TA-92-301

HENDREN AND ANDRAE

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JOHN H. HENDREN (1907-1986)
JOHN E. BURRUSS, JR. (1933-1985)

FACSIMILE
(314) 636-5226

June 8, 1992

FILED
JUN - 9 1992
PUBLIC SERVICE COMMISSION

Mr. Charles Brent Stewart, Secretary
Public Service Commission
State of Missouri
P. O. Box 360
Jefferson City, Missouri 65102

RE: Phoenix Network, Inc., d/b/a Office Depot Communications

Dear Mr. Stewart:

Enclosed, for filing, please find an original and 14 copies of the Application of Phoenix Network, Inc., d/b/a Office Depot Communications, requesting a Certificate of Service pursuant to Chapter 392 of the Missouri Revised Statutes. We have forwarded two copies of same to the Office of Public Counsel.

Thank you.

Very truly yours,

HENDREN AND ANDRAE

Donald C. Otto, Jr.

DCO/pdp
Enclosures

cc: Office of Public Counsel
Mr. Jeffrey L. Bailey

PS: Phoenix Network has filed a fictitious name registration for "Office Depot Communications" which will be filed with the Commission as an addendum to Exhibit "A" as soon as it is received.

DCO

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

FILED
JUN - 9 1992
PUBLIC SERVICE COMMISSION

In the Matter of)
)
Application of)
Phoenix Network, Inc.,)
d/b/a Office Depot) Application No. TA-92-301
Communications,)
For a Certificate of Service)
to Provide IntraState)
InterLATA Telecommunications)
Services)

APPLICATION

Phoenix Network, Inc., d/b/a Office Depot Communications ("Applicant"), a Delaware Corporation, files this verified Application respectfully requesting that the Missouri Public Service Commission ("Commission") issue Applicant a Certificate of Service pursuant to Chapter 392 of the Missouri Revised Statutes and Commission Rules to resