven C. Jones,	1999	150,000	75,000	—	3,375(3)
Executive Vice President, Chief Financial	1998	12,500	—	300,000	—
Officer and Director of Corporate	1997	—	—	—	—
Corporate Development(4)					
Steven P. Milton,	1999	150,000	54,500	100,000	5,625(3)
President and Chief Operating Officer	1998	100,000	40,000	150,000	4,200(3)
	1997	100,000	40,000	—	4,075(3)
David E. Mahan,	1999	110,000	52,000	20,000	4,440(3)
Vice President—Marketing and	1998	100,000	40,000	260,000	4,075(3)
Strategic Planning	1997	100,000	40,000	—	4,075(3)
John D. Pittenger,	1999	100,000	62,000	36,000	4,860(3)
Executive Vice President—Finance	1998	90,000	36,000	80,000	3,900(3)
and Administration, Treasurer and Clerk	1997	86,100	34,000	—	3,437

(1) On March 20, 1998 we repriced all previously granted options that had an exercise price in excess of $7.19 per share. The 1998 information includes 75,000, 75,000, 130,000 and 40,000 shares underlying options previously granted to Messrs. Fabbricatore, Milton, Mahan and Pittenger that were canceled as a result of the repricing.

(2) Includes 50% matching contributions in the amounts of $4,800, $4,750 and $4,500 in 1999, 1998 and 1997 to the CTC Communications Corp. 401(k) Savings Plan. Also included is the actuarial benefit on the "split-dollar" life insurance policy for the benefit of Mr. Fabbricatore in the amounts of $16,100, $14,800 and $13,575 in 1999, 1998 and 1997.

(3) Includes 50% matching contributions to the CTC Communications Corp. 401(k) Savings Plan.

(4) Mr. Jones began working for CTC Communications on February 27, 1998 and resigned on April 21, 1999. Does not include $135,879 of severance benefits that we paid to Mr. Jones after March 31, 1999.

Option Grants in Last Fiscal Year

The following table sets forth the aggregate number of stock options granted to each of the Named Executive Officers during the fiscal year ended March 31, 1999. Options are exercisable for our common stock. No options were granted to Mr. Jones in the last fiscal year.

	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term	
					5%	10%
Robert J. Fabbricatore	50,000	4.2%	20.00	2/17/2003	(353,882)	(184,679)
	50,000	4.2%	15.00	2/17/2003	(103,882)	65,321
	50,000	4.2%	11.138	2/17/2003	89,243	258,446
Steven P. Milton	33,000	3.0%	20.00	2/17/2003	(233,562)	(122,996)
	33,000	3.0%	15.00	2/17/2003	(68,562)	43,112
	34,000	3.0%	10.125	2/17/2003	95,110	210,168
David E. Mahan	20,000	2.0%	10.125	2/17/2003	55,947	123,628
John D. Pittenger	36,000	3.0%	10.125	2/17/2003	100,705	222,531

Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth information concerning the exercise of options by the Named Executive Officers during the fiscal year ended March 31, 1999 and the March 31, 1999 aggregate value of unexercised options held by each of the Named Executive Officers.

	Shares acquired on exercise(#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)(1) Exercisable/ Unexercisable		Value of Unexercised in-the-Money Options at Fiscal Year End ($) (1)(2) Exercisable/ Unexercisable	
Robert J. Fabbricatore	—	—	89,806	168,750	445,384	266,625
Steven C. Jones(3)	—	—	150,000	150,000	796,875	796,875
Steven P. Milton	—	—	79,750	131,250	501,482	312,019
David E. Mahan	—	—	100,000	100,000	605,265	474,645
John D. Pittenger	—	—	58,000	57,000	420,096	216,360

(1) All shares and amounts, as necessary, have been adjusted to reflect the 25% common stock dividend effected in March 1995, the three-for-two stock split effected in July 1995 and the two-for-one stock split effected in October 1995.

(2) Assumes a fair market value of the Common Stock at March 31, 1999 of $12.375 per share.

(3) In connection with Mr. Jones resignation in April 1999, we vested an additional 37,500 options and extended the exercise period of his vested options until April 21, 2004.

Director Compensation

Non-employee directors receive an annual retainer of $10,000. On February 17, 1999, we granted Messrs. Sillari, Murphy and Hermann options to purchase 10,000 shares of our common stock. We also granted Messrs. Nicholson, Maroni and Santagati options to purchase 20,000 shares of our common stock. All of the above options were at a purchase price of $10.125 per share. At the same time we granted Robert Fabbricatore options to purchase 50,000 shares of our common stock at a purchase price of $11.1375, 50,000 shares at a purchase price of $15.00 per share and 50,000 shares at a purchase price of $20.00 per share. On January 19, 1999, we granted Mr. Redfield an option to purchase 40,000 shares of our common stock at a purchase price of $11.25 per share. On April 5, 1999, we granted Ms. Courage an option to purchase 40,000 shares of our common stock at a purchase price of $12.375 per share. On May 5, 1999, we granted Mr. Troupe an option to purchase 25,000 shares of common stock at a purchase price of $18.875 per share.

Committees of the Board of Directors

CTC Communications' board of directors has established an audit committee, a compensation committee and a nominating committee.

The audit committee consists of Messrs. Murphy and Hermann. The audit committee is responsible for reviewing the internal accounting controls of CTC Communications, meeting and conferring with our independent auditors and reviewing the results of the accountants' auditing engagement.

The compensation committee consists of Messrs. Maroni, Santagati and Murphy. The compensation committee establishes compensation and benefits for our senior executives. The committee also determines the number and terms of stock options granted to employees, directors and consultants under our stock option plans.

The nominating committee consists of Messrs. Santagati, Murphy and Sillari. The nominating committee recommends candidates for nomination to the board of directors. The committee also reviews and makes recommendations regarding compensation for non-employee directors.

Voting Agreement

Pursuant to a voting agreement between Robert J. Fabbricatore and certain of his affiliates and Spectrum, Mr. Fabbricatore and certain of his affiliates agreed to vote at each annual or special meeting at which directors of CTC Communications or CTC Group are to be elected all of the shares of common stock held by them in favor of two persons designated by a majority of the outstanding shares of Series A preferred stock as nominees for directors, subject to certain limitations based on the number of shares of Series A preferred stock outstanding at any time. As of June 10, 1999, Spectrum owned 657,555 of the 666,666 shares, or 98.6%, of the Series A preferred stock outstanding. Kevin J. Maroni and Robert A. Nicholson, partners of Spectrum and designees of the Series A preferred stockholders, are Class III directors of CTC Communications.

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

Common Stock

The following table sets forth information as of June 9, 1999 with respect to the beneficial ownership of CTC Communications common stock by:

- each person known by us to beneficially own more than 5% of the outstanding shares of our common stock;
- our directors and our Named Executive Officers; and
- all executive officers and directors as a group.

Based on the information furnished by the beneficial owners of the common stock listed below, we believe that each such stockholder exercises sole voting and investment power with respect to the shares beneficially owned.

Name	Beneficial Ownership Number	Percent
Robert J. Fabbricatore(1)	2,830,870	27.0%
Spectrum Equity Investors II, L.P.(2)	1,641,817	13.7%
Kevin J. Maroni(2)(3)	1,646,817	13.7%
Robert A. Nicholson(2)(4)	1,647,906	13.7%
Goldman, Sachs & Co.(5)	662,600	6.0%
Henry Hermann(6)	225,755	2.2%
Richard J. Santagati(7)	96,000	*
Carl Redfield(8)	24,000	*
J. Richard Murphy(9)	25,167	*
Ralph C. Sillari(10)	6,334	*
Katherine Dietze Courage(11)	10,000	*
Steven P. Milton(12)	489,432	4.7%
David E. Mahan(13)	187,100	1.8%
John D. Pittenger(14)	263,588	2.5%
Steven C. Jones(15)	237,500	2.2%
Ralph S. Troupe(16)	6,250	*
All directors and executive officers as a group (17 persons)(17)	6,571,082	54.4%

* Less than 1%.

(1) Includes 62,498 shares owned by Mr. Fabbricatore as trustee of a trust for his children and 1,133,239 shares as a general partner of a family partnership; also includes 108,556 shares issuable upon exercise of options exercisable within 60 days of June 9, 1999. Mr. Fabbricatore's address is c/o CTC Communications Corp., 360 Second Avenue, Waltham, Massachusetts 02451.

(2) Includes 187,066 shares issuable upon the exercise of warrants exercisable within 60 days of June 9, 1999 and 1,457,124 shares issuable upon conversion of Series A Preferred Stock as of June 9, 1999. As partners of Spectrum Equity Investors II, L.P., Mr. Maroni, Mr. Nicholson, Mr. Collatos and Brion B. Applegate may be deemed to be beneficial owners of the shares owned by Spectrum. The address of Spectrum and its partners is One International Place, 29th Floor, Boston, Massachusetts 02110.

(3) Includes 5,000 shares issuable to Mr. Maroni upon the exercise of options exercisable within 60 days of June 9, 1999. The address of Spectrum and its partners is One International Place, 29th Floor, Boston, Massachusetts 02110.

(4) Includes 83 shares issuable to Mr. Nicholson upon the exercise of warrants and 5,000 shares issuable upon the exercise of options exercisable within 60 days of June 9, 1999, and 924 shares issuable upon conversion of Series A Preferred Stock as of June 9, 1999. The address of Spectrum and its partners is One International Place, 29th Floor, Boston, Massachusetts 02110.

(5) Includes 662,600 shares issuable upon exercise of a warrant exercisable within 60 days of June 9, 1999. The address of Goldman, Sachs & Co. is 85 Broad St., New York, NY 10004.

(6) Includes 9,750 shares held by Mr. Hermann's spouse and 20,167 shares issuable upon the exercise of options exercisable within 60 days of June 9, 1999.

(7) Includes 21,000 shares issuable to Mr. Santagati upon the exercise of options exercisable within 60 days of June 9, 1999.

(8) Includes 10,000 shares issuable to Mr. Redfield upon the exercise of options exercisable within 60 days of June 9, 1999.

(9) Includes 24,167 shares issuable to Mr. Murphy upon the exercise of options exercisable within 60 days of June 9, 1999.

(10) Includes 5,834 shares issuable to Mr. Sillari upon the exercise of options exercisable within 60 days of June 9, 1999.

(11) Includes 10,000 shares issuable to Ms. Courage upon the exercise of options exercisable within 60 days of June 9, 1999.

(12) Includes 4,500 shares owned by Mr. Milton as trustee of a trust for his children and 98,500 shares issuable upon the exercise of options exercisable within 60 days of June 9, 1999.

(13) Includes 120,000 shares issuable to Mr. Mahan upon the exercise of options exercisable within 60 days of June 9, 1999.

(14) Includes 65,000 shares issuable to Mr. Pittenger upon the exercise of options exercisable within 60 days of June 9, 1999.

(15) Includes 187,500 shares issuable to Mr. Jones upon the exercise of options exercisable within 60 days of June 9, 1999.

(16) Includes 6,250 shares issuable to Mr. Troupe upon the exercise of options exercisable within 60 days of June 9, 1999.

(17) Includes the shares described in footnotes (1) through (4) and (6) through (14) and (16) above.

Preferred Stock

As of June 9, 1999, Spectrum owned 657,555, or 98.6%, of the outstanding Series A convertible preferred stock of CTC Communications.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

We lease office from a trust, of which Robert J. Fabbricatore, our Chairman and Chief Executive Officer, is a beneficiary, office space in Springfield, Massachusetts. Until March 1, 1999 we also leased office space from another trust, of which Robert J. Fabbricatore is a beneficiary. Rental payments under the leases totaled approximately $125,904 for the last fiscal year. We also sublease space at our Waltham facility at our cost to Comm-Tract Corp., a company in which Mr. Fabbricatore is a principal stockholder. Sublease income totaled $106,293 for the last fiscal year. We also contract with Comm-Tract Corp. for the installation of telephone lines and for the service and maintenance of equipment marketed by CTC Communications. During the last fiscal year, Comm-Tract Corp. provided us with services, inventory and equipment totaling $499,257. We believe that the payments to the trusts and Comm-Tract Corp. are comparable to the costs for such services, inventory and equipment, and for rentals of similar facilities, which we would be required to pay to unaffiliated individuals in arms-length transactions.

Carl Redfield, one of our directors, is an executive officer of Cisco. We have purchased, and expect to continue purchasing, most of our network equipment from Cisco. Also, we have entered into a vendor facility with Cisco Capital, an affiliate of Cisco. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Description of Senior Secured Facilities."

Ralph Sillari, one of our directors, is an Executive Vice President of Fleet National Bank. We have entered into a senior secured credit facility with Fleet National Bank. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Description of Senior Secured Facilities."

Katherine D. Courage, one of our directors, is a Managing Director of Credit Suisse First Boston, one of the underwriters of the offering. Ms. Courage is also a director of NorthEast Optic Network. We have commitments with NorthEast Optic Network for the provision of leased transmission facilities.

Ralph S. Troupe, who became a director in May 1999, is Vice President of North American Field Operations, East at International Network Services, or INS. We have engaged INS to design, engineer and build out our network in our existing markets. We have outstanding commitments to INS of approximately $1 million.

Goldman Sachs Credit Partners, L.P., a beneficial owner of more than five percent of our common stock, is a lender under our senior secured credit facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Description of Senior Secured Facilities."

PART IV

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

(a) The following documents are filed as part of this report:

(1) Financial Statements:

Balance Sheets as of March 31, 1999 and 1998.
Statements of Operations for the years ended March 31, 1999, 1998 and 1997.
Statements of Stockholders' Equity for the years ended December 31, 1999, 1998 and 1997.
Statements of Cash Flows for the years ended December 31, 1999, 1998 and 1997.

Notes to Financial Statements

(2) Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts

(3) Exhibits:

The following Exhibits are either filed herewith or have heretofore been filed with the Securities and Exchange Commission and are referred to and incorporated herein by reference to such filings.

Exhibit No.	Title
2.1	Amended and Restated Agreement and Plan of Reorganization dated as of March 1, 1999 among CTC Communications Group, Inc., CTC Communications Corp. and CTC-Newco, Inc.(9)
3.1	Restated Articles of Organization, as amended(4)
3.2	Amended and Restated By-Laws(4)
4.1	Form of Common Stock Certificate(3)
9.1	Voting Agreement dated April 10, 1998 among Robert Fabbricatore and certain of his affiliates and Spectrum(5)
10.1	1996 Stock Option Plan, as amended(1)
10.2	1993 Stock Option Plan(3)
10.3	Employee Stock Purchase Plan(2)
10.4	Lease for premises at 360 Second Ave., Waltham, MA(3)
10.5	Sublease for premises at 360 Second Ave., Waltham, MA(3)
10.6	Lease for premises at 110 Hartwell Ave., Lexington, MA(3)
10.7	Lease for premises at 120 Broadway, New York, NY(3)
10.8	Agreement dated February 1, 1996 between NYNEX and CTC Communications Corp.(3)
10.9	Agreement dated May 1, 1997 between Pacific Bell and CTC Communications Corp.(3)
10.10	Agreement dated January 1, 1996 between SNET America, Inc. and CTC Communications Corp.(3)
10.11	Agreement dated June 23, 1995 between IXC Long Distance Inc. and CTC Communications Corp., as amended(3)
10.12	Agreement dated August 19, 1996 between Innovative Telecom Corp. and CTC Communications Corp.(3)
10.13	Agreement dated October 20, 1994 between Frontier Communications International, Inc. and CTC Communications Corp., as amended(3)
10.14	Agreement dated January 21, 1997 between Intermedia Communications Inc. and CTC Communications Corp.(3)
10.15	Employment Agreement between CTC Communications Corp. and Steven Jones dated February 27, 1998(5)
10.16	Securities Purchase Agreement dated April 10, 1998 among CTC Communications Corp. and the Purchasers named therein(4)
10.17	Registration Rights Agreement dated April 10, 1998 among CTC Communications Corp. and the Holders named therein(4)

Exhibit No.	Title
10.18	Form of Warrant dated April 10, 1998(4)
10.19	Loan and Security Agreement dated as of September 1, 1998 by and between CTC Communications Corp., Goldman Sachs Credit Partners L.P. and Fleet National Bank(6)
10.20	Agreement with Cisco Systems Capital Corp. dated as of October 14, 1998(7)
10.21	Warrant dated July 15, 1998 issued to Spectrum(8)
10.22	Lease for premises at 220 Bear Hill Rd., Waltham, MA(8)
10.23	Warrant dated September 1, 1998 issued to Goldman Sachs & Co.(8)
10.24	Warrant dated September 1, 1998 issued to Fleet National Bank(8)
10.25	1998 Incentive Plan(1)
10.26	Loan Agreement dated as of March 15, 1999 by and between CTC Communications Corp., TD Dominion (Texas), Inc. and TD Securities (USA), Inc.(9)
10.27	Warrant dated March 24, 1999 issued to Toronto Dominion (Texas), Inc.(9)
10.28	Amendment to Resale Agreements dated July 1, 1999 between Bell Atlantic and the Company(10)
23	Consent of Ernst & Young LLP(11)
27	Financial Data Schedule(12)
99	Risk Factors(11)

(1) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Registration Statement on Form S-8 (File No. 333-68767).

(2) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Registration Statement on Form S-8 (File No. 33-44337).

(3) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Annual Report on Form 10-K for the Fiscal Year Ended March 31, 1997.

(4) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Current Report on Form 8-K dated May 15, 1998.

(5) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Annual Report on Form 10-K for the Fiscal Year Ended March 31, 1998.

(6) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Current Report on Form 8-K dated October 2, 1998.

(7) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Current Report on Form 8-K dated November 6, 1998.

(8) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

(9) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Registration Statement on Form S-1 (File No. 333-77709).

(10) Incorporated by reference to an Exhibit filed as part of CTC Communications Corp. Current Report on Form 8-K dated July 9, 1999.

(11) Filed herewith.

(12) Filed previously.

(4) Reports on Form 8-K

The Company filed the following reports on Form 8-K during the quarter ended March 31, 1999:

	Date	Items Reported
1.	January 11, 1999	Announcement of Agreements with Level 3 Communications and NorthEast Optic Network.
2.	January 19, 1999	Announcement of Maine Public Utilities Commission and Rhode Island Public Utilities Commission rulings.
3.	January 20, 1999	Announcement of third quarter access line equivalents
4.	February 2, 1999	Announcement of addition of Mr. Carl Redfield to the Company's Board of Directors
5.	March 11, 1999	Announcement of settlement of Bell Atlantic litigation

EXHIBIT 99

RISK FACTORS

From time to time the Company has made, and may in the future make, forward-looking statements, based on its then-current expectations, including statements made in Securities and Exchange Commission filings, in press releases and oral statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve risks and uncertainties, and actual results could differ materially from those expressed or implied in the forward-looking statements for a variety of reasons. These reasons include, but are not limited to, factors outlined below. The Company does not undertake to update or revise its forward-looking statements publicly even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

Because our revenues prior to January 1998 resulted from a business strategy we are no longer pursuing, you may have difficulty evaluating us.

We terminated our agency relationship with Bell Atlantic in December 1998 and we no longer receive agency revenues. We only began offering local services under our own brand name in January 1998 and have only begun testing our network with some customers in May of 1999. As a result, we can only provide limited historical operating and financial information about our current business strategy for you to evaluate.

If we do not successfully execute our new business strategy, we may be unable to compete effectively.

Our business strategy is complex and requires that we successfully complete many tasks, a number of which we must complete simultaneously. If we are unable to effectively implement or coordinate the implementation of these multiple tasks, we may be unable to compete effectively in our markets and our financial results may suffer.

Our incurrence of negative cash flows and operating losses during the next several years may adversely affect the price of our common stock.

During recent periods we have experienced substantial net losses, operating losses and negative cash flow. Our expenses have increased significantly, and we expect our expenses to continue to increase as we deploy our network and implement our business plan. Accordingly, we expect to incur significant operating losses, net losses and negative cash flow during the next several years, which may adversely affect the price of our common stock.

If our network does not function properly, we will be unable to provide the telecommunications services on which our future performance will in large part depend.

Because the design of our network has not been widely deployed, we cannot assure you that our network will provide the functionality that we expect. We also cannot be sure that we will be able to incorporate local dial tone capabilities into our network because this technology has not been widely implemented. Without this capability we will not be able to provide on our network all of our target customers' fixed line telecommunications services.

If we do not obtain interconnection agreements with other carriers, we will be unable to provide enhanced services on our network.

Negotiation of interconnection agreements with incumbent local exchange carriers can take considerable time, effort and expense, and these agreements are subject to federal, state and local regulation. We may not be able to effectively negotiate the necessary interconnection agreements. Without these interconnection agreements, we will be unable to provide enhanced connectivity to our network and local dial tone services and to achieve the financial results we expect.

Because of our limited experience, we may not be able to properly or timely deploy, operate and maintain our network, which could materially adversely affect our financial results.

We have engaged a network services integrator to design, engineer and manage the build out of our network in our existing markets. If the network integrator is not able to perform these functions, we may experience delays or additional costs in providing services and building the network. The failure of our network equipment to operate as anticipated or the inability of equipment suppliers to timely supply such equipment could materially and adversely affect our financial results.

We are still deploying the initial phase of our network and not currently providing any commercial services over our network. Because we have limited experience operating and maintaining telecommunications networks, we may not be able to deploy our network properly or do so within the time frame we expect. In addition, once the network is deployed, we may encounter unanticipated difficulties in operating and maintaining it. If we do not implement our network on time and in an effective manner, our financial results could be adversely affected.

Our high leverage creates financial and operating risk that could limit the growth of our business.

We have a significant amount of indebtedness. As of March 31, 1999, we had approximately $64.9 million of total indebtedness outstanding. We expect to seek substantial additional debt financing to fund our business plan. Our high leverage could have important consequences to us, including,

- limiting our ability to obtain necessary financing for future working capital, capital expenditures, debt service requirements or other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business;
- placing us at a competitive disadvantage to competitors with less leverage;
- increasing our vulnerability in the event of a downturn in our business or the economy generally;
- requiring that we use a substantial portion of our cash flow from operations for the payment of principal and interest on our indebtedness and not for other purposes.

We will need to refinance our existing indebtedness when due, and we may be unable to do so.

We do not expect to generate sufficient cash flow from operations to repay our existing credit and vendor facilities. We will need to refinance this indebtedness when it comes due. We cannot assure you that we will be able to refinance any of our indebtedness on reasonable terms, or at all. If we are unable to refinance all or some of our indebtedness, we may need to sell assets, delay capital expenditures or sell additional capital stock. We cannot assure you that we will be able to do so.

We may be unable to obtain the additional capital we will require to fund our operations and finance our growth on acceptable terms or at all, which could cause us to delay or abandon our development and expansion plans.

We will need significant additional capital to fund our business plan. We plan to satisfy part of this need by a public offering of common stock in the near future and by additional financing as soon as practicable. We cannot assure you that capital will be available to us when we need it or at all. If we are unable to obtain capital when we need it, we may delay or abandon our development and expansion plans. That could have a material adverse effect on our business and financial condition.

Our market is highly competitive, and we may not be able to compete effectively, especially against established competitors with greater financial resources and more experience.

We operate in a highly competitive environment. We have no significant market share in any market in which we operate. We will face substantial and growing competition from a variety of data transport, data networking, telephony service and integrated telecommunications service providers. We also expect that the incumbent local exchange carriers ultimately will be able to provide the range of services we currently offer. Many of our competitors are larger and better capitalized than we are, are incumbent providers with long-standing customer relationships, and have greater name recognition. We may not be able to compete effectively against our competitors.

Our information systems may not produce accurate and prompt bills which could cause a loss or delay in the collection of revenue and could adversely affect our relations with our customers.

We depend on our information systems to bill our customers accurately and promptly. Because of the deployment of our network and our expansion plans, we are continuing to upgrade our information systems. Our failure to identify all of our information and processing needs or to adequately upgrade our information systems could delay our collection efforts, cause us to lose revenue and adversely affect our relations with our customers.

We may not receive timely and accurate call data records from our suppliers which could cause a loss or delay in the collection of revenue and could adversely affect our relations with our suppliers.

Our billing and collection activities are dependent upon our suppliers providing us with accurate call data records. If we do not receive accurate call data records in a timely manner, our collection efforts could suffer and we could lose revenue. In addition, we pay our suppliers according to our calculation of the charges based upon invoices and computer tape records provided by these suppliers. Disputes may arise between us and our suppliers because these records may not always reflect current rates and volumes. If we do not pay disputed amounts, a supplier may consider us to be in arrears in our payments until the amount in dispute is resolved, which could adversely affect our relations with our suppliers.

We depend on the networks and services of third party providers to serve our customers and our relationships with our customers could be adversely affected by failures in those networks and services.

We depend almost entirely on other carriers for the switching and transmission of our customer traffic. After we complete deploying our network, we will still rely to some extent on others for switching and transmission of customer traffic. We cannot be sure that any third party switching or transmission facilities will be available when needed or on acceptable terms.

Although we can exercise direct control of the customer care and support we provide, most of the services we currently offer are provided by others. These services are subject to physical damage, power loss, capacity limitations, software defects, breaches of security and other factors which may cause interruptions in service or reduced capacity for our customers. These problems, although not within our control, could adversely affect customer confidence and damage our relationships with our customers.

Increases in customer attrition rates could adversely affect our operating results.

Our customers may not continue to purchase local, long distance, data or other services from us. Because we have been selling voice and data telecommunications under our own brand name for a short time, our customer attrition rate is difficult to evaluate. We could lose customers as a result of national advertising campaigns, telemarketing programs and customer incentives provided by major competitors as well as for other reasons not in our control as well as a result of our own performance. Increases in customer attrition rates could have a material adverse effect on our results of operations.

We may be unable to effectively manage our growth, which could materially adversely affect all aspects of our business.

We are pursuing a business plan that will result in rapid growth and expansion of our operations if we are successful. This rapid growth would place significant additional demands upon our current management and other resources. Our success will depend on our ability to manage our growth. To accomplish this we will have to train, motivate and manage an increasing number of employees. Our failure to manage growth effectively could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to retain or replace our senior management or hire and retain other highly skilled personnel upon which our success will depend.

We believe that our continued success will depend upon the abilities and continued efforts of our management, particularly members of our senior management team. The loss of the services of any of these individuals could have a material adverse effect on our business, results of operations and financial condition. Our success will also depend upon our ability to identify, hire and retain additional highly skilled sales, service and technical personnel. Demand for qualified personnel with telecommunications experience is high and competition for their services is intense. If we cannot attract and retain the additional employees we need, we will be unable to successfully implement our business strategy.

Changes to the regulations applicable to our business could increase our costs and limit our operations.

We are subject to federal, state, and local regulation of our local, long distance, and data services as described under "Business-Government Regulation." The outcome of the various administrative proceedings at the federal and state level and litigation in federal and state courts relating to this regulation as well as federal and state legislation may increase our costs, increase competition and limit our operations.

Rapid technological changes in the telecommunications industry could render our services or network obsolete faster than we expect or require us to spend more than we currently anticipate.

The telecommunications industry is subject to rapid and significant changes in technology. Any changes could render our services or network obsolete, require us to spend than we anticipate or have a material adverse effect on our operating results and financial condition. Advances in technology could also lead to more entities becoming our direct competitors. Because of this rapid change, our long-term success will increasingly depend on our ability to offer advanced services and to anticipate or adapt to these changes, such as evolving industry standards. We cannot be sure that:

- we will be able to offer the services our customers require;
- our services will not be economically or technically outmoded by current or future competitive technologies;
- our network or our information systems will not become obsolete;
- we will have sufficient resources to develop or acquire new technologies or introduce new services that we need to effectively compete; or
- our cost of providing service will decline as rapidly as the costs of our competitors.

Our systems and network, and the systems of our suppliers, may not properly process date information after December 31, 1999, which could increase our costs, disrupt our business and adversely affect our relations with our customers.

As discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations —Year 2000 Compliance," failure of our systems and network to adequately process year 2000 information could cause miscalculations or system failures that could affect our operations. We cannot assure you that we have successfully identified all Year 2000 problems with our information systems and network. We also cannot assure you that we will be able to implement any necessary corrective actions in a timely manner. If we or the companies that provide us services or with whom our systems interconnect fail to successfully identify and remediate Year 2000 problems, our service and operations may be disrupted. These problems could increase our costs and adversely affect our relations with our customers and business.

We may pursue acquisitions which would could disrupt our business and may not yield the benefits we expect.

We may pursue strategic acquisitions as we expand. Acquisitions may disrupt our business because we may:

- experience difficulties integrating acquired operations and personnel into our operations;
- divert resources and management time;
- be unable to maintain uniform standards, controls, procedures and policies;
- enter markets or businesses in which we have little or no experience; and
- find that the acquired business does not perform as we expected.

Our existing principal stockholders, executive officers and directors control a substantial amount of our voting shares and will be able to significantly influence any matter requiring shareholder approval.

Our officers and directors and parties related to them now control approximately 46% of the voting power of our outstanding capital stock. Robert J. Fabbricatore, our Chairman and Chief Executive Officer, controls approximately 26% of our voting power. Therefore, the officers and directors are able to significantly influence any matter requiring shareholder approval. In addition, Mr. Fabbricatore and some of his affiliates have agreed to vote shares they control to elect to our board up to two persons designated by the holders of a majority of our Series A preferred stock.

Fluctuations in our operating results could adversely affect the price of our common stock.

Our annual and quarterly revenue and results could fluctuate as a result of a number of factors, including:

- variations in the rate of timing of customer orders,
- variations in our provisioning of new customer services,
- the speed at which we expand our network and market presence,
- the rate at which customers cancel services, or churn,
- costs of third party services purchased by us, and
- competitive factors, including pricing and demand for competing services.

Also, our revenue and results may not meet the expectations of securities analysts and our stockholders. As a result of fluctuations or a failure to meet expectations, the price of our common stock could be materially adversely affected.

Our stock price is likely to be volatile.

The trading price of our common stock is likely to be volatile. The stock market in general, and the market for technology and telecommunications companies in particular, has experienced extreme volatility. This volatility has often been unrelated to the operating performance of particular companies. Other factors that could cause the market price of our common stock to fluctuate substantially include:

- announcements of developments related to our business, or that of our competitors, our industry group or our customers;
- fluctuations in our results of operations;
- hiring or departure of key personnel;
- a shortfall in our results compared to analysts' expectations and changes in analysts' recommendations or projections;
- sales of substantial amounts of our equity securities into the marketplace;
- regulatory developments affecting the telecommunications industry or data services; and
- general conditions in the telecommunications industry or the economy as a whole.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 1998.

Commission File Number 0-13627.

CTC COMMUNICATIONS CORP.

(Exact name of registrant as specified in its charter)

Massachusetts (State or other Jurisdiction of incorporation or organization)	04-2731202 (IRS Employer Identification No.)
360 Second Avenue, Waltham, Massachusetts (Address of principal executive offices)	02154 (Zip Code)

(781) 466-8[illegible]
(Registrant's telephone number including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part IV of this Form 10-K or any amendment to this Form 10-K. ☒

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $38,228,190, on July 10, 1998, based on the closing sale price of the registrant's Common Stock as reported on the Nasdaq National Market as of such date.

At July 10, 1998, 9,978,142 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

PART I

Certain statements regarding the Company contained in this Annual Report on Form 10-K including, without limitation, certain statements under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" relating to the Company's business plan, future profitability, expansion, deployment of facilities, future operations and availability of capital and other future plans, events and performance and other statements located elsewhere herein, are forward-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. No assurance can be given that the future results covered by the forward looking statements will be achieved. All forward-looking statements involve risks and uncertainties, and actual results could differ materially from those expressed or implied in the forward-looking statements for a variety of reasons. These reasons include, but are not limited to, factors outlined in Exhibit 99.1 filed with this Annual Report on Form 10-K. The Company does not undertake to update or revise its forward-looking statements publicly even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

Item 1. Business

Overview

CTC Communications Corp. ("CTC" or the "Company"), a Massachusetts corporation, is a rapidly growing integrated communications provider ("ICP") with 14 years of local telecommunications marketing, sales and service experience. The Company offers local, long distance, Internet access, Frame Relay and other data services on a single integrated bill. CTC currently serves small to medium-sized business customers in seven Northeastern states through its experienced 181-member direct sales force and 85 customer care representatives located in 16 branch offices throughout the region. As of March 31, 1998, after only three months as an ICP, the Company had sold 21,613 local access lines of which 17,637 lines had already been provisioned.

Prior to becoming an ICP in January 1998, the Company was the oldest and largest independent sales agent for Bell Atlantic Corp. ("Bell Atlantic"), selling local telecommunications services as an agent since 1984. The Company has also offered long distance and data services under its own brand name since 1994. As an agent, the Company managed relationships with approximately 7,000 customers who purchased in excess of $200 million of annual local telecommunications services for calendar year 1997, representing an estimated 280,000 local access lines at year end. In December 1997, the Company left the Bell Atlantic agency program to become an ICP using its well-developed franchise and infrastructure to capitalize on market opportunities created by deregulation. As an ICP, the Company is utilizing the same relationship-centered sales approach that it employed as an agent without the limitations on potential customers, services and pricing that were imposed upon it as an agent.

The Company plans to expand geographically and add facilities assuming the availability of financing. The Company intends to expand within its existing markets and into six additional states in the Boston-Washington, D.C. corridor, plans to open more than 20 new branch offices and hire more than 200 additional sales personnel. In addition, beginning in late 1998, the Company intends to deploy a state-of-the-art, data centric, packet-switched Integrated Communications Network ("ICN"), initially in the Company's existing markets and in new markets as customer demand and concentrations warrant.

Interim Credit Facility Commitment. The Company has obtained a commitment for an interim credit facility (the "Interim Facility") from the lender under the Company's existing credit facility (the "Credit Facility"). The Interim Facility, which would mature on June 30, 1999, would provide secured revolving loans of up to $20 million to refinance the Credit Facility, to fund capital expenditures and operating losses and for general corporate purposes. Borrowing for capital expenditures in excess of $1 million would be limited to the extent of collection of the Bell Atlantic agency commissions under dispute and by financial covenants. The commitment, which is subject to certain conditions, extends to September 30, 1998. The Company also agreed to reduce availability under the Credit Facility to $9 million, and the lender has extended its waiver of existing covenant defaults through September 30, 1998. The Company paid fees in connection with obtaining this commitment and waiver of $500,000 and an additional fee of $300,000 would be payable if the Company draws on the Interim Facility. If the Interim Facility is outstanding at various dates from October 31, 1998 through June 30, 1999, the Company has agreed to issue to the lender warrants to purchase in the aggregate up to 5% of the Company's outstanding Common Stock on a fully diluted basis at exercise prices equal to the market value on the respective dates of issuance.

Spectrum Commitment. To satisfy a condition of the Interim Facility, the Company has obtained a commitment from Spectrum Equity Investors II L.P. ("Spectrum") that at any time prior to June 30, 1999, Spectrum will upon the request of the Company, purchase an additional $5 million in Preferred Stock, which would have the same terms as the Series A Convertible Preferred Stock (the "Interim Spectrum Financing"). In consideration of this commitment, the Company has agreed to issue to Spectrum five-year warrants to purchase 55,555 shares of Common Stock, exercisable at $9 per share.

Services

The Company offers the following services:

Local Telephone Services. The Company's services include the connections between customers' telecommunications equipment and the local telephone network and/or multiple company locations. For customers with multiple locations served from the same central office, the Company offers a wide array of Centrex products and services. For large customers or customers with specific requirements, the Company integrates customer-owned Private Branch Exchange ("PBX") systems with analog or digital PBX trunks. In addition to providing standard dial tone services, the Company provides all associated call processing features as well dedicated private lines for both voice and data applications.

Long Distance Services. The Company offers a full range of domestic (interLATA and intraLATA) and international long distance services including "1+" outbound calling, inbound toll free service, standard and customized calling plans and related services such as calling cards, operator assistance, and conference calling.

High Speed Data Services. The Company offers a wide array of dedicated and switched high speed digital data services. Dedicated services include DDS, DS-1 (T-1), Fiber Distributed Data Interface ("FDDI") and DS-3. Switched or virtual digital services include Integrated Services Digital Network ("ISDN"), Frame Relay and ATM.

Internet Services. The Company offers dedicated high speed Internet access and services via DDS, Frame Relay, T-1 and T-3 connections. In addition, the Company offers switched digital access to the Internet via ISDN. In support of these connections, the Company provides the necessary communications hardware, configuration support, domain registration as well as other support services on a 24-hour, 7-day a week basis.

Wholesale Services to ISPS. The Company supplements its core end user product offerings by providing a full array of local services to Internet Service Providers ("ISPs"), including telephone numbers and switched and dedicated access to the Internet.

Possible Future Services. Once its ICN is deployed, the Company plans to offer systems integration, consulting and network monitoring services, customized Virtual Private Networks ("VPNs") utilizing IP, data network product packages and voice over IP services.

Sales and Customer Care

Sales and Service Infrastructure. The Company markets telecommunications services by seeking to develop long-term business relationships with its customers and offering them comprehensive management of their telecommunications requirements. Each customer of the Company is assigned a local dedicated Company team consisting of a sales executive and a customer care coordinator. This team provides a single point of contact for the customer's needs, working together to design, implement and maintain an integrated telecommunications solution. The team also reviews and updates the customer's services on a regular basis.

The Company's services are currently provided through 181 sales executives and 85 customer care coordinators located in 16 branch sales offices servicing markets throughout Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island and Vermont. In addition, the Company maintains an agency office in California with an additional five sales and service personnel.

Customer Sales and Service Model. Sales executives meet with prospective customers to understand their business and telecommunications requirements and analyze their current usage and costs. Sales executives outline the range of services and potential savings offered by the Company, discuss the benefits of the Company's comprehensive customer care program and develop Account Telemanagement Plans for potential customers designed to balance network expense and utility. Sales executives work with their existing customers through regular telephone calls and meetings to review the customers' telecommunications usage and requirements and to update their suite of services and network design. This relationship-centered sales approach assists sales executives in monitoring customers' demands and selling additional services into customers' consumption patterns.

Sales executives regularly participate in training programs on subjects such as solution-oriented sales, comprehensive customer care, network design and other technical features of the Company's services. The Company seeks to motivate and retain its sales executives through extensive training as well as a commission structure which currently bases approximately 45% of a sales executive's compensation on annualized billing revenues and 25% on customer satisfaction.

Customer Care. Customer care coordinators trained in the Company's service offerings work in direct support of sales executives in each branch location. The Company's reiterative, multi-step customer care process provides an ongoing and comprehensive service program ranging from long-term consultative planning to day-to-day handling of service issues.

CTC's customer care program is designed to provide prompt action in response to customer inquiries and complaints and a dedicated team approach to sales and service. The local branch offices are staffed 12 hours a day, 5 days a week. At other times, incoming calls automatically roll over to a central customer care center which is staffed 24 hours a day, 7 days a week. If the customer care coordinator assigned to a particular account is not available, the customer's request is accommodated by another customer service representative. The Company believes that its customer care coordinators are motivated to provide the highest level of customer care as a significant portion of their compensation is based on customer satisfaction.

The CTC Information System

The CTC Information System is comprised of five central applications which fully integrate the Company's sales and account management, customer care, provisioning, billing and financial processes. Automation of each of these processes is designed to provide for high volume and accurate throughput, timely installation, accurate billing feeds and quality customer service. Data entered in one application is simultaneously exported into all other applications. Each branch office is served by a LAN connected via Frame Relay to the central processor. From their branch desktops or docking stations, the Company's employees have online access to all of the Company's operational systems and applications. The system also interfaces with the Company's network suppliers for ordering, repair, status reporting and billing feeds.

When an order is placed by a sales executive, the CTC Information System electronically directs it to the appropriate supplier(s) and monitors and reports any delays in the provisioning. Once the order is completed, the CTC Information System automatically removes it from the in-process order file, updates the customer's service inventory and network configuration, initiates billing, posts the sales executive's commission and updates the branch office, area and Company financial reports.

Sales and Account Management. The CTC Account Management System, the hub of the CTC Information System, stores all customer-related information, such as location detail, contact information, transaction history and account profile. The CTC Account Management System also feeds CTC's Customized Sales System, a fully-integrated database which provides sales personnel with access to information for pricing services, generating customized proposals and customer correspondence, tracking sales performance, referencing methods and procedures, service descriptions, competitive information and historical profiles, which include details of installed services, recent transactions and billing history, for current and prospective customers. The CTC Customized Sales System can be used both on- and off-line, and all entries made while off-line are automatically updated to the central processor and all relevant data is simultaneously exported to the other central applications each time a laptop is reconnected to the network.

Customer Care. Through the CTC Account Care System, customer care coordinators can review installed services, make additions, changes and deletions to accounts, initiate and track repair and service work and review past billing for any customer. This closed loop application provides automatic follow up and records all transactions in the customer history file. The orders and repair requests input through the CTC Account Care System are automatically fed into the CTC Provisioning System.

Provisioning. Through the CTC Provisioning System, customer orders are directed electronically to the Company's suppliers via file transfer or electronic data interchange. All orders are tracked through the CTC Account Care System from initiation through completion, and an exception is noted when an order or process has not been fulfilled in the estimated time frame. The proactive nature of the system affords the sales executive or customer care coordinator the opportunity to get the installation process back on track, or at least notify the customer of the delay. Once the order has been fulfilled, the information is automatically fed to the CTC Billing System to initiate billing for the newly provisioned services.

Billing and Customer Interface. The CTC Billing System is a fully-convergent system, billing all of the services the Company provides to its customers on a single bill. The CTC Billing System, available to customers on both diskette and CD-Rom with accompanying software, allows the customer to review historic bill detail, perform customized usage analyses and download information directly to their own accounting applications. Through the IntelliVIEW application, a secure Web-based application, customers have near real-time online access to the CTC Billing System via the Internet and are able to review and analyze their bills online. Paper statements generated by the CTC Billing System offer the Company's customers different telemanagement formats. The CTC Billing System was launched in October 1997, billing long distance services and subsequently Internet access, private data services and Frame Relay services and began billing local services in January 1998 when the Company began operations as an ICP.

Financial. Data from the CTC Billing System is automatically exported to the CTC Financial System. Through its integration with the other applications, the CTC Financial System tracks and prepares reports on sales activity, commissions, branch operations, branch profitability, cash flows and compiles all of this data in preparing the Company's periodic financial reports. The system also provides for internal controls for revenue tracking and costing. The integrated nature of the CTC Information System allows the Company to operate each branch as a separate profit and loss center.

The CTC Integrated Communications Network

The Company's ICN is being designed as a state-of-the-art digital network with data and long distance services The ICN is expected to be comprised of data and long distance switches capable of handling Asynchronous Transfer Mode ("ATM"), Internet Protocols ("IP"), and Ethernet and Frame Relay protocols interconnected by leased transmission facilities. The ICN is being designed to provide customers with dedicated DS-1 or other broadband access and to bundle a variety of voice and data services on one digital platform. The data services planned for the ICN include point-to-point private line, Frame Relay, Internet access and virtual private network services for on-net data traffic as well as network-to-network interface points to other data carrier networks and Internet service providers for traffic which must travel off-net. The Company plans to lease local dialtone services until these services can be fully integrated into a packet-switched network architecture.

During the initial phase of network deployment, CTC intends to deploy a network operations center and data and long distance toll switching equipment in hub and node locations in the New England and New York region where the Company has an established customer base. As the Company expands into new markets, it plans to deploy its network as customer demand and concentrations warrant.

In May 1998, the Company signed agreements with a network services integrator to design, engineer and manage the buildout of the ICN in the Company's existing markets. Under the terms of the agreements, the network integrator will (i) provide an initial evaluation of the Company's proposed network, (ii) create a detailed network design, (iii) assist the Company in acquiring network components and network operations center system components, (iv) develop the appropriate software interfaces to the Company's Operational Support System, and (v) supervise construction, testing and validation of the ICN in the Company's existing markets, primarily on a fixed fee basis.

Competition

The Company operates in a highly competitive environment and has no significant market share in any market in which it operates. The Company expects that it will face substantial and growing competition from a variety of data transport, data networking and telephony service providers due to regulatory changes, including the continued implementation of the Telecommunications Act of 1996 (the "Telecommunications Act"), and the increase in the size, resources and number of such participants as well as a continuing trend toward business combinations and alliances in the industry. The Company faces competition for the provision of integrated telecommunications services as well as competition in each of the individual market segments that comprise the Company's integrated approach. In each of these market segments, the Company faces competition from larger, better capitalized incumbent providers, which have long standing relationships with their customers and greater name recognition than the Company.

Competition for Provision of Integrated Telecommunications Services. The current regulatory trend toward fostering competition and opening markets, as well as the continued consolidation of telecommunication service providers, has increased the number of competitors able to provide integrated telecommunications services similar to those provided by the Company. Many facilities-based ICPs and long distance carriers have committed substantial resources to building their networks or to purchasing ICPs or Interexchange Carriers ("IXCs") with complementary facilities. By building or purchasing a network or entering into interconnection agreements or resale agreements with Incumbent Local Exchange Carriers ("ILECs"), including Regional Bell Operating Companies ("RBOCs"), a facilities-based provider can offer single source local and long distance services similar to those offered or to be offered by the Company. Such additional alternatives may provide such competitors with greater flexibility and a lower cost structure than the Company. In addition, some of these ICPs and other facilities-based providers of local exchange service are acquiring or being acquired by IXCs that are not subject to joint marketing restrictions.

Once the RBOCs are allowed to offer widespread in-region long distance services under the terms of Section 271 of the Telecommunications Act, both they and the largest IXCs will be in a position to offer single-source local and long distance services similar to those offered by the Company. Currently, no RBOC is permitted to provide in-region long distance services, although there is no assurance that this will continue to be the case. The availability of broad-based local resale and introduction of facilities-based local competition are required before the RBOCs may provide in-region interLATA long distance services. In 1997, the FCC denied the applications of several RBOCs for in-region interLATA long distance authority. Further FCC rulings may be complicated by a Texas Federal District Court ruling on December 31, 1997 (the "Wichita Falls Decision") that Section 271 of the Telecommunications Act is unconstitutional. On February 11, 1998, this court granted a request by the FCC and a number of long distances carriers to stay the decision pending an appeal to the United States Court of Appeals for the Fifth Circuit. If this decision is upheld and/or repeated in other jurisdictions, RBOC entry into the in-region interLATA long distance markets may occur much more rapidly than envisioned under the Telecommunications Act. Although the outcomes of court actions cannot be predicted, decisions permitting early entry of the RBOCs into in-region, interLATA long distance could have a material adverse effect on the Company's business.

Although the Telecommunications Act and other federal and state regulatory initiatives will afford the Company new business opportunities, regulators are likely to provide the ILECs with an increased degree of flexibility with regard to pricing of their services as competition increases. If the ILECs elect to lower their rates and sustain lower rates over time, this may adversely affect the revenues of the Company and place downward pressure on the rates the Company can charge. The Company believes the effect of lower rates may be offset by the increased revenues available by offering new services to its target customers, but there can be no assurance that this will occur. In addition, if future regulatory decisions afford the Local Exchange Carriers ("LECs") excessive pricing flexibility or other regulatory relief, such decisions could have a material adverse effect on the Company.

Competition for Provision of Local Exchange Services. In the local exchange market, ILECs, including RBOCs, continue to hold near-monopoly positions. The Company also faces competition or prospective competition from one or more ICPs, many of which have significantly greater financial resources than the Company, and from other competitive providers, including non-facilities-based providers. Various carriers have entered into interconnection agreements with ILECs and either have begun or in the near future likely will begin offering local exchange service in each of the Company's markets, subject to joint marketing restrictions. The largest long distance carriers (AT&T, MCI, Sprint and any other carrier with 5% or more of the pre-subscribed access lines), however, are prevented under the Telecommunications Act from bundling local services resold from an RBOC in a particular state with their long distance services until the earlier of (i) February 8, 1999 or (ii) the date on which the RBOC whose services are being resold obtains in-region long distance authority in that state. In the event the RBOCs soon begin offering in-region long distance service, the largest long distance carriers will be permitted to bundle local and long distance services that much earlier, removing one of the competitive advantages currently enjoyed by the Company. In addition to these long distance service providers, entities that currently offer or are potentially capable of offering switched services include ICPs, cable television companies, electric utilities, other long distance carriers, microwave carriers, wireless telephone system operators and large customers who build private networks.

Wireless telephone system operators have become competitors in the provision of local services because the FCC has authorized cellular, personal communications service, and other Commercial Mobile Radio Services ("CMRS") providers to offer wireless services to fixed locations, rather than just to mobile customers. This authority to provide fixed as well as mobile services will enable CMRS providers to offer wireless local loop service and other services to fixed locations (e.g., office and apartment buildings) in direct competition with the Company and other providers of traditional fixed telephone service. In addition, the FCC recently auctioned substantial blocks of spectrum for fixed use including, among other things, local exchange service. Exploitation of this spectrum is expected to increase competition in the local market.

The World Trade Organization ("WTO") recently concluded an agreement (the "WTO Agreement") that could result in additional competitors entering the U.S. local and long-distance markets. Under the WTO Agreement, the United States committed to open telecommunications markets to foreign-owned carriers. The FCC has adopted streamlined procedures for processing market entry applications from foreign carriers, making it easier for such carriers to compete in the U.S. There can be no assurance that the WTO Agreement will not have a material impact on the Company's business.

Competition for Provision of Long Distance Services. The long distance market is significantly more competitive than the local exchange market with numerous entities competing for the same customers. In addition, customers frequently change long distance providers in response to the offering of lower rates or promotional incentives by competitors, resulting in a high average churn rate. Prices in the long distance market have declined significantly in recent years and are expected to continue to decline. Competition in this market will further increase once RBOCs are permitted to offer interLATA long distance services.

Data and Internet Services. The market for high speed data services and access to the Internet is highly competitive, and the Company expects that competition will continue to intensify. The Company's competitors in this market will include ISPs, other telecommunications companies. Many of these competitors have greater financial, technological and marketing resources than those available to the Company. In addition, various RBOCs have filed petitions to the FCC requesting regulatory relief in connection with the provision of their own data services.

Government Regulation

The Company's local and long distance telephony service, and to a lesser extent its data services, are subject to federal, state, and, to some extent, local regulation.

The FCC exercises jurisdiction over all telecommunications common carriers, including the Company, to the extent that they provide interstate or international communications. Each state regulatory commission retains jurisdiction over the same carriers with respect to the provision of intrastate communications. Local governments sometimes impose franchise or licensing requirements on telecommunications carriers and regulate construction activities involving public right-of-way. Changes to the regulations imposed by any of these regulators could affect the Company.

While the Company believes that the current trend toward relaxed regulatory oversight and competition will benefit the Company, the Company cannot predict the manner in which all aspects of the Telecommunications Act will be implemented by the FCC and by state regulators or the impact that such regulation will have on its business.

The Company is subject to FCC and state proceedings, rulemakings, and regulations, and judicial appeal of such proceedings, rulemakings and regulations, which address, among other things, access charges, fees for universal service contributions, ILEC resale obligations, wholesale rates, and prices and terms of interconnection and unbundling. The outcome of these proceedings, rulemakings, judicial appeals, and subsequent FCC or state actions may make it more difficult or expensive for the Company or its competitors to do business. Such developments could have a material effect on the Company. The Company also cannot predict whether other regulatory decisions and changes will enhance or lessen the competitiveness of the Company relative to other providers of the products and services offered by the Company. In addition, the Company cannot predict what other costs or requirements might be imposed on the Company by state or local governmental authorities and whether or not any additional costs or requirements will have a material adverse effect on the Company.

Federal Legislation

The Telecommunications Act requires that local and state barriers to entry into the local exchange market be removed and has established broad uniform standards under which the FCC and the state commissions are to implement local competition and co-carrier arrangements in the local exchange market. Under certain conditions and subject to certain exceptions, major ILECs are now required to make available at a discount for resale by new entrants all services offered by the LEC on a retail basis. The Telecommunications Act also imposes significant obligations on the RBOCs and other ILECs, including the obligation to interconnect their networks with the networks of competitors. Each ILEC is required not only to open its network but also to "unbundle" various elements of the network, such as the local loop and switching or transport functions. States have begun, and in a number of cases completed, regulatory proceedings to determine the pricing of these unbundled network elements and services, and the results of these proceedings will determine whether it is economically attractive to use these elements.

All LECs, including Competitive Local Exchange Carriers ("CLECs"), must fulfill various obligations so as not to impede the ability of other carriers to provide services. These include the duty to permit resale of their services, the duty to provide number portability and dialing parity, the duty to provide access for competitors to poles, ducts, conduits and rights-of-way, and the duty to provide reciprocal compensation for the transport and termination of telecommunication traffic to and from other LEC's networks.

Section 271 of the Telecommunications Act provides that the RBOCs must fulfill additional conditions before they will be permitted to offer in-region interLATA toll services: (1) the RBOC must have met the requirements of the Telecommunications Act's 14-point competitive checklist and (2) the RBOC must have entered into an approved interconnection agreement with one or more unaffiliated, facilities-based competitors in some portion of the state pursuant to which such competitors provide both business and residential service (or that by a date certain no such competitors have "requested" interconnection as defined in the Telecommunications Act). If the FCC determines, after consultation with the Department of Justice and the relevant state commissions, that these requirements have been met and that the RBOC's provision of in-region long distance services in a state is in the public interest, the FCC must authorize the RBOC to provide such services. In 1997, the FCC denied the application of several RBOCs for in-region long distance authority. Unless rendered moot as a result of the Wichita Falls Decision, the Company anticipates that a number of RBOCs will file additional applications in 1998. As noted above, however, the Wichita Falls Decision found Section 271 of the Act, among others, to be unconstitutional. Accordingly, the Wichita Falls Decision, to the extent that it is upheld, may reduce the incentive that RBOCs have to open their networks to competition.

The Telecommunications Act is meant to eliminate state and local statutory and regulatory barriers to entry, thus accelerating the process of creating a competitive environment in all markets. This preemption of state laws barring local competition and the relaxation of regulatory restraints should enhance the Company's ability to expand its service offerings nationwide. At the same time, the Telecommunications Act will also substantially increase the competition the Company will face in its various markets.

Federal Regulation

The FCC has issued a variety of regulations pursuant to the Telecommunications Act and may issue numerous additional such regulations. The outcome of these various ongoing FCC rulemaking proceedings or judicial appeals of such proceedings could materially affect the Company's operations.

In May 1997, the FCC issued new regulations regarding the implementation of the universal service program and the assessment of access charges on carriers obtaining access to local exchange networks. All telecommunications carriers, including the Company, that provide interstate services are required to contribute, on a equitable and nondiscriminatory basis, to the preservation and advancement of universal service pursuant to a universal funding service mechanism established by the FCC. Mandatory contribution amounts are revised regularly and in May 1997 both the access charge and universal service regimes were substantially revised. As a result of these changes, the costs of business and multiple residential telephone lines are expected to increase. In addition, the new regulations require a reseller, such as the Company, to begin contributing to the universal service programs for low-income consumers and high-cost, rural and insular areas on the basis of the reseller's interstate and international revenues.

The Telecommunications Act provides that individual state utility commissions can, consistent with FCC regulations, prohibit resellers from reselling a particular service to specific categories of customers to whom the ILEC does not offer that service at retail. In August 1996, the FCC issued detailed regulations providing that many such limitations are presumptively unreasonable and that states may enact such prohibitions on resale only in certa in limited circumstances.

The Telecommunications Act also provides that state commissions shall determine the wholesale rates for local telecommunications services (i.e., the rates charged by ILECs to ICPs such as the Company) on the basis of retail rates less "avoided costs," i.e., marketing, billing, collection and other administrative costs avoided by the ILEC when it sells at wholesale. In August 1996, the FCC issued detailed regulations establishing an interim default discount of between 17% to 25%. Although this portion of the FCC's rules has been overturned on appeal (see below), in practice state commissions have generally adopted discount percentages that fall within the 17-25% default range.

In August 1996, the FCC issued regulations that, among other things, set minimum standards governing the terms and prices of interconnection and access to unbundled ILEC network elements and mandating that ILECs negotiate interconnection or resale arrangements in good faith. These regulations indirectly affect the price at which the Company's new facilities-based competitors may ultimately provide service. The Telecommunications Act provides that state commissions shall determine the rates charged for such unbundled elements on the basis of cost plus a reasonable profit. The Company is unable to predict the final form of such state regulation, or its potential impact on the Company or the local exchange market in general.

In 1997, the U.S. Court of Appeals for the Eighth Circuit vacated certain portions of FCC regulations, including, among other things, provisions addressing the availability of certain services for resale, establishing a methodology for pricing interconnection and unbundled network elements, a rule permitting new entrants to "pick and choose" among various provisions of existing interconnection agreements, and the obligation of incumbent LECs to combine network elements. The U.S. Supreme Court has agreed to review the Eighth Circuit's decision. If upheld, the rulings could make it more difficult for the Company to take advantage of ILEC services.

The FCC recently issued regulations to eliminate the ability of nondominant carriers such as the Company to file interstate long-distance tariffs of rates and operating procedures and permitting (but not requiring) non-dominant local carriers such as the Company to withdraw their tariffs for interstate services. Various carriers have filed suit to overturn the FCC regulations, and the U.S. Court of Appeals for the D.C. Circuit has stayed the regulations pending its decision in that appeal, which is not expected until sometime later this year. In the meantime, however, the FCC issued a Reconsideration Order (on August 20, 1997), which reverses certain aspects of the FCC's previous regulations. The Reconsideration Order would still significantly limit the ability of carriers to tariff long distance services. When not allowed to tariff the long distance services it may seek to provide, the Company would be required to provide service through a contract and forego legal rights pertaining to reliance on a "filed rate."

In August 1997, the FCC issued rules transferring responsibility for administering and assigning local telephone numbers from the RBOCs and a few other LECs to a neutral entity in each geographic region in the United States. In August 1996, the FCC issued new numbering regulations that (a) prohibit states from creating new area codes that could unfairly hinder LEC competitors (including the Company) by requiring their customers to use 10 digit dialing while existing ILEC customers use 7 digit dialing, and (b) prohibit ILECs (which are still administering central office numbers pending selection of the neutral administrator) from charging "code opening" fees to competitors (such as the Company) unless they charge the same fee to all carriers including themselves. In addition, each carrier is required to contribute to the cost of numbering administration through a formula based on net telecommunications revenues. In July 1996, the FCC released rules requiring all LECs, including CLECs, to have the capability to permit both residential and business consumers to retain their telephone numbers when switching from one local service provider to another (known as "number portability").

In August 1996 the FCC promulgated regulations that classify CMRS providers as telecommunications carriers, thus giving them the same rights to interconnection and reciprocal compensation under the Telecommunications Act as other non-LEC telecommunications carriers, including the Company.

State Regulation

Certain local and long distance services have historically been classified as intrastate and therefore subject to state regulation. As its local service business and product lines expand, the Company will offer more intrastate service and become increasingly subject to state regulation. The Telecommunications Act maintains the authority of individual state utility commissions to preside over rate and other proceedings, as discussed above, and impose their own regulation of local exchange and interexchange services so long as such regulation is not inconsistent with the requirements of the Telecommunications Act. For instance, states impose tariff and filing requirements, consumer protection measures and obligations to contribute to universal and other funds.

The Company has state regulatory authority to provide competitive local exchange services and interexchange services in the seven states in its current market. The Company also has state regulatory authority to provide interexchange services in approximately 16 additional states. In certain states, in which the Company has or has had de minimis intrastate interexchange revenues, the Company has not obtained authorization to provide such interexchange services or has allowed such authorization to lapse. The Company has either subsequently obtained, or is in the process of applying to obtain, the appropriate authorization in these states.

Local Government Regulation

Should the Company decide to operate its own transport or other facilities over public rights-of-way, it may be required to obtain various permits and authorizations from municipalities in which it operates such facilities and grant rights of way to other carriers. Some municipalities may impose such restrictions regardless of whether an entity operates such facilities. The actions of municipal governments in imposing conditions on the grant of permits or other authorizations, or their failure to act in granting such permits or authorizations, except as preempted by the FCC, could have a material adverse effect on the Company's business.

Employees

As of June 30, 1998, the Company employed 341 persons. None of the employees is represented by a collective bargaining agreement.

Item 2. Properties

The Company is headquartered in leased space in Waltham, Massachusetts. The Company also leases one office in California, two in Connecticut, five in Massachusetts, two in Maine, one in New Hampshire, four in New York and one in Vermont. Although the Company believes that its leased facilities are adequate at this time, the Company expects to lease a significant number of additional sales facilities in connection with its planned expansion in existing markets and into new markets.

Item 3. Legal Proceedings

(a) Pending Legal Proceedings.

In December 1997, the Company terminated its agency contract and filed suit (the "Bell Atlantic Litigation") against Bell Atlantic in federal court in the Southern District of Maine for breaches of the contract, including the failure of Bell Atlantic's retail division to pay $14 million in agency commissions (approximately $11.3 million as of July 10, 1998) owed to the Company. The Company also asserted violations by Bell Atlantic of antitrust laws and the Telecommunications Act. Bell Atlantic filed counterclaims in federal court in the Southern District of New York asserting that the Company breached a provision of the agency contract prohibiting the Company from selling non-Bell Atlantic local services to certain agency customers for a one-year period following termination of the contract. Based on that provision, Bell Atlantic obtained a temporary restraining order (the "TRO") that prohibits the Company from marketing certain local telecommunications services to any Bell Atlantic customer for whom the Company was responsible for account management, or to whom the Company sold Bell Atlantic services, during 1997. This prohibition will terminate in December 1998, or upon the earlier dissolution of the TRO. The Company has made a motion to dissolve the TRO and the federal court in Maine has held a hearing to consider the Company's motion. Bell Atlantic's counterclaims have been consolidated with the Company's suit in the federal court in the Southern District of Maine. The Company estimates that the TRO applies to less than 5% of the Company's target customers in its current markets. The Company continues to provide many of these customers with other services such as long distance and Internet access that are not covered by the terms of the TRO.

The Company is otherwise party to suits arising in the normal course of business which management believes are not material individually or in the aggregate.

(b) Legal Proceedings Terminated in the Fourth Quarter.

None.

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

None.

PART II

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

The Company's Common Stock trades on the Nasdaq National Market under the symbol "CPTL." The following tables set forth the ranges of the high and low sale prices for the Company's outstanding Common Stock for the periods indicated.

Three Months Ended	High Sale	Low Sale
June 30, 1996	$18.00	$9.75
September 30, 1996	$13.75	$8.00
December 31, 1996	$11.75	$6.38
March 31, 1997	$ 9.13	$6.38
June 30, 1997	$10.00	$6.88
September 30, 1997	$ 9.75	$7.06
December 31, 1997	$15.94	$8.00
March 31, 1998	$14.94	$5.13

As of July 10, 1998, there were 357 holders of record of the Company's Common Stock. The Company believes there were in excess of 1,500 beneficial holders of the Common Stock as of such date.

The Company has never paid a cash dividend on its Common Stock and has no present intention of paying dividends in the foreseeable future. The Company intends to retain earnings, if any, to develop and expand its business. In addition, the terms of the Series A Convertible Preferred Stock restrict, and the terms of future debt financings are expected to restrict, the ability of the Company to pay dividends on Common Stock.

Item 6. Selected Historical Financial Data of the Company

The following selected financial data have been derived from the Company's financial statements. The following data should be read in conjunction with the Company's financial statements and related notes appearing elsewhere in this Report on Form 10-K. All earnings per share and weighted average share information included in the accompanying financial statements have been restated to reflect the 25% stock split effected in Fiscal 1995, and the three-for-two stock split and the two-for-one stock split effected in Fiscal 1996.

	Fiscal Year Ended March 31,				
	1994	1995	1996	1997	1998
	(dollars in thousands, except per share information)				
Statement of Operations Data					
Agency revenues	$14,483	$18,898	$25,492	$29,195	$24,775
Telecommunications revenues	462	3,038	5,383	11,095	16,172
Total revenues	14,945	21,936	30,875	40,290	40,947
Cost of telecommunications revenue	369	2,451	4,242	8,709	14,038
Selling, general and administrative	14,484	17,319	20,009	23,820	31,492
Income (loss) from operations	92	2,166	6,624	7,761	(4,583)
Income (loss) before income taxes	141	2,322	6,830	7,960	(4,370)
Net income (loss)	75	1,472	4,094	4,683	(2,884)
Earnings (loss) per share					
Basic	0.01	0.18	0.43	0.49	(0.29)
Diluted	0.01	0.17	0.38	0.43	(0.29)

	As of March 31,				
	1994	1995	1996	1997	1998
	(dollars in thousands)				
Balance Sheet Data					
Cash and cash equivalents	$ 1,239	$ 2,391	$ 3,942	$ 6,406	$ 2,168
Total assets	5,399	7,726	12,509	20,186	30,967
Total long-term debt	—	—	—	—	—
Stockholders' equity	3,871	5,526	9,495	14,292	11,580

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

The following discussion should be read in conjunction with the Financial Statements and Notes set forth elsewhere in this Report.

Overview

CTC is a rapidly growing ICP with a 14-year track record of telecommunications marketing, sales and service experience. Building upon its substantial experience in providing sophisticated telecommunications solutions, the Company designs, sells and implements fully-integrated voice and data solutions tailored to meet its customers needs. The Company offers local, long distance, Internet access, Frame Relay and other data services on a single integrated bill. The Company currently serves small to medium-sized business customers primarily in seven Northeastern states through its 181-member direct sales force and 85 customer care representatives located in 16 branch offices throughout the region.

Since 1984, the Company has on several occasions successfully realigned its strategy to capitalize on market opportunities and respond to change. CTC originally sold key systems and PBX telephone systems. In 1984, after the divestiture of AT&T, the Company became the first agent for any RBOC in the United States. As an agent, CTC focused on selling point-to-point data services, Centrex and NYNEX Corporation network-based local telecommunications services primarily to medium size business customers. In 1994, the Company added the sale of long distance services and subsequently, Frame Relay, Internet access and other data services under its own brand name. In December 1997, the Company left the Bell Atlantic agency program to become an ISP and sell local telecommunications services under its own brand name as a complement to the other services it offers.

Historically, CTC's revenues had consisted of agency revenues earned as an agent, primarily for Bell Atlantic, and of telecommunications revenues earned from the sale of long distance, Frame Relay, Internet access and other communications services. For the nine months ended December 31, 1997, agency revenues accounted for approximately 71% of the Company's revenues and telecommunications revenues accounted for the remainder. As a result of the Company's termination of its agency contract with Bell Atlantic in December 1997, the Company will no longer earn agency revenues from Bell Atlantic. Telecommunications revenues are not expected to be affected in any material way by the change in status. In addition, since becoming an ICP the Company has derived, and expects to continue to derive, telecommunications revenue from the sale of local telephone service under its own brand name.

Although management believes that the Company's facilities-based ICP strategy will have a positive effect on the Company's results of operations over the long term, this strategy is expected to have a negative effect on the Company's financial condition and results of operations over the short term. The Company anticipates significant losses and negative cash flow at least through the fiscal year ending March 31, 1999, which the Company expects will be primarily attributable to the deployment of the ICN and expected expansion of operations.

Fiscal Year Ended March 31, 1998 Compared to Fiscal Year Ended March 31, 1997

The results for the fiscal year ended March 31, 1998 ("Fiscal 1998") reflect the Company's decision to terminate its agency relationship with Bell Atlantic in December 1997 and commence operations as an ICP. This decision adversely affected revenues and expenses to a certain extent in the third quarter as the Company prepared for this transition and significantly affected revenues in the fourth quarter after the transition had been effected. Total revenues of $40,947,000 for Fiscal 1998 were essentially flat as compared to $40,290,000 for the fiscal year ended March 31, 1997 ("Fiscal 1997"). Agency revenues decreased 15% to $24,775,000 for Fiscal 1998 from $29,195,000 in Fiscal 1997, primarily as a result of fourth quarter revenues of only $194,000, as compared to $8,354,000 for the same period of Fiscal 1997. This decrease reflects the fact that the Company left the Bell Atlantic agency program in December 1997, and thus no Bell Atlantic agency revenues were reported in the fourth quarter of Fiscal 1998. Telecommunications revenues increased 46% to $16,172,000 for Fiscal 1998 from $11,095,000 for Fiscal 1997. This increase reflects the increased sales of long distance, Internet access, and frame relay data services as well the commencement of the Company's sale of local telecommunications services as an ICP in the fourth quarter of Fiscal 1998. Although local telecommunications sales increased during the fourth quarter, they were significantly less than expected by the Company as a result of the imposition of the TRO in February 1998, thereby requiring the Company to sell these local services only to new customers, resulting in a longer sales cycle.

Costs of telecommunications revenues increased 61% to $14,039,000 for Fiscal 1998 from $8,709,000 for Fiscal 1997. As a percentage of telecommunications revenues, cost of telecommunications revenues was 87% for Fiscal 1998 as compared to 78% for Fiscal 1997. This overall increase was due primarily to increased sales of telecommunications services and increased costs for those services sold. Due largely to the initiation of local telecommunications sales in the fourth fiscal quarter, cost of telecommunications revenues for this period increased 127% to $5,944,000 from $2,615,000 for the same period in Fiscal 1997. These increases as a percentage of revenues were attributable to fixed costs associated with the sale of local telecommunications services, lower long distance rates extended to customers in advance of rate decreases from CTC's long distance supplier, increased costs associated with adding new customers and services, and costs associated with phasing out the Company's debit card program. As a result, the Company believes that gross margins for the fourth quarter are not representative and expects gross margins to improve in future quarters.

Selling, general and administrative expenses increased 32% to $31,492,000 in Fiscal 1998 from $23,820,000 in Fiscal 1997. This increase was a result of the increased number of sales and service employees hired in connection with the strategy shift, increased payments of commission and bonuses, increased corporate and administrative expenses, increased depreciation associated with greater capital expenditures, expenses related to new branch openings and a $1,200,000 charge for estimated costs of the Bell Atlantic litigation.

The Company reported a loss of $2,884,000 for Fiscal 1998 as compared to net income of $4,683,000 for Fiscal 1997, primarily as the result of a $5,008,000 loss in the fourth quarter.

Fiscal Year Ended March 31, 1997 Compared to Fiscal Year Ended March 31, 1996

Total revenues for Fiscal 1997 increased 30% to $40,290,000 as compared to $30,876,000 for the fiscal year ended March 31, 1996 ("Fiscal 1996"). Agency revenues increased 15% to $29,195,000 in Fiscal 1997 as compared to $25,493,000 for Fiscal 1996 due to the addition of new customers, increased sales to existing customers and the addition of new services to the Company's portfolio. Effective January 1996, NYNEX reduced certain fees and commissions payable under its 1996 agency agreement with the Company. As a result, although unit sales of Centrex and Data Products, two flagship NYNEX products, increased 30% and 66%, respectively, revenues increased only 15% as stated above.

Telecommunications revenues increased 106% to $11,095,000 for Fiscal 1997 from $5,383,000 for Fiscal 1996. This increase can be attributed to the addition of new customers to the service, as well as the introduction of new products, primarily Internet access.

Selling, general and administrative expenses increased 19% to $23,820,000 for Fiscal 1997 from $20,009,000 for Fiscal 1996. As a percentage of revenues, these expenses were 59% for Fiscal 1997, as compared to 65% for Fiscal 1996. The increase in selling, general and administrative expenses is attributable to the increase in variable sales commission and bonus expenses incurred in connection with the substantial increase in revenues. In addition, the Company increased the number of sales offices, particularly in the Northeast, hired additional sales executives, expanded the facilities at several of its existing sales branches and made additional investments in its Information System in Fiscal 1997.

Net income increased to $4,683,000 in Fiscal 1997 from $4,094,000 in Fiscal 1996, as a result of revenue growth primarily in the Northeast, combined with a continuing effort to control operating expenses.

Liquidity and Capital Resources

Historically, the Company funded its working capital and operating expenditures primarily from cash flow from operations. Principally as a result of Bell Atlantic's failure to pay approximately $14 million (approximately $11.3 million as of July 14, 1998) in agency commissions which the Company believes it is owed under its former agency contract and losses incurred in connection with CTC's transition to an ICP strategy, the Company required additional working capital from outside sources. As of July 14, 1998, the Company borrowed $8.3 million under the Credit Facility, which CTC entered into in November 1997 in anticipation of its transition to an ICP strategy. In April 1998, the Company sold $12 million of Series A Convertible Preferred Stock and warrants (the "Spectrum Financing") to Spectrum and other private investors in a private placement.

The Company has sued Bell Atlantic and believes the collection of the agency commissions is probable. However, there is no assurance that the Company will be successful in collecting those commissions. If the Company fails to collect any of the agency commissions sought or if their collection becomes less than probable, the Company would be required to write off the amounts reflected in its financial statements that it is unable to collect or for which collection becomes less than probable. Delay in the collection of, or the write-off of, the agency commissions may adversely affect the Company.

As of March 31, 1998, the Company was not in compliance with certain covenants under the Credit Facility as a result of $6 million of net losses incurred in the fourth quarter of Fiscal 1998 in conmnection with the Company's transition to an ICP strategy. The Company has obtained waivers of these defaults through September 30, 1998 and has agreed to reduce availability under the Credit Facility to $9 million.

The Company has obtained a commitment for the Interim Facility from its current lender. The Interim Facility, which would mature on June 30, 1999, would provide secured revolving loans of up to $20 million to refinance the Credit Facility, to fund capital expenditures and operating losses and for general corporate purposes. The commitment, which is subject to certain conditions, extends to September 30, 1998. To satisfy one of those conditions, the Company has received a commitment from Spectrum to purchase $5 million of Preferred Stock which extends until June 30, 1999. The Company believes that the Interim Facility and the Interim Spectrum Financing, if required, together with cash on hand would be sufficient to refinance the Credit Facility and to fund the Company's existing operations for at least the next 12 months. However, CTC would be required to delay its proposed geographic expansion and deployment of facilities or to obtain additional financing within the next 6 months.

The implementation of the Company's business plan to further penetrate its existing markets as an ICP, deploy the ICN in its existing markets, expand its sales presence into six additional states in the Boston-Washington D.C. corridor and enhance the CTC Information System and the repayment of the Credit Facility will require the Company to raise significant capital. The Company does not expect to consummate the $125 million private offering of senior discount notes and warrants under Rule 144A which it has been seeking and is actively engaged in the negotiation of commitments with alternative sources of capital to fund its business plans. Although the Company is highly optimistic that it will be successful in obtaining such financing based upon its negotiations, there can be no assurance that the Company will be able to consummate financing in the amount, on the terms and on the schedule required to implement the Company's business plan, if at all.

The timing and amount of the Company's actual capital requirements may be materially affected by many factors, including the timing and availability of financing, the timing and actual cost of expansion into new markets and deployment of the ICN, the extent of competition and pricing of telecommunications services in its markets, acceptance of the Company's services, technological change and potential acquisitions.

Year 2000 Compliance

The Company has evaluated the effect of the year 2000 date on its information systems and is implementing plans to ensure its systems and applications will effectively process information necessary to support ongoing operations of the Company in the year 2000 and beyond. The Company currently expects that its systems will be year 2000 compliant by the end of 1998. Based on management's current estimates, the costs of system modifications and enhancements, which have been and will be expensed as incurred, are not expected to be material to the results of operation or the financial position of the Company.

The Company has made inquiries with its significant suppliers to determine the extent to which the Company's interface systems and operations are vulnerable to those third parties' failure to rectify their own year 2000 issues. There can be no assurance that the systems of other companies on which the Company's systems rely will be timely converted and will not have an adverse effect on the Company's operations.

Item 8. Financial Statements and Supplementary Data

Reference is made to the Financial Statements and Notes thereto comprising a portion of this Annual Report on Form 10-K on pages F-1 to F-17.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

(a) Identification of Directors

	Age	Period Served as Director	Other Capacities in Which Currently Serving
Robert J. Fabbricatore	55	Since 1980	Chairman and Chief Executive Officer
Richard J. Santagati	54	Since 1991	None
J. Richard Murphy	53	Since 1995	None
Henry Hermann	56	Since 1996	Consultant
Ralph C. Sillari	43	Since 1997	None
William P. Collatos	44	Since 1998	None
Kevin J. Maroni	35	Since 1998	None

Mr. Robert Fabbricatore, a founder of the Company and a Director since its inception in 1980, became Chairman of the Board of Directors in March 1983 and served as President from October 1993 to August 1995. Robert Fabbricatore is the brother of Thomas Fabbricatore.

Mr. Santagati became a director of the Company in September 1991. He has been the President of Merrimack College in North Andover, Massachusetts since 1994. Mr. Santagati was a partner of Lighthouse Management, Inc., a private investment firm located in Boston, Massachusetts from 1991 to 1993 and, from 1991 to February 1994, the Chairman of the Board, Chief Executive Officer and President of Artel Communications Corp., a publicly held data communications firm located in Hudson, Massachusetts.

Mr. Murphy became a Director of the Company in August 1995. Mr. Murphy has been the Director of the Financial Consulting Group of Moody, Cavanaugh and Company, LLP, a North Andover, Massachusetts public accounting firm, since April 1996. Mr. Murphy was an officer, director and principal stockholder (ii) from 1990 to 1995 of Arlington Data Corporation, a systems integration company located in Amesbury, Massachusetts; (ii) from 1992 to 1996 of Arlington Data Consultants, Inc., a company engaged in the installation and maintenance of computer systems and hardware; and (iii) from 1994 to 1996 of Computer Emporium, Inc., a company engaged in processing parking violations for municipalities. In June 1996, Arlington Data Corporation filed for bankruptcy under Chapter 11 of the Bankruptcy Code.

Mr. Hermann became a director of the Company in September 1996. Since November 1997, he has operated Hermann Companies, a financial services company engaged in portfolio management, securities analysis and financial consulting. Mr. Hermann is registered as an Investment Advisor with the State of Texas, a Chartered Financial Analyst and, as an independent contractor, offers general securities through Brokers Transaction Services. From May 1997 to November 1997, he was employed by Kuhns Brothers & Company, Inc., as a principal and Executive Vice President. For the previous nine years, he was employed by WR Lazard, Laidlaw and Luther, Inc., a securities brokerage firm, as Vice President, Securities Analyst and Portfolio Manager. Mr. Hermann has been an NASD Board of Arbitrators Member since 1991. Mr. Hermann has provided financial consulting services to the Company since 1993.

Mr. Sillari became a director of the Company in October 1997. Since 1991, Mr. Sillari has been employed by Fleet National Bank where he is currently Executive Vice President in the Business and Entrepreneurial Services Division in Boston, Massachusetts.

Mr. Collatos became a director of the Company in April 1998 as a condition to the Spectrum Financing. Mr. Collatos is a founding General Partner of Spectrum. Prior to founding Spectrum in 1994, Mr. Collatos was a founding General Partner of Media/Communications Partners and a General Partner of TA Associates.

Mr. Collatos is a director of Galaxy Telecom Inc., TSR Paging Inc., Golden Sky Systems Inc., ITXC Corp. and Internet Network Services Holdings Ltd.

Mr. Maroni became a director of the Company in April 1998 as a condition to the Spectrum Financing. Mr. Maroni is a General Partner of Spectrum, which he joined in 1994. Prior to joining Spectrum, he served as Manager, Finance and Development at Time Warner Telecommunications, where he was involved in corporate development projects. Mr. Maroni is a director of Pathnet, Inc., Formus Communications, Inc., WNP Communications, Inc. and American Cellular Corp.

Pursuant to Section 50A of Chapter 156B of the Massachusetts General Laws and as provided in the Company's Amended and Restated By-laws, the Board of Directors is classified into three classes, as nearly as equal in number as possible, so that each director (after a transitional period) will serve for three years, with one class of directors being elected each year. The board is currently comprised of two Class I Directors (Messrs. Hermann and Sillari), two Class II Directors (Messrs. Murphy and Santagati) and three Class III Directors (Messrs. Fabbricatore, Maroni and Collatos). The terms of the Class I, Class II and Class III Directors expire upon the election and qualification of successor directors at annual meetings of stockholders held following the end of fiscal years 1998, 1999 and 2000, respectively.

Director Compensation

Directors of the Company who are employees do not receive compensation for their services as directors. Directors who are not employees receive an annual retainer of $10,000. On May 16, 1997, the Company granted to Messrs. Hermann, Murphy and Santagati stock options to purchase 10,000, 10,000 and 15,000 shares, respectively, of its Common Stock at a purchase price of $7.44 per share. On October 20, 1997, the Company granted to Mr. Sillari a stock option to purchase 10,000 shares of its Common Stock at a purchase price of $8.25 per share upon his becoming a director of the Company. These options were repriced on March 20, 1998 to $7.19 per share.

Committees of the Board of Directors

The Company has established an Audit Committee, Compensation Committee and a Nominating Committee.

The Audit Committee consists of Messrs. Murphy and Hermann. The Audit Committee is responsible for reviewing the internal accounting controls of the Company, meeting and conferring with the Company's certified public accountants and reviewing the results of the accountants' auditing engagement.

The Compensation Committee consists of Messrs. Maroni, Santagati and Murphy. The Compensation Committee establishes compensation and benefits for the Company's senior executives. The Committee also determines the number and terms of stock options granted to employees, directors and consultants of the Company under the Company's stock option plans.

The Nominating Committee consists of Messrs. Santagati, Murphy and Sillari. The Nominating Committee recommends candidates for nomination to the Board of Directors. The Committee also reviews and makes recommendations regarding compensation for non-employee directors.

Voting Agreement

Pursuant to a Voting Agreement dated April 10, 1998 between Robert J. Fabbricatore and certain of his affiliates and Spectrum, Mr. Fabbricatore and certain of his affiliates agreed to vote at each annual or special meeting at which directors of the Company are to be elected all of the shares of Common Stock held by them in favor of persons designated by a majority of the outstanding shares of Series A Preferred Stock as nominees for directors, subject to certain limitations based on the number of shares of Series A Preferred Stock outstanding at any time.

(b) Identification of Executive Officers

Name	Age	Current Office Held
Robert J. Fabbricatore..	55	Chairman, Chief Executive Officer
Steven P. Milton	44	President, Chief Operating Officer
Steven C. Jones	35	Executive Vice President, Chief Financial Officer and Director of Corporate Development
John D. Pittenger......	45	Executive Vice President—Finance and Administration, Treasurer and Clerk
David E. Mahan	56	Vice President—Market and Strategic Planning
Michael H. Donnellan..	44	Vice President—Operations
Thomas Fabbricatore ..	39	Vice President—Regulatory and Electronic Media
Anthony D. Vermette ..	37	Vice President—Sales

Mr. Milton has been employed by the Company since 1984 and has served as President and Chief Operating Officer since August 1995. Prior to that, he held various positions within the Company including Branch Manager, District Manager, Regional Manager and, most recently, Vice President—Sales and Marketing.

Mr. Jones joined the Company in early 1998 and has served as an Executive Vice President and Chief Financial Officer since April 1998. From 1994 to April 1998, Mr. Jones worked in the telecommunications investment banking division of Merrill Lynch & Co., most recently as a Vice President. From 1991 to 1994, Mr. Jones was an Associate at BT Securities Corp.

Mr. Pittenger has served as Executive Vice President—Finance and Administration since April 1998 and as Treasurer and Clerk of the Company since August 1989. Mr. Pittenger served as Vice President—Finance from 1991 until April 1998, and as Chief Financial Officer from 1989 to April 1998.

Mr. Mahan joined the Company in October 1995 as Vice President—Marketing and Strategic Planning and in June 1996 became an executive officer of the Company. Prior to joining the Company, Mr. Mahan held a number of senior management level positions with NYNEX, most recently as Vice President—Sales Channel Management from 1993 to 1995.

Mr. Donnellan has been employed by the Company since 1988 in a number of positions. He was named Vice President—Operations in 1995 and became an executive officer of the Company in October 1997.

Mr. Thomas J. Fabbricatore joined the Company in 1982. He was named Vice President—Regulatory and Electronic Media in 1991 and became an executive officer of the Company in October 1997. Thomas Fabbricatore is the brother of Robert J. Fabbricatore.

Mr. Vermette has been employed by the Company in a variety of positions since 1987. Mr. Vermette was named Vice President—Sales in 1996 and became an executive officer in October 1997.

For a description of the business background of Mr. Robert Fabbricatore see "Identification of Directors" above.

Item 11. Executive Compensation

The following table provides certain summary information concerning the compensation paid or accrued by the Company to or on behalf of the Company's Chief Executive Officer and each of the four other most highly paid executive officers of the Company ("Named Executive Officers") during the fiscal year ended March 31, 1998.

Summary Compensation Table

	Annual Compensation			Long-Term Compensation		
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation($)**	**Securities Underlying Options (#)(1)**	**All Other Compensation**
Robert J. Fabbricatore,	1998	240,000	60,000	—	150,000	$19,550
Chairman and Chief	1997	240,000	60,000	—	—	18,075
Executive Officer	1996	240,000	60,000	—	—	16,100
Steven P. Milton,	1998	100,000	40,000	5,200	150,000	4,200
President and Chief	1997	100,000	40,000	5,200	—	4,075
Operating Officer	1996	100,000	40,000	5,200	—	4,200
Anthony D. Vermette,	1998	86,647	58,424	4,000	100,000	3,456
Vice President	1997	80,000	54,198	4,000	—	3,776
	1996	80,000	28,000	4,000	—	3,240
Michael H. Donnellan,	1998	92,500	4,000	4,000	80,000	3,975
Vice President of	1997	80,000	32,000	4,000	—	3,360
Operations	1996	63,000	132,119	4,000	—	3,887
David E. Mahan,	1998	100,000	40,000	5,004	250,000	4,075
Vice President—Market	1997	100,000	40,000	5,004	—	4,075
Planning & Development	1996(3)	50,000	20,000	2,500	100,000	—

(1) On March 20, 1998, the Company repriced all previously granted options that had an exercise price in excess of $7.00 per share. Includes 75,000, 75,000, 50,000, 40,000 and 180,000 shares underlying options previously granted to Messrs. Fabbricatore, Milton, Vermette, Donnellan, and Mahan, respectively, that were canceled as a result of the repricing.

(2) Includes 50% matching contributions in the amounts of $4,750, $4,200, $4,200, $3,456, $3,975 and $4,075 accrued on behalf of Messrs. Fabbricatore, Milton, Vermette, Donnellan, and Mahan, respectively, to the CTC Communications Corp. 401(k) Savings Plan. Also included is the actuarial benefit in the amount of approximately $14,800 on the "split-dollar" life insurance policy for the benefit of Mr. Fabbricatore.

(3) Mr. Mahan commenced employment with the Company on October 1, 1995.

The following table sets forth information concerning option grants and option holdings for the fiscal year ended March 31, 1998 with respect to the Named Executive Officers.

OPTION GRANTS IN LAST FISCAL YEAR

Name	No. of Securities Underlying Option Granted(#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Sh)	Expiration Date	Potential Realizable Value as Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%($)	10%($)
Robert J. Fabbricatore	75,000(1)	3%	$8.18	5/16/2002	$ 98,339	$284,788
	75,000	3%	7.91	5/16/2002	95,033	275,216
Steven P. Milton	75,000(1)	3%	7.44	5/16/2002	154,124	340,573
	75,000	3%	7.19	5/16/2002	148,943	329,126
Anthony D. Vermette	50,000(1)	2%	7.44	5/16/2002	102,749	227,049
	50,000	2%	7.19	5/16/2002	99,296	219,417
Michael H. Donnellan	40,000(1)	1%	7.44	5/16/2002	82,199	181,639
	40,000	1%	7.19	5/16/2002	79,436	175,534
David E. Mahan	80,000(1)	3%	7.44	5/16/2002	164,399	363,278
	80,000	3%	7.19	5/16/2002	158,873	351,068
	100,000	4%	7.19	10/02/2000	198,391	438,835

(1) Canceled as a result of option repricing.

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information concerning the exercise of options by the Named Executive Officers during the fiscal year ended March 31, 1998 and the March 31, 1998 aggregate value of unexercised options held by each of the Named Executive Officers.

Name	Shares Acquired on Exercise(#)	Value Realized($)	Number of Securities Underlying Unexercised Options at Fiscal Year End(#)(1)		Value of Unexercised In-the-Money Options at Fiscal Year End($)(1)(2)	
			Exercisable/ Unexercisable		Exercisable/ Unexercisable	
Robert J. Fabbricatore	—	—	25,167	83,389	143,704	106,401
Anthony D. Vermette	13,251	142,484	59,649	69,500	412,913	209,731
Michael H. Donnellan	—	—	77,626	61,750	545,503	208,188
Steven P. Milton	—	—	27,000	84,000	161,487	166,329
David E. Mahan	—	—	50,000	130,000	75,000	195,000

(1) All shares and amounts, as necessary, have been adjusted to reflect the 25% Common Stock dividend effected in March 1995, the three-for-two stock split effect in July 1995 and the two-for-one stock split effected in October 1995.

(2) Assumes a fair market value of the Common Stock of the Company at March 31, 1998 of $8.69 per share.

Employment Agreement

Mr. Jones is currently employed as Executive Vice-President, Chief Financial Officer and Director of Corporate Development pursuant to an agreement dated as of February 27, 1998. The agreement provides for an initial term of three years and will automatically be extended for additional one-year periods on the anniversary of the Effective Date (as defined therein) provided that neither Mr. Jones nor the Company gives notice of termination 90 days prior to any such anniversary. Under this agreement, Mr. Jones is entitled to receive an annual salary of $150,000. Mr. Jones is eligible to receive an annual bonus of at least $75,000 based upon the achievement of certain performance objectives. Pursuant to his employment agreement, Mr. Jones was granted options to purchase 300,000 shares of Common Stock exercisable at $7.06 per share and vesting over a three year period. If the Company terminates Mr. Jones without cause, or Mr. Jones terminates the agreement for (i) "good reason" as defined therein or (ii) in connection with a change of control, Mr. Jones is entitled to a severance payment equal to a lump sum amount in cash, equal to the sum of (i) two year's base salary at the highest annual base salary then in effect and (ii) the greater of twice his highest annual bonus or $150,000.

Item 12. Security Ownership Of Certain Beneficial Owners And Management

The following table sets forth certain information as of July 10, 1998 with respect to each stockholder known by the Company to beneficially own more than 5% of the outstanding shares of the Company's Common Stock, the beneficial ownership of the Company's Common Stock by each director and named executive officer of the Company, and by all of the directors and officers of the Company as a group. Based on the information furnished by the beneficial owners of the Common Stock listed below, the Company believes that each such stockholder exercises sole voting and investment power with respect to the shares beneficially owned.

	Beneficial Ownership	
Name	Number	Percent of Class
Robert J. Fabbricatore(1)	2,759,891	27.5%
Spectrum Equity Investors II, L.P.(2)	1,476,454	12.9
Henry Hermann(3)	215,922	2.2
Richard J. Santagati(4)	84,500	*
J. Richard Murphy(5)	14,334	*
Ralph C. Sillari	500	*
William P. Collatos(2)	1,476,454	12.9
Kevin J. Maroni(2)	1,476,454	12.9
Steven P. Milton(6)	436,682	4.4
David E. Mahan(7)	133,100	1.3
Michael H. Donnellan(8)	107,340	1.1
Anthony J. Vermette(9)	98,057	1.0
All Officers and Directors as as Group (14 persons)(10)	5,832,932	48.5

* Less than 1%.

(1) Includes 62,498 shares owned by Mr. Fabbricatore as trustee of a trust for his children and 1,133,239 shares as a general partner of a family partnership; also includes 43,917 shares issuable upon exercise of options exercisable within 60 days of July 10, 1998. Mr. Fabbricatore's address is c/o CTC Communications Corp., 360 Second Avenue, Waltham, Massachusetts 02154.

(2) Includes 131,511 shares issuable upon the exercise of a warrant exercisable within 60 days of July 10, 1998 and 1,344,943 shares issuable upon conversion of Series A Preferred Stock as of July 10, 1998. As general partners of Spectrum, each of Mr. Collatos, Mr. Maroni and Brion B. Applegate may be deemed to be beneficial owners of the shares beneficially owned by Spectrum. The address of Spectrum and its general partners is One International Place, 29th Floor, Boston, Massachusetts 02110.

(3) Includes 9,750 shares held by Mr. Hermann's spouse and 10,334 shares issuable upon the exercise of options exercisable within 60 days of July 10, 1998.

(4) Includes 9,500 shares issuable upon the exercise of options exercisable within 60 days of July 10, 1998.

(5) Includes 1,000 shares owned by Mr. Murphy as trustee of a trust for his spouse and 13,334 shares issuable upon the exercise of options exercisable within 60 days of July 10, 1998.
(6) Includes 4,500 shares owned by Mr. Milton as trustee of a trust for his children and 45,750 shares issuable upon the exercise of options exercisable within 60 days of July 10, 1998.
(7) Includes 70,000 shares issuable upon the exercise of options exercisable within 60 days of July 10, 1998.
(8) Includes 87,626 shares issuable upon the exercise of options exercisable within 60 days of July 10, 1998.
(9) Includes 72,149 shares issuable upon the exercise of options exercisable within 60 days of July 10, 1998.
(10) Includes the shares described in footnotes (1) through (9) above.

Preferred Stock

As of July 10, 1998, Spectrum Equity Investors II, L.P., located at One International Place, Boston, MA 02110, owned 657,555 of the 666,666 shares, or 98.6%, of the Series A Preferred Stock outstanding.

Item 13. Certain Relationships And Related Transactions

The Company leases from trusts, of which Robert J. Fabbricatore, the Company's Chairman and Chief Executive Officer, is a beneficiary, office space in Springfield, Massachusetts and southern New Hampshire. Rental payments under the leases totaled approximately $134,000, $133,000 and $133,000 in Fiscal 1996, Fiscal 1997 and Fiscal 1998, respectively. The Company subleases part of its Waltham facility at its cost to Comm-Tract Corp., a company in which Mr. Fabbricatore is a principal stockholder. Sublease income totaled $73,417, $80,416 and $119,416 for Fiscal 1996, Fiscal 1997 and Fiscal 1998, respectively. The Company also contracts with Comm-Tract Corp. for the installation of telephone lines and for the service and maintenance of equipment marketed by the Company. During Fiscal 1996, Fiscal 1997 and Fiscal 1998, Comm-Tract Corp. provided the Company with services, inventory and equipment aggregating $40,880, $97,190 and $233,034, respectively. The Company believes that the payments to the trusts and Comm-Tract Corp. are comparable to the costs for such services, inventory and equipment, and for rentals of similar facilities, which the Company would be required to pay to unaffiliated individuals in arms-length transactions.

In connection with the exercise of Company stock options in Fiscal 1995, Steven P. Milton was advanced the sum of $135,825 by the Company, which remained outstanding at March 31, 1998. The loan is payable on demand and bears interest at 8.0% per annum.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission (the "Commission") initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by Commission regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and, with respect to its officer and directors, written representations that no other reports were required, during Fiscal 1998, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with. In making the foregoing statement, the Company has relied on the written representations of its directors and officers and copies of the reports that have been filed with the Commission.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 10-K

(a)(1) *The following financial statements are included in Part II, Item 8:*

Balance Sheets
March 31, 1998 and 1997

Statements of Income
Years Ended March 31, 1998, 1997 and 1996

Statements of Stockholders' Equity
Years Ended March 31, 1998, 1997 and 1996

Statements of Operations
Years Ended March 31, 1998, 1997 and 1996

Notes to Financial Statements

(a)(2) *The following financial statement schedule for the years ended March 31, 1998, 1997 and 1996 is submitted herewith:*

Schedule II—Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(b) *Reports on Form 8-K.*

On February 3, 1998, the Company filed a report on Form 8-K disclosing the Fleet Credit Facility and the Bell Atlantic Litigation.

(c) *Exhibits.*

Number	Description of Exhibit
3.1	Restated Articles of Organization, as amended(6)
3.2	Amended and Restated By-Laws of Registrant(6)
4.1	Form of Common Stock Certificate(5)
9.1	Voting Agreement dated April 10, 1998 among Robert Fabbricatore and certain of his affiliates and Spectrum(7)
10.1	1996 Stock Option Plan(3)
10.2	1993 Stock Option Plan(5)
10.3	Employee Stock Purchase Plan(4)
10.4	Lease for premises at 360 Second Ave., Waltham MA(5)
10.5	Sublease for premises at 360 Second Ave., Waltham MA(5)
10.6	Lease for premises at 110 Hartwell Ave., Lexington MA(5)
10.7	Lease for premises at 120 Broadway, New York, NY(5)
10.8	Agreement dated February 1, 1996 between NYNEX and the Company(5)
10.9	Agreement dated May 1, 1997 between Pacific Bell and the Company (5)

Number	Description of Exhibit
10.10	Agreement dated January 1, 1996 between SNET America, Inc. and the Company(5)
10.11	Agreement dated June 23, 1995 between IXC Long Distance, Inc. and the Company, as amended(5)
10.12	Agreement dated August 19, 1996 between Innovative Telecom Corp. and the Company(5)
10.13	Agreement dated October 20, 1994 between Frontier Communications International, Inc. and the Company, as amended(5)
10.14	Agreement dated January 21, 1997 between Intermedia Communications Inc. and the Company(5)
10.15	Employment Agreement between the Company and Steve Jones dated February 27, 1998(7)
10.16	Securities Purchase Agreement dated April 10, 1998 among the Company and the Purchasers named therein(6)
10.17	Registration Rights Agreement dated April 10, 1998 among the Company and the Holders named therein(6)
10.18	Form of Warrant dated April 10, 1998(6)
23.1	Consent of Ernst & Young LLP(7)
27	Financial Data Schedule(7)
99.1	Risk Factors(7)

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(1) Incorporated by reference to an Exhibit filed as part of the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996.

(2) Incorporated by reference to an Exhibit filed as part of the Registrant's Registration Statement on Form S-18 (Reg. No. 2-95419-B).

(3) Incorporated by reference to an Exhibit filed as part of the Registrant's Registration Statement on Form S-8 (File No. 333-17613).

(4) Incorporated by reference to an Exhibit filed as part of the Registrant's Registration Statement on Form S-8 (File No. 33-44337).

(5) Incorporated by reference to an Exhibit filed as part of the Registrant's Annual Report on Form 10-K for the Fiscal Year Ended March 31, 1997.

(6) Incorporated by reference to the Registrant's Current Report on Form 8-K dated May 15, 1998 filed with the Commission on May 15, 1998.

(7) Filed herewith.

SIGNATURES

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

CTC COMMUNICATIONS CORP.

/s/ ROBERT J. FABBRICATORE

Robert J. Fabbricatore,
Chairman and CEO

Date: July 15, 1998

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

Signature	Title
/s/ ROBERT J. FABBRICATORE **Robert J. Fabbricatore**	Chairman and Chief Executive Officer
/s/ STEVEN C. JONES Steven C. Jones	Executive Vice President, Chief Financial Officer and Director of Corporate Development (principal financial officer)
/s/ JOHN D. PITTENGER John D. Pittenger	Executive Vice President—Finance and Administration (principal accounting officer)
/s/ RICHARD J. SANTAGATI Richard J. Santagati	Director
/s/ J. RICHARD MURPHY **J. Richard Murphy**	Director
/s/ HENRY HERMANN **Henry Hermann**	Director
/s/ RALPH C. SILLARI **Ralph C. Sillari**	Director
/s/ WILLIAM P. COLLATOS **William P. Collatos**	Director
/s/ KEVIN J. MARONI **Kevin J. Maroni**	Director

Date: July 15, 1998

CTC COMMUNICATIONS CORP.

INDEX TO FINANCIAL STATEMENTS

Audited Financial Statements

REPORT OF INDEPENDENT AUDITORS

Board of Directors
CTC Communications Corp.

We have audited the accompanying financial statements of CTC Communications Corp., as of March 31, 1998 and 1997, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CTC Communications Corp. at March 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

ERNST & YOUNG LLP

Boston, Massachusetts
May 28, 1998, except for Note 1,
as to which the date is July 15, 1998

CTC COMMUNICATIONS CORP.

BALANCE SHEETS

	March 31, 1998	March 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,167,930	$ 6,405,670
Accounts receivable, less allowance for doubtful accounts of $492,000 in 1998 and $377,000 in 1997	17,288,183	10,904,820
Prepaid expenses and other current assets	791,736	447,441
Amounts due from officers and employees	84,754	46,112
Income tax receivable	2,152,579	
Total current assets	22,485,182	17,804,043
Equipment:		
Equipment	13,376,970	7,268,372
Accumulated depreciation	(6,837,683)	(5,565,650)
	6,539,287	1,702,722
Deferred income taxes	1,834,000	566,000
Other assets	108,885	113,685
	$30,967,354	$20,186,450
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 8,958,476	[illegible]
Accrued income taxes		[illegible]
Accrued salaries and related taxes	756,159	[illegible]
Deferred revenue		[illegible]
Current portion of obligations under capital leases	231,796	
Current portion of note payable to bank	1,196,400	
Total current liabilities	11,142,831	5,894,777
Obligations under capital leases, net of current portion	1,114,277	
Note payable to bank, net of current portion	7,130,671	
Commitments and contingencies		
Stockholders' equity:		
Series Preferred Stock—par value $1.00 per share; authorized 1,000,000 shares, none outstanding		
Common Stock, par value $.01 per share; authorized 25,000,000 shares, issued 9,980,661 and 9,629,407 shares in 1998 and 1997, respectively	99,806	96,294
Additional paid-in capital	5,245,704	4,758,454
Deferred compensation	(318,410)	
Retained earnings	6,688,300	9,572,750
	11,715,400	14,427,498
Amounts due from stockholders	(135,825)	(135,825)
	11,579,575	14,291,673
	$30,967,354	$20,186,450

See accompanying notes.

CTC COMMUNICATIONS CORP.

STATEMENTS OF OPERATIONS

	Year Ended March 31, 1998	1997	1996
Revenues:			
Agency	$24,775,420	$29,195,261	$25,492,511
Telecommunications	16,171,716	11,094,838	5,383,414
	40,947,136	40,290,099	30,875,925
Costs and expenses:			
Cost of telecommunications revenues	14,038,565	8,709,122	4,241,575
Selling, general and administrative expenses	31,491,963	23,819,714	20,009,432
	45,530,528	32,528,836	24,251,007
Income (loss) from operations	(4,583,392)	7,761,263	6,624,918
Other:			
Interest income	145,012	201,369	195,979
Interest expense	(106,465)	(17,753)	(604)
Other	174,395	15,052	9,631
	212,942	198,668	205,006
Earnings (loss) before income taxes	(4,370,450)	7,959,931	6,829,924
Provision (benefit) for income taxes	(1,486,000)	3,277,000	2,736,000
Net income (loss)	$ (2,884,450)	$ 4,682,931	$ 4,093,924
Earnings (loss) per common share:			
Basic	$ (0.29)	$ 0.49	$ 0.43
Diluted	$ (0.29)	$ 0.43	$ 0.38
Shares used in computing earnings (loss) per common share:			
Basic	9,886,000	9,600,000	9,446,000
Diluted	9,886,000	10,773,000	10,712,000

See accompanying notes.

CTC COMMUNICATIONS CORP.

STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional				Amounts	
	Shares	Par Value	Paid-in Capital	Deferred Compensation	Retained Earnings	Treasury Stock	Due From Stockholders	Total
Balance at March 31, 1995	3,124,437	$31,244	$4,871,302		$ 796,734	$ (13,860)	$(159,825)	$ 5,525,595
Issuance of stock pursuant to employee stock purchase plan ..	9,082	91	58,153					58,244
Exercise of employee stock options	197,143	1,971	121,053					123,024
Acquisition of treasury stock						(329,125)		(329,125)
Retirement of treasury stock	(25,454)	(254)	(342,731)			342,985		
Settlement of amounts due from stockholders							24,000	24,000
Issuance of stock upon 3 for 2 stock split	1,560,742	15,607	(15,607)		(839)			(839)
Issuance of stock upon 2 for 1 stock split	4,718,172	47,182	(47,182)					
Net income					4,093,924			4,093,924
Balance at March 31, 1996	9,584,122	95,841	4,644,938		4,889,819	0	(135,825)	9,494,823
Issuance of stock pursuant to employee stock purchase plan ..	8,714	87	70,088					70,175
Exercise of employee stock options	36,571	366	43,378					43,744
Net income					4,682,931			4,682,931
Balance at March 31, 1997	9,629,407	96,294	4,758,454		9,572,750	0	(135,825)	14,291,673
Issuance of stock pursuant to employee stock purchase plan ..	9,844	98	71,662					71,760
Exercise of employee stock options	376,387	3,764	347,222					350,986
Acquisition of treasury stock						(271,072)		(271,072)
Retirement of treasury stock	(34,977)	(350)	(270,722)			271,072		
Deferred compensation			339,088	$(318,410)				20,678
Net loss					(2,884,450)			(2,884,450)
Balance at March 31, 1998	9,980,661	$99,806	$5,245,704	$(318,410)	$ 6,688,300	0	$(135,825)	$11,579,575

See accompanying notes.

CTC COMMUNICATIONS CORP.

STATEMENTS OF CASH FLOWS

	Year Ended March 31		
	1998	1997	1996
OPERATING ACTIVITIES			
Net income (loss)	$(2,884,450)	$ 4,682,931	$ 4,093,924
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,417,866	742,895	660,338
Provision for doubtful accounts	1,421,000	316,669	61,763
Deferred income taxes	(1,268,000)	(289,000)	(124,000)
Stock compensation expense	20,678		
Gain on sale of fixed asset	(143,333)		
Changes in operating assets and liabilities:			
Accounts receivable	(7,804,363)	(4,664,260)	(2,979,772)
Other current assets	(382,937)	(123,789)	(231,642)
Income tax receivable	(2,152,579)	21,125	(21,125)
Other assets	4,800	4,800	(90,200)
Accounts payable, accrued expenses, accrued salaries and related taxes	4,052,394	2,657,149	1,103,061
Accrued income taxes	(225,948)	225,948	(281,569)
Deferred revenue and other	(6,588)	(2,714)	1,128
Net cash provided by (used in) operating activities	(7,951,460)	3,571,754	2,191,906
INVESTING ACTIVITY			
Additions to equipment, net	(4,765,025)	(1,221,879)	(759,204)
Net cash used in investing activity	(4,765,025)	(1,221,879)	(759,204)
FINANCING ACTIVITIES			
Proceeds from issuance of common stock	151,674	113,919	119,467
Borrowings under note payable to bank, net of repayments	8,327,071		
Cash paid for fractional shares in connection with stock splits			(839)
Net cash provided by financing activities	8,478,745	113,919	118,628
Increase (decrease) in cash and cash equivalents	(4,237,740)	2,463,794	1,551,330
Cash and cash equivalents at beginning of year	6,405,670	3,941,876	2,390,546
Cash and cash equivalents at end of year	$ 2,167,930	$ 6,405,670	$ 3,941,876

See accompanying notes.

CTC COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1998

1. Summary of Significant Accounting Policies

The Company

CTC Communications Corp. (the Company) is an integrated communications provider (ICP), which offers local, long distance, Internet access, Frame Relay and other data services under its own brand name on a single integrated bill. The Company serves small to medium-sized business customers in seven Northeastern states. Prior to becoming an ICP in January 1998, the Company was a sales agent for Bell Atlantic Corp. (Bell Atlantic) and other telecommunications providers selling local telecommunications services as an agent since 1984. The Company has also offered long distance and data services under its own brand name since 1994. In late 1998, the Company plans to begin deploying a data-centric network in its existing markets.

The Company has obtained a commitment for an interim credit facility (the Interim Facility) from its current lender. The Interim Facility, which would mature on June 30, 1999, would provide secured revolving loans of up to $20 million to refinance the Company's existing credit facility (the Credit Facility), to fund capital expenditures and significant operating losses expected to be incurred in connection with the Company's transition to an ICP strategy and for general corporate purposes. The commitment, which is subject to certain conditions, extends to September 30, 1998. To satisfy one of those conditions, the Company has received a commitment from Spectrum to purchase $5 million of Preferred Stock which extends until June 30, 1999 (the Interim Spectrum Financing). The Company believes that the Interim Facility and the Interim Spectrum Financing, if required, together with cash on hand would be sufficient to refinance the Credit Facility and to fund the Company's existing operations for at least the next 12 months. However, CTC would be required to delay its proposed geographic expansion and deployment of facilities or to obtain additional financing within the next 6 months.

The implementation of the Company's business plan to further penetrate its existing markets as an ICP, deploy the ICN in its existing markets, expand its sales presence into six additional states in the Boston-Washington D.C. corridor and enhance the CTC Information System and the repayment of the Credit Facility will require the Company to raise significant capital. The Company has been seeking and is actively engaged in the negotiation of commitments with alternative sources of long-term financing to fund its business plans. Although the Company is highly optimistic that it will be successful in obtaining such financing based upon its negotiations, there can be no assurance that the Company will be able to consummate financing in the amount, on the terms and on the schedule required to implement the Company's business plan, if at all.

Agency revenues derived from commissions received from Bell Atlantic represented 48%, 63% and 69% of the Company's total revenues in 1998, 1997 and 1996, respectively. Accounts receivable from Bell Atlantic amounted to 63% and 70% of total accounts receivable at March 31, 1998 and 1997, respectively. See Note 2.

Cash and Cash Equivalents

The Company considers highly liquid investments with maturities of less than three months at the date of acquisition as cash equivalents.

Equipment

Equipment is stated on the basis of cost. Depreciation, including amortization of capitalized leases, is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Revenue Recognition

Telecommunications revenues are recognized as the usage accrues on the network. Agency revenues are recognized when ordered and, if commissions are based on usage, revenues are recognized as earned. Provisions for cancellations are made at the time revenue is recognized and actual experience prior to the developments described in Note 2 has consistently been within management's estimates.

Income Taxes

The Company provides for income taxes under the liability method prescribed by Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes are recognized for the future tax consequences of differences between the tax and financial accounting bases of assets and liabilities at each year end. Deferred income taxes are based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Accounting Pronouncements

In 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, Reporting Comprehensive Income and SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. Both SFAS 130 and SFAS 131 are effective for fiscal years beginning after December 15, 1997. The Company believes that the adoption of these new accounting standards will not have a material impact on the Company's financial statements.

Earnings Per Share

In 1997, the FASB issued SFAS No. 128, Earnings per Share. SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the SFAS No. 128 requirements.

Risks and Uncertainties

Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents and trade receivables. The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these instruments.

Significant Estimates and Assumptions

The financial statements have been prepared in conformity with generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made by management affect the Company's provision for doubtful accounts, cancellation of orders and certain accrued expenses. Actual results could differ from those estimates.

Accounting for Stock Issued to Employees

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair market value of the shares at the date of the grant (110% of the fair market value for owners of 20% or more of the Company's Common Stock). The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, Accounting for Stock-Based Compensation, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

2. Bell Atlantic Litigation

In December 1997, the Company terminated its agency contract and filed suit against Bell Atlantic for breaches of contract, including the failure of Bell Atlantic's retail division to pay $14 million in agency commissions (approximately $12 million at March 31, 1998) owed to the Company. The Company also asserted violations by Bell Atlantic of antitrust laws and the Telecommunications Act. The Company intends to pursue this suit vigorously. Although the Company believes the collection of the agency commissions sought in the suit is probable, there can be no assurance that the Company will be successful in collecting those commissions. If the Company fails to collect any of the agency commissions sought or if their collection becomes less than probable, the Company would be required to write off the amounts reflected in its financial statements that it is unable to collect or for which collection becomes less than probable. Delay in collection of, or the write-off of, the agency commissions sought may adversely affect the Company.

3. Related-Party Transactions

The installation of telephone systems is generally subcontracted to a company controlled by the Chairman of the Company. Amounts paid to this subcontractor which are based on fair market value amounted to $1,723, $28,217 and $1,089 in 1998, 1997 and 1996, respectively. Additionally, inventory and equipment purchased from this subcontractor at fair market value amounted to $231,052, $68,973 and $39,791 in 1998, 1997 and 1996, respectively.

The Company leases office space from trusts in which the Chairman is a beneficiary. Rent expense for these facilities aggregated $132,656, $132,656 and $133,949 in 1998, 1997 and 1996, respectively. These office space leases expire in fiscal 1998.

The Company subleases a part of its corporate facility to a company controlled by the Chairman of the Company. Terms of the sublease are identical with those included in the Company's lease. Sublease income totaled $119,416, $80,416 and $73,417 in 1998, 1997 and 1996, respectively.

4. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	March 31	
	1998	1997
Trade accounts payable	$5,778,048	$2,015,409
Accrued cost of telecommunications revenue	888,031	790,039
Bell Atlantic litigation	1,200,000	
Other	1,092,397	432,968

5. Note Payable to Bank

In November 1997, the Company replaced its existing $5,000,000 revolving line of credit agreement with a bank credit facility consisting of $15,000,000 revolving line of credit, a $5,000,000 equipment line of credit, and a $5,000,000 working capital line of credit. The revolving line of credit bears interest at Libor plus 1.5% to 3.00%, or prime rate plus up to 0.5%, depending on certain coverage ratios of the Company and expires in September, 2000. The equipment and working capital lines of credit bear interest at Libor plus 1.75% to 3.25%, or prime rate plus up to 1%, depending on certain leverage ratios of the Company and expire in September 2000. At March 31, 1998, $1,339,000 and $4,018,000 was available for borrowing under the revolving line of credit, and the equipment line of credit, respectively, and no amounts were available for borrowing under the working capital line of credit.

As of March 31, 1998, the Company was not in compliance with certain covenants under its bank credit facility as a result of the Company's fourth quarter net loss of approximately $6 million. The bank has waived such covenant noncompliance under the Facility until September 30, 1998. See Note 1.

Note payable to bank consisted of the following at March 31, 1998:

Revolving line of credit due September 1, 2000	$ 2,345,071
Equipment line of credit due in annual principal installments of $196,400 through January 2003 (7.44% at March 31, 1998)	982,000
Working capital line of credit due in annual principal payments of $1,000,000 through March 2003 (7.44% at March 31, 1998)	5,000,000
	8,327,071
Less: current portion	(1,196,400)
	$ 7,130,671

Maturities of long-term debt are the following at March 31:

1999	$1,196,400
2000	1,196,400
2001	3,541,471
2002	1,196,400
2003	1,196,400

The bank has a security interest in and lien on all of the tangible and intangible personal property and fixtures of the Company, including all accounts receivable and equipment.

6. Leases

The Company leases office facilities under long-term lease agreements classified as operating leases. The following is a schedule of future minimum lease payments, net of sublease income, for operating leases as of March 31, 1998:

	Operating Leases	Sublease Income	Net
Year ending March 31:			
1999	$1,399,383	$(107,766)	$1,291,617
2000	1,098,624	(109,898)	988,726
2001	1,010,819	(111,420)	899,399
2002	937,665	(111,420)	826,245
2003	671,930	(111,420)	560,510
Net future minimum lease payments	$5,118,421	$(551,924)	$4,566,497

Rental expense for operating leases amounted to $1,121,916, $1,001,919 and $673,321 in 1998, 1997 and 1996, respectively. Sublease income amounted to $119,416, $90,016 and $82,217 in 1998, 1997 and 1996, respectively.

The Company leases equipment under capital leases. At March 31, 1998, the Company has capitalized leased equipment totaling $1,346,073 with related accumulated amortization of $134,607. The following is a schedule by year of future minimum lease payments due under capital leases, together with the present value of the minimum lease payments as of March 31, 1998:

Years ending March 31:	
1999	$ 300,308
2000	300,308
2001	300,308
2002	300,308
2003	300,308
Thereafter	25,026
	1,526,566
Less amount representing interest	(180,493)
Present value of minimum lease payments	1,346,073
Less current portion of obligations under capital leases	(231,796)
Obligations under capital leases	$1,114,277

7. Telecommunications Agreements

On January 15, 1996, the Company entered into a four-year nonexclusive agreement with a long-distance service provider for the right to provide long distance service to its customers at prices affected by volume attainment levels during the term of the agreement. The Company is not obligated to purchase any minimum levels of usage over the term of the agreement, but rates may be adjusted due to the failure of achieving certain volume commitments. These provisions had no effect on the financial statements for the years ended March 31, 1998, 1997 and 1996.

On October 20, 1994, the Company entered into a three-year non-exclusive agreement with a long-distance service provider for the right to provide long distance service to its customers at fixed prices by service during the term of the agreement. On October 11, 1996, the Company entered into an amendment to the agreement which extended the term of the agreement by five years from the date of the amendment. Over such extension period, the Company shall be liable for a minimum aggregate usage commitment of $25 million. Furthermore, the rates set forth under the aforementioned amendment may be adjusted due to the failure of meeting certain periodic volume commitments. Due to existing and expected usage, these provisions had no effect on the financial statements for the years ended March 31, 1998 and 1997.

Prior to the execution of the agreements described above, and through March 31, 1998, the Company also provided long distance service to customers under an informal non-exclusive arrangement with another long distance service provider. The Company is not obligated to purchase any minimum level of usage on the network, and there are no other performance obligations.

8. Stockholders' Equity

Common Stock

On July 13, 1995, the Board of Directors declared a 3 for 2 stock split in the form of a dividend payable to shareholders of record on July 25, 1995. A total of 1,560,742 shares of common stock were issued and $839 in cash was paid for fractional share amounts.

On October 10, 1995, the Board of Directors declared a 2 for 1 stock split in the form of a dividend payable to shareholders of record on October 23, 1995. A total of 4,718,172 shares of common stock were issued.

Preferred Stock

The dividends, liquidation preference, voting rights and other rights of each series of preferred stock, when issued, are to be designated by the Board of Directors prior to issuance.

9. Benefit Plans

Defined Contribution Plan

The Company maintains a defined contribution plan (401(k) plan) covering all employees who meet certain eligibility requirements. Participants may make contributions to the plan up to 15% of their compensation (as defined) up to the maximum established by law. The Company may make a matching contribution of an amount to be determined by the Board of Directors, but subject to a maximum of 6% of compensation contributed by each participant. Company contributions vest ratably over three years. Company contributions to the plan were $310,788, $230,079 and $210,063 in 1998, 1997 and 1996, respectively. Administrative costs paid by the Company were $5,960, $1,275 and $7,982 in 1998, 1997 and 1996, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan (the ESPP) which enables participating employees to purchase Company shares at 85% of the lower of the market prices prevailing on the valuation dates as defined in the ESPP. Individuals can contribute up to 5% of their base salary. The Company made no contributions to the ESPP during the three years in the period ended March 31, 1998. Indicated below is a summary of shares of common stock purchased by the ESPP. All share and per share amounts indicated below have been presented to reflect the stock dividend and stock splits described above.

In July 1997 and February 1998, the ESPP purchased 5,438 shares at $6.48 per share and 4,406 shares at $8.29 per share, respectively.

In July 1996 and February 1997, the ESPP purchased 2,998 shares at $11.05 per share and 5,716 shares at $6.48 per share, respectively.

In July 1995 and January 1996, the ESPP purchased 7,011 shares at $3.26 per share and 2,345 shares at $11.05 per share, respectively.

Stock Option Plans

Under the terms of its 1993 Stock Option Plan and 1996 Stock Option Plan (collectively, the Plans), the Company may grant stock options for the purchase of Common Stock to all employees, directors and consultants. The Plans generally provide that the exercise price for an incentive stock option (which may only be granted to employees) will be fixed by a committee of the Board of Directors but will not be less than 100% (110% for

10% stockholders) of the fair market value per share on the date of grant. Nonqualified options may also be granted under the Plans to directors, employees and consultants. Nonqualified options under the 1993 Plan may be granted at an exercise price of no less than 85% (110% for 10% stockholders) of the fair market value per share on the date of grant and under the 1996 Plan may be granted with an exercise price less than, equal to or greater than the fair market value per share on the date of the grant. No options have a term of more than ten years and options to 10% stockholders may not have a term of more than five years.

In the event of termination of employment, other than by reason of death, disability or with the written consent of the Company, all options granted to employees are terminated. Vesting is determined by the Board of Directors.

On March 20, 1998, the Board of Directors approved the repricing of 1,175,500 options with a new exercise price of $7.19 ($7.91 for 10% stockholders).

Stock-Based Compensation

Pro forma information regarding net income (loss) and earnings (loss) per common share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options and shares issued pursuant to the ESPP under the fair value method of that Statement. The fair value for these options and shares issued pursuant to the ESPP were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Options			ESPP		
	1998	1997	1996	1998	1997	1996
Expected life (years)	2.96	3.98	3.49	0.50	0.50	0.50
Interest rate	5.93%	6.28%	6.12%	5.43%	5.4%	6.48%
Volatility	85.14	87.88	87.88	64.67	93.03	80.93
Dividend yield	0.00	0.00	0.00	0.00	0.00	0.00

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net income (loss) and earnings (loss) per common share are as follows:

	1998	1997	1996
Pro forma net income (loss)	$(4,973,000)	$4,094,000	$3,550,000
Pro forma earnings (loss) per common share	$ (0.50)	$ 0.39	$ 0.34

The effects on 1996, 1997 and 1998 pro forma net income (loss) and earnings (loss) per common share of expensing the estimated fair value of stock options and shares issued pursuant to the ESPP are not necessarily representative of the effects on reporting the results of operations for future years as the periods presented include only one, two and three years of option grants under the Company's plans.

CTC COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS—(Continued)

A summary of the Company's stock option activity, and related information for the years ended March 31 follows:

	1998 Options	1998 Weighted-Average Exercise Price	1997 Options	1997 Weighted-Average Exercise Price	1996 Options	1996 Weighted-Average Exercise Price
Outstanding at beginning of year	1,953,112	$4.36	1,995,878	$4.01	1,526,850	$1.45
Options granted	2,791,000	7.11	280,539	9.67	1,000,250	8.06
Options terminated	1,402,718	8.36	(286,734)	7.54	(290,689)	2.37
Options exercised	376,387	.93	(36,571)	1.20	(240,533)	0.51
Outstanding at end of year	2,965,007	$5.50	1,953,112	$4.36	1,995,878	$4.01
Exercisable at end of year	698,250		772,282		613,824	
Weighted-average fair value of options granted during the year	$ 4.01		$ 6.43		$ 5.09	

The following table presents weighted-average price and life information about significant option groups outstanding at March 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.25	187,500	0.1 years	$0.25	187,500	$0.25
0.53	86,397	0.6 years	0.53	86,397	0.53
0.90-1.10	207,854	1.5 years	1.10	147,261	1.10
2.70-2.98	257,056	2.0 years	2.74	189,792	2.74
6.00-7.06	1,041,700	6.4 years	6.44	10,500	6.16
7.19	1,100,500	4.2 years	7.19	76,800	7.19
$7.91	75,000	4.1 years	$7.91	0	$0.00
	2,965,007			698,250	

	1998	1997	1996
Numerator:			
Net income (loss) (numerator for basic and diluted earnings (loss) per common share)	$(2,884,450)	$ 4,682,931	$ 4,093,924
Denominator:			
Denominator for basic earnings (loss) per common share-weighted average shares	9,886,000	9,600,000	9,446,000
Effect of employee stock options		1,173,000	1,266,000
Denominator for diluted earnings (loss) per common share	9,886,000	10,773,000	10,712,000
Basic earnings (loss) per common share	$ (0.29)	$ 0.49	$ 0.43
Diluted earnings (loss) per common share	$ (0.29)	$ 0.43	$ 0.38

10. Income Taxes

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

	1998	1997	1996
Current:			
Federal	$ (218,000)	$2,660,000	$2,135,000
State		906,000	725,000
	(218,000)	3,566,000	2,860,000
Deferred tax benefit	(1,268,000)	(289,000)	(124,000)
	$(1,486,000)	$3,277,000	$2,736,000

Significant components of the Company's deferred tax liabilities and assets as of March 31, are as follows:

	1998	1997
Deferred tax assets:		
Depreciation	$ 64,000	$191,000
Accruals and allowances	1,751,000	445,000
Net operating state loss carryforward	96,000	
Total deferred tax asset	1,911,000	636,000
Deferred tax liability:		
Prepaid expenses	(38,000)	(31,000)
Cash surrender value of life insurance policy	(39,000)	(39,000)
Total deferred tax liability	(77,000)	(70,000)
Net deferred tax asset	$1,834,000	$566,000

The income tax expense is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The items causing this difference are as follows:

	1998	1997	1996
Tax at U.S. statutory rate	$(1,486,000)	$2,706,000	$2,322,000
State income taxes, net of federal benefit		552,000	466,000
Other		19,000	(52,000)
	$(1,486,000)	$3,277,000	$2,736,000

Income taxes paid in 1998, 1997 and 1996 amounted to $2,160,527, $3,319,000 and $3,163,000, respectively.

11. Supplemental Cash Flow Information

In March 1996, the Company received shares of common stock with an aggregate fair market value of $251,771 in lieu of cash for settlement of amounts due from an officer. These shares and the related amount were accounted for as treasury stock and were subsequently retired.

In September 1995, the Company received shares of common stock with an aggregate fair market value of $25,039 in lieu of cash for settlement of amount due from a non-employee of $24,000 plus accrued interest of $1,039. These shares and the related amount were accounted for as treasury stock and were subsequently retired.

CTC COMMUNICATIONS CORP.

NOTES TO FINANCIAL STATEMENTS—(Continued)

During fiscal 1998 and 1996, and in connection with the exercise of employee stock options, the Company received shares of common stock with an aggregate fair market value of $271,072 and $52,315 in lieu of cash upon the exercise of these options. These shares and the related amount were accounted for as treasury stock and were subsequently retired.

These noncash transactions have been excluded from the statements of cash flows for the years ended March 31, 1998 and 1996.

12. Subsequent Events

In April 1998, the Company privately placed $12 million of Series A Convertible Preferred Stock (Series A Preferred Stock) and warrants to purchase Common Stock with Spectrum Equity Investors II, L.P. and other private investors. The Series A Preferred Stock may be redeemed at the option of the holders of a majority of the Series A Preferred Stock at any time on or after the earlier of (i) April 9, 2010 and (ii) the date 180 days after the maturity date of any debt financing consummated on or before October 9, 1998 yielding proceeds of at least $75 million. The Series A Preferred Stock is convertible into shares of Common Stock. On the date of issuance, the shares of Series A Preferred Stock were convertible into 1,333,333 shares of the Company's Common Stock, which conversion ratio is subject to certain adjustments. The warrants entitle the holder thereof to purchase one share of Common Stock at an exercise price of $9.00 per share. The warrants expire on April 10, 2003. See also Note 1.

13. Quarterly Information (Unaudited)

A summary of operating results and pro forma net income (loss) per share for the quarterly periods in the two years ended March 31, 1998 is set forth below:

	Quarter Ended				
	June 30	September 30	December 31	March 31	Total
Year ended March 31, 1998					
Total revenues	$11,658,954	$11,845,097	$11,155,646	$ 6,287,439	$40,947,136
Gross profit	9,216,118	9,132,848	8,215,645	343,960	26,908,571
Earnings (loss)	1,374,000	1,244,000	506,000	(6,008,450)	(2,884,450)
Earnings (loss) per common share—basic	$ 0.14	$ 0.13	$ 0.05	$ (0.60)	$ (0.29)
Earnings (loss) per common share—diluted	$ 0.13	$ 0.12	$ 0.05	$ (0.60)	$ (0.29)
Year ended March 31, 1997					
Total revenues	$ 9,007,461	$ 9,617,068	$10,193,787	$11,471,783	$40,290,099
Gross profit	7,325,606	7,463,843	7,932,162	8,859,366	31,580,977
Earnings	1,194,186	1,048,828	1,159,000	1,280,917	4,682,931
Earnings per common share—basic	$ 0.12	$ 0.11	$ 0.12	$ 0.13	$ 0.49
Earnings per common share—diluted	$ 0.11	$ 0.10	$ 0.11	$ 0.12	$ 0.43

Fiscal year 1997 and the first two quarters of fiscal year 1998 earnings per common share amounts have been restated to comply with Statement of Financial Accounting Standard No. 128, Earnings per Share.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

CTC COMMUNICATIONS CORP.

	Col. A	Col. B	Col. C	Col. D	Col. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Describe	Deductions Describe	Balance at End of Period
Year ended March 31, 1998:					
Allowance for doubtful accounts........	$377,000	$1,421,109		$1,306,109 (a)	$492,000
Year ended March 31, 1997:					
Allowance for doubtful accounts........	$190,215	$ 316,669		$ 129,884 (a)	$377,000
Year ended March 31, 1996:					
Allowance for doubtful accounts........	$128,452	$ 61,763		$ 0	$190,215

(a) = Bad debts written off net of collections.

EXHIBIT INDEX

Number	Description of Exhibit
9.1	Voting Agreement dated April 10, 1998 among Robert Fabbricatore and certain of his affiliates and Spectrum
10.15	Employment Agreement between the Company and Steve Jones dated February 27, 1998
23.1	Consent of Ernst & Young LLP
27	Financial Data Schedule
99.1	Risk Factors

EXHIBIT 99.1

RISK FACTORS

Limited History as an ICP; Risks Relating to Implementation of New Strategy

Although the Company has sold integrated telecommunications services for over 14 years, it sold local telephone services as an agent for Bell Atlantic Corp. ("Bell Atlantic") until December 1997 and only began offering such services as an integrated communications provider ("ICP") under its own brand name after that time. As a result of the Company terminating its agency relationship with Bell Atlantic, agency revenues, which accounted for approximately 71% of the Company's revenues for the nine month period ended December 31, 1997 are no longer generated by the Company. For the fourth quarter ended March 31, 1998, agency revenues decreased from $8.4 million to $194,000 and total revenues decreased from $11.5 million to $6.2 million. There can be no assurance that the Company's prior experience in the sale of telecommunications services as a sales agent will result in the Company generating sufficient cash flow to service its debt obligations or to compete successfully under its new strategy.

The Company plans to deploy its own Integrated Communications Network ("ICN"). The Company has no experience in deploying, operating and maintaining a telecommunications network. The Company's ability to successfully deploy its ICN will require the negotiation of interconnection agreements with incumbent local exchange carriers ("ILECs"), which can take considerable time, effort and expense and which are subject to federal, state and local regulation. There can be no assurance that the Company will be able to successfully negotiate such agreements or to effectively deploy, operate or maintain its facilities or increase or maintain its cash flow from operations by deploying a network. Further, there can be no assurance that the packet-switched design of the network will provide the expected functionality in serving its target market or that customers will be willing to migrate the provision of their services onto the Company's network. The Company has engaged a network services integrator to design, engineer and manage the buildout of the ICN in the Company's existing markets. Any failure or inability by the network integrator to perform these functions could cause delays or additional costs in providing services to customers and building out the Company's ICN in specific markets. Any such failure could materially and adversely affect the Company's business and results of operations.

If the Company fails to effectively transition to an ICP platform, fails to obtain or retain a significant number of customers or is unable to effectively deploy, operate or maintain its network, such failure could have an adverse effect on the Company's business, results of operations and financial condition. In addition, the implementation of its new strategy and the deployment of its network has increased and will continue to increase the Company's expenses significantly. Accordingly, the Company expects to incur significant negative cash flow during the next several years as it implements its business strategy, penetrates its existing markets as an ICP, enters new markets, deploys its ICN and expands its service offerings. There can be no assurance that the Company will achieve and sustain profitability or positive net cash flow.

Capital Requirements and Uncertainty of Financing

The Company has obtained a commitment for an interim credit facility (the "Interim Facility") from its current lender. The Interim Facility, which would mature on June 30, 1999, would provide secured revolving loans of up to $20 million to refinance the Credit Facility, to fund capital expenditures and operating losses and for general corporate purposes. The commitment, which is subject to certain conditions, extends to September 30, 1998. To satisfy one of those conditions, the Company has received a commitment from Spectrum to purchase $5 million of Preferred Stock which extends until June 30, 1999. The Company believes that the Interim Facility and the Interim Spectrum Financing, if required, together with cash on hand would be sufficient to refinance the Company's existing credit facility and fund the Company's existing operations for at least the next 12 months. However, CTC would be required to delay its proposed geographic expansion and deployment of facilities or to obtain additional financing within the next 6 months.

The implementation of the Company's business plan to further penetrate its existing markets as an ICP, deploy the ICN in its existing markets, expand its sales presence into six additional states in the Boston-Washington D.C. corridor and enhance the CTC Information System and the repayment of the Credit Facility will require the Company to raise significant capital. The Company has been seeking and is actively engaged in the negotiation of commitments with alternative sources of long term financing to fund its business plans. Although the Company is highly optimistic that it will be successful in obtaining such financing based upon its negotiations, there can be no assurance that the Company will be able to consummate financing in the amount, on the terms and on the schedule required to implement the Company's business plan, if at all.

The timing and amount of the Company's actual capital requirements may be materially affected by many factors, including the timing and availability of financing, the timing and actual cost of expansion into new markets and deployment of the ICN, the extent of competition and pricing of telecommunications services in its markets, acceptance of the Company's services, technological change and potential acquisitions. Sources of funding the Company's capital requirements may include public offerings or private placements of equity or debt securities, vendor financing and bank loans. There can be no assurance that financing will be available to the Company or, if available, that it can be obtained on a timely basis and on terms acceptable to the Company. Failure to obtain financing when required could result in the delay or abandonment of the Company's business plans which could intern have a material adverse effect on the Company.

High Leverage; Possible Inability to Service Indebtedness

If the any of the proposed financings are consummated, the Company will be highly leveraged. The degree to which the Company is leveraged could have important consequences to the Company's future prospects, including the following: (i) limiting the ability of the Company to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes; (ii) limiting the flexibility of the Company in planning for, or reacting to, changes in its business; (iii) leveraging the Company more highly than some of its competitors, which may place it at a competitive disadvantage; (iv) increasing its vulnerability in the event of a downturn in its business or the economy generally; and (v) requiring that a substantial portion of the Company's cash flow from operations be dedicated to the payment of principal and interest on the Notes and not be available for other purposes.

The Company's ability to make scheduled payments of principal of, or to pay the interest on, or to refinance, its indebtedness, or to fund planned capital expenditures will depend on its future performance, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control. There can be no assurance that the Company's business will generate sufficient cash flow from operations or that anticipated revenue growth and operating improvements will be realized or will be sufficient to enable the Company to service its indebtedness, or to fund its other liquidity needs. There can be no assurance that the Company will be able to refinance all or a portion of its indebtedness on commercially reasonable terms or at all. If the Company does not generate sufficient cash flow to meet its debt service and working capital requirements, the Company may need to examine alternative strategies that may include actions such as reducing or delaying capital expenditures, restructuring or refinancing its indebtedness, the sale of assets or seeking additional equity and/or debt financing. There can be no assurance that any of these strategies could be effected on satisfactory terms, if at all.

Dependence on In-House Billing and Information System

The accurate and prompt billing of the Company's customers is essential to the Company's operations and future profitability. The Company's expected growth and deployment of its ICN could give rise to additional demands on the CTC Information System, and there can be no assurance that it will perform as expected. The failure of the Company to adequately identify all of its information and processing needs (including Year 2000 compliance), the failure of the CTC Information System or the failure of the Company to upgrade the CTC Information System as necessary could have a material adverse effect on the Company and its results of operations.

Dependence on Supplier Provided Timely and Accurate Call Date Records; Billing and Invoice Disputes

In its reseller business, the Company is dependent upon the timely receipt and accuracy of call data records provided to it by its suppliers. There can be no assurance that accurate information will consistently be provided by suppliers or that such information will be provided on a timely basis. Failure by suppliers to provide timely and accurate detail would increase the length of the Company's billing and collection cycles and adversely effect its operating results. The Company pays its suppliers according to the Company's calculation of the charges applicable to the Company based on supplier invoices and computer tape records of all such calls provided by suppliers which may not always reflect current rates and volumes. Accordingly, a supplier may consider the Company to be in arrears in its payments until the amount in dispute is resolved. There can be no assurance that disputes with suppliers will not arise or that such disputes will be resolved in a manner favorable to the Company. In addition, the Company is required to maintain sophisticated billing and reporting systems to service the large volume of services placed over its networks. As resale volumes increase, there can be no assurance that the Company's billing and management systems will be sufficient to provide the Company with accurate and efficient billing and order processing capabilities.

Dependence on Network Infrastructure and Products and Services of Others

The Company does not currently own any part of a local exchange or long distance network and depends entirely on facilities-based carriers for the transmission of customer traffic. After the deployment of the ICN, it will still rely, at least initially, on others for circuit switching of local voice calls and on fiber optic backbone transmission facilities. There can be no assurance that such switching or transmission facilities will be available to the Company on a timely basis or on terms acceptable to the Company. The Company's success in marketing its services requires that the Company provide superior reliability, capacity and service. Although the Company can exercise direct control of the customer care and support it provides, most of the services that it currently offers are provided by others. Such services are subject to physical damage, power loss, capacity limitations, software defects, breaches of security (by computer virus, break-ins or otherwise) and other factors, certain of which have caused, and will continue to cause, interruptions in service or reduced capacity for the Company's customers. Such problems, although not the result of failures by the Company, can result in dissatisfaction among its customers.

In addition, the Company's ability to provide complete telecommunications services to its customers will be dependent to a large extent upon the availability of telecommunications services from others on terms and conditions that are acceptable to the Company and its customers. There can be no assurance that government regulations will continue to mandate the availability of some or all of such services or that the quality or terms on which such services are available will be acceptable to the Company or its customers.

Customer Attrition

The Company's operating results may be significantly affected by its reseller customer attrition rates. There can be no assurance that customers will continue to purchase long distance or other services through the Company in the future or that the Company will not be subject to increased customer attrition rates. The Company believes that the high level of customer attrition in the industry is primarily a result of national advertising campaigns, telemarketing programs and customer incentives provided by major competitors. There can be no assurance that customer attrition rates will not increase in the future, which could have a material adverse effect on the Company's operating results.

Ability to Manage Growth; Rapid Expansion of Operations

The Company is pursuing a new business plan that, if successfully implemented, will result in rapid growth and expansion of its operations, which will place significant additional demands upon the Company's current management. If this growth is achieved, the Company's success will depend, in part, on its ability to manage this growth and enhance its information, management, operational and financial systems. There can be no assurance that the Company will be able to manage expanding its operations. The Company's failure to manage growth effectively could have a material adverse effect on the Company's business, operating results and financial condition.

Potential Impact of the Bell Atlantic Litigation and the TRO

In December 1997, the Company filed suit against Bell Atlantic for breaches of its agency contract, including the failure of Bell Atlantic's retail division to pay $14 million in agency commissions (approximately $11.3 million as of July 10, 1998) owed to the Company. The Company intends to pursue this suit vigorously. Although the Company believes the collection of the agency commissions sought in the suit is probable, there can be no assurance that the Company will be successful in collecting these commissions. If the Company fails to collect any of the amounts sought or if their collection becomes less than probable, the Company would be required to write off the amounts reflected in its financial statements that it is unable to collect or for which collection becomes less than probable. Delay in the collection or write-off of the agency commissions sought may adversely affect the Company.

In the Company's litigation against Bell Atlantic, Bell Atlantic obtained a temporary restraining order (the "TRO") prohibiting the Company until December 30, 1998 from marketing certain local telecommunications services to any Bell Atlantic customer for whom the Company was responsible for account management, or to whom the Company sold Bell Atlantic services, during 1997. Although the Company is seeking to have the TRO modified or dissolved, there is no assurance that it will be successful and the Company's sale of local service to such customer sites could be prohibited until December 30, 1998. The inability of the Company to sell local telephony services to such customers until such date may continue to adversely affect the Company's business. In addition, the Company must use Bell Atlantic infrastructure for nearly all of the local telephony services that it currently provides and, although Bell Atlantic is prohibited by federal law from discriminating against the Company, there can be no assurance that the litigation with Bell Atlantic will not negatively affect the Company's relationships with Bell Atlantic's wholesale division.

Dependence on Key Personnel

The Company believes that its continued success will depend to a significant extent upon the abilities and continued efforts of its management, particularly members of its senior management team. The loss of the services of any of such individuals could have a material adverse effect on the Company's results of operations. The success of the Company will also depend, in part, upon the Company's ability to identify, hire and retain additional key management as well as highly skilled and qualified sales, service and technical personnel. Competition for qualified personnel in the telecommunications industry is intense, and there can be no assurance that the Company will be able to attract and retain additional employees and retain its current key employees. The inability to hire and retain such personnel could have a material adverse effect on the Company's business.

Competition

The Company operates in a highly competitive environment and has no significant market share in any market in which it operates. The Company expects that it will face substantial and growing competition from a variety of data transport, data networking and telephony service providers due to regulatory changes, including the continued implementation of the Telecommunications Act of 1996 (the "Telecommunications Act"), and the increase in the size, resources and number of such participants as well as a continuing trend toward business combinations and alliances in the industry. The Company faces competition for the provision of integrated telecommunications services as well as competition in each of the individual market segments that comprise the Company's integrated approach. In each of these market segments, the Company faces competition from larger, better capitalized incumbent providers, which have long standing relationships with their customers and greater name recognition than the Company.

Regulation

The Company's local and long distance telephony service, and to a lesser extent its data services, are subject to federal, state, and, to some extent, local regulation.

The Federal Communications Commission (the "FCC") exercises jurisdiction over all telecommunications common carriers, including the Company, to the extent that they provide interstate or international communications. Each state regulatory commission retains jurisdiction over the same carriers with respect to the provision of intrastate communications. Local governments sometimes impose franchise or licensing requirements on telecommunications carriers and regulate construction activities involving public right-of-way. Changes to the regulations imposed by any of these regulators could affect the Company.

While the Company believes that the current trend toward relaxed regulatory oversight and competition will benefit the Company, the Company cannot predict the manner in which all aspects of the Telecommunications Act will be implemented by the FCC and by state regulators or the impact that such regulation will have on its business. The Company is subject to FCC and state proceedings, rulemakings, and regulations, and judicial appeal of such proceedings, rulemaking and regulations, which address, among other things, access charges, fees for universal service contributions, ILEC resale obligations, wholesale rates, and prices and terms of interconnection and unbundling. The outcome of these rulemakings, judicial appeals, and subsequent FCC or state actions may make it more difficult or expensive for the Company or its competitors to do business. Such developments could have a material effect on the Company. The Company also cannot predict whether other regulatory decisions and changes will enhance or lessen the competitiveness of the Company relative to other providers of the products and services offered by the Company. In addition, the Company cannot predict what other costs or requirements might be imposed on the Company by state or local governmental authorities and whether or not any additional costs or requirements will have a material adverse effect on the Company.

Risks Associated With Possible Acquisitions

As it expands, the Company may pursue strategic acquisitions. Acquisitions commonly involve certain risks, including, among others: difficulties in assimilating the acquired operations and personnel; potential disruption of the Company's ongoing business and diversion of resources and management time; possible inability of management to maintain uniform standards, controls, procedures and policies; entering markets or businesses in which the Company has little or no direct prior experience; and potential impairment of relationships with employees or customers as a result of changes in management. There can be no assurance that any acquisition will be made, that the Company will be able to obtain any additional financing needed to finance such acquisitions and, if any acquisitions are so made, that the acquired business will be successfully integrated into the Company's operations or that the acquired business will perform as expected. The Company has no definitive agreement with respect to any acquisition, although from time to time it has discussions with other companies and assesses opportunities on an ongoing basis.

Year 2000 Compliance

The Company has assessed its systems and expects all of them to be year 2000 compliant by the end of 1998. However, there can be no assurance that all systems will function adequately until the occurrence of year 2000. In addition, if the systems of other companies on whose services the Company depends or with whom the Company's systems interface are not year 2000 compliant, there could be a material adverse effect on the Company.

Control By Principal Shareholders; Voting Agreement

As of July 10, 1998, the officers and directors and parties affiliated with or related to such officers and directors controlled approximately 48.5% of the outstanding voting power of the Common Stock. Robert J. Fabbricatore, the Chairman and Chief Executive Officer of the Company, beneficially owns approximately 27.5% of the outstanding shares of Common Stock. Consequently, the officers and directors will have the ability to exert significant influence over the election of all the members of the Company's Board, and the outcome of all corporate actions requiring stockholder approval. In addition, Mr. Fabbricatore has agreed to vote the shares beneficially owned by him in favor of the election to the Company's Board of Directors of up to two persons designated by the holders of a majority of the Series A Convertible Preferred Stock.

Impact Of Technological Change

The telecommunications industry has been characterized by rapid technological change, frequent new service introductions and evolving industry standards. The Company believes that its long-term success will increasingly depend on its ability to offer integrated telecommunications services that exploit advanced technologies and anticipate or adapt to evolving industry standards. There can be no assurance that (i) the Company will be able to offer new services required by its customers, (ii) the Company's services will not be economically or technically outmoded by current or future competitive technologies, (iii) the Company will have sufficient resources to develop or acquire new technologies or introduce new services capable of competing with future technologies or service offerings (iv) all or part of the ICN or the CTC Information System will not be rendered obsolete, (v) the cost of the ICN will decline as rapidly as that of competitive alternatives, or (vi) lower retail rates for telecommunications services will not result from technological change. In addition, increases in technological capabilities or efficiencies could create an incentive for more entities to become facilities-based ICPs. Although the effect of technological change on the future business of the Company cannot be predicted, it could have a material adverse effect on the Company's business, results of operations and financial condition.

Possible Volatility Of Stock Price

The stock market historically has experienced volatility which has affected the market price of securities of many companies and which has sometimes been unrelated to the operating performance of such companies. In addition, factors such as announcements of developments related to the Company's business, or that of its competitors, its industry group or its customers, fluctuations in the Company's results of operations, a shortfall in results of operations compared to analysts' expectations and changes in analysts' recommendations or projections, sales of substantial amounts of securities of the Company into the marketplace, regulatory developments affecting the telecommunications industry or data services or general conditions in the telecommunications industry or the worldwide economy, could cause the market price of the Common Stock to fluctuate substantially.

Absence Of Dividends

The Company has not paid and does not anticipate paying any cash dividends on its Common Stock in the foreseeable future. The Company intends to retain its earnings, if any, for use in the Company's growth and ongoing operations. In addition, the terms of the Series A Convertible Preferred Stock restrict, and the terms of future debt financings are expected to restrict, the ability of the Company to pay dividends on the Common Stock.

Potential Effect Of Anti-takeover Provisions And Issuances Of Preferred Stock

Certain provisions of the Company's Articles of Organization and Bylaws and the Massachusetts Business Corporation Law may have the effect of delaying, deterring or preventing a change in control of the Company or preventing the removal of incumbent directors. The existence of these provisions may have a negative impact on the price of the Common Stock and may discourage third party bidders from making a bid for the Company or may reduce any premiums paid to stockholders for their Common Stock. In addition, the Company's Board of Directors has the authority without action by the Company's stockholders to issue shares of the Company's Preferred Stock and to fix the rights, privileges and preferences of such stock, which may have the effect of delaying, deterring or preventing a change in control. Certain provisions of the Company's outstanding Series A Convertible Preferred Stock which provide for payment of the liquidation preference in cash upon the consummation of certain transactions may have the effect of discouraging third parties from entering into such transactions.

EXHIBIT 2

MANAGERIAL AND TECHNICAL QUALIFICATIONS

Managerial and Technical Qualifications

ROBERT J. FABBRICATORE
Chairman, Chief Executive Officer, Director

Robert J. Fabbricatore, a founder of the Company and a Director since its inception in 1980, became Chairman of the Board of Directors in March 1983 and served as President from October 1993 to August 1995. In 1980, Mr. Fabbricatore also founded Comm-Tract Corp., a leading supplier of open, integrated network solutions, for which Mr. Fabbricatore currently serves as the Chairman of the Board. An entrepreneur, Mr. Fabbricatore experience includes the founding of two data network development companies in the 1970's and independent consulting work for local telephone companies. Mr. Fabbricatore is a graduate of Saint Francis College in New York.

STEVEN P. MILTON
President, Chief Operating Officer

Steven P. Milton has been employed by CTC since 1984 and has served as President and Chief Operating Officer since August 1995. Prior to that, Mr. Milton held various positions within the Company including Branch Manager, District Manager, Regional Manager and, most recently, Vice President-Sales and Marketing. Prior to joining CTC, Mr. Milton spent four years in sales with Metropolitan Life Insurance Company. He also has three years of clinical experience in human relations and counseling. Mr. Milton is a graduate of Barrington College in Rhode Island.

JOHN D. PITTENGER
Executive Vice President-Finance and Administration,
Chief Financial Officer, Treasurer and Secretary

John D. Pittenger has served as Executive Vice President-Finance and Administration since April 1998 and as Treasurer and Clerk of the Company since August 1989. Mr. Pittenger served as Vice President-Finance from 1991 until April 1998, and as Chief Financial Officer from 1989 to April 1998, and again since April 1999. Mr. Pittenger holds an MBA from Babson College Graduate School of Business and an undergraduate degree from Dartmouth College.

DAVID E. MAHAN
Executive Vice President-Marketing and Strategic Planning

David E. Mahan joined CTC in October 1995 as Vice President-Market Planning and Development and in June 1996 became an executive officer of the Company. Prior to joining the Company, Mr. Mahan held a number of senior management level positions with NYNEX, most recently as Vice President-Sales Channel Management from 1993 - 1995. Mr. Mahan holds an MBA from Columbia University Graduate School of Business and an undergraduate degree from the University of Massachusetts.

MICHAEL H. DONNELLAN
Vice President-Operations

Michael H. Donnellan has been employed by CTC since 1988 in a number of positions. He was named Vice President-Operations in 1995 and became an executive officer of the Company in October, 1997. His current responsibilities include the development of the Company's Information Systems, as well as the Company's operations and customer service support systems. Mr. Donnellan's twenty (20) plus years of experience in the telecom industry includes tenures with New England Telephone and AT&T in various sales, operations and management positions. Mr. Donnellan is a graduate of Saint Anselm College in New Hampshire.

THOMAS FABBRICATORE
Vice President-Marketing

Mr. Fabbricatore is responsible for the overall marketing efforts of the Company as well as design of the company's data services network, its computerized bill format and all other electronic media. Thomas Fabbricatore joined CTC in 1982. He became an executive officer of the Company in October, 1997. Prior to joining CTC, Mr. Fabbricatore was employed as the Northeast Regional Sales Executive for TIE Communications, a leading manufacturer of key and hybrid phone systems. Mr. Fabbricatore is a graduate of the University of Florida.

FREDERICK KUNZI
Vice President and Chief Technology Officer

Mr. Kunzi joined CTC in September 1998. Mr. Kunzi has over 25 years experience in information technology. From 1985 to September 1998, he was employed by Digital Equipment Corporation, most recently as Senior Manager - Global Network Services, where he was responsible for Digital's worldwide network infrastructure.

ANTHONY D. VERMETTE
Vice President-Sales

Anthony D. Vermette has been employed by CTC in a variety of positions since 1987. Mr. Vermette was named Vice President-Sales in 1996 and became an executive officer in October, 1997. Mr. Vermette came to CTC with over six (6) years of engineering and technical sales experience in the telecom field.

PAMELA HINTZ
Director of Regulatory and Tariff Compliance

As Director of Regulatory and Tariff Compliance, Ms. Hintz is responsible for obtaining all necessary certifications and authorizations required for the company's entrance into the local and long distance markets. It is also her responsibility to ensure that the Company's day-to-day business operations are in compliance with state and federal regulations. Prior to joining CTC, Ms. Hintz was employed by RCN Telecom Services, where she served in a similar capacity. Ms. Hintz successfully coordinated long distance certifications for RCN in the forty-eight continental U.S. states and competitive local exchange certifications in thirteen states along the northeast corridor.

EXHIBIT 3

Proposed Price List

CTC is in the process of preparing a Price List and will provide it to the Commission upon completion.

EXHIBIT 4

Letter of Qualification to Transact Business

State of Florida

Department of State

I certify from the records of this office that CTC COMMUNICATIONS CORP., is a corporation organized under the laws of Massachusetts, authorized to transact business in the State of Florida, qualified on July 2, 1998.

The document number of this corporation is F98000003797.

I further certify that said corporation has paid all fees due this office through December 31, 2000, that its most recent annual report/uniform business report was filed on May 8, 2000, and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the
Great Seal of the State of Florida
at Tallahassee, the Capitol, this the
Twenty-eighth day of September, 2000

GREAT SEAL OF THE STATE OF FLORIDA
IN GOD WE TRUST

Katherine Harris

Katherine Harris
Secretary of State

CR2EO22 (1-99)

FLORIDA DEPARTMENT OF STATE
Sandra B. Mortham
Secretary of State

July 2, 1998

CHRISTINE M. EASTWINE
CT CORPORATION SYSTEM
2 OLIVER ST.
BOSTON, MA 02109

Qualification documents for CTC COMMUNICATIONS CORP. were filed on July 2, 1998 and assigned document number F98000003797. Please refer to this number whenever corresponding with this office.

Your corporation is now qualified and authorized to transact business in Florida as of the file date.

A corporation annual report will be due this office between January 1 and May 1 of the year following the calendar year of the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the corporate address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please telephone (850) 487-6091, the Foreign Qualification/Tax Lien Section.

Jennifer Sindt
Document Examiner
Division of Corporations

Letter Number: 698A00035960

Foreign Profit

CTC COMMUNICATIONS CORP.

PRINCIPAL ADDRESS
220 BEAR HILL RD
ATTN: A. CREASON
WALTHAM MA 02451
Changed 05/08/2000

MAILING ADDRESS
220 BEAR HILL RD
ATTN: A. CREASON
WALTHAM MA 02451
Changed 05/08/2000

Document Number	FEI Number	Date Filed
F98000003797	042731202	07/02/1998
State	**Status**	**Effective Date**
MA	ACTIVE	NONE

Registered Agent

Name & Address
C T CORPORATION SYSTEM 1200 SOUTH PINE ISLAND ROAD PLANTATION FL 33324

Officer/Director Detail

Name & Address	Title
FABBRICATORE, ROBERT J 220 BEAR HILL RD WALTHAM MA 02154	CCEO
MILTON, STEVE 220 BEAR HILL RD WALTHAM MA 02154	PCOO
PITTENGER, JOHN D 220 BEAR HILL RD WALTHAM MA 02154	VT

MAHAN, DAVID E 220 BEAR HILL RD WALTHAM MA 02154	V
VERMETTE, ANTHONY 220 BEAR HILL RD WALTHAM MA 02154	V
DONNELLEN, MICHAEL 220 BEAR HILL RD WALTHAM MA 02154	V

Annual Reports

Report Year	Filed Date	Intangible Tax
1999	03/06/1999	
2000	05/08/2000	

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Corporations Inquiry | Corporations Help

ORIGINAL

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January 8, 2001

010037-TX

VIA OVERNIGHT MAIL

DEPOSIT D 0 0 ... DATE JAN 10 2001

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0870

Re: Application of CTC Communications Corp. for Authority to Provide Alternative Local Exchange Service in Florida

Dear Ms. Bayo:

Enclosed for filing on behalf of CTC Communications Corp. ("CTC") please find an original and five (5) copies of CTC's above referenced application. Also enclosed is a check in the amount of $250.00 to cover the application filing fee.

Please date-stamp the enclosed extra copy of this filing and return in the self-addressed, stamped envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact the undersigned at (202) 424-7705.

Respectfully submitted,

ORIGINAL DOCUMENT IS PRINTED ON CHEMICAL REACTIVE PAPER & HAS A MICROPRINTED BORDER

CTC COMMUNICATIONS

CTC COMMUNICATIONS CORP.
360 SECOND AVENUE
WALTHAM, MA 02451

CHECK NO. 59070

51-44/119

Fleet HARTFORD, CT

DATE 21-DEC-00

AMOUNT OF CHECK

PAY Two Hundred Fifty Dollars And 00 Cents********************

*******250.00

TO THE ORDER OF

FLORIDA
2540 SH
CAPITAL
TALLAHA
United

119.07(1)(z), Florida Statutes: Bank account numbers or debit, charge, or credit card numbers given to an agency for the purpose of payment of any fee or debt owing are confidential and exempt from subsection (1) and s.24(a), Art. 1 of the State Constitution . . .

AUTHORIZED SIGNATURE

THE RE [redacted]

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ORIGINAL

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January 8, 2001

VIA OVERNIGHT MAIL

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0870

010037-TX

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Respectfully submitted,

Harry N. Malone
Counsel for CTC Communications Corp.

Enclosures

cc: Bill Ward, CTC
Pamela Hintz, CTC (*without enclosures*)

Check
Initials of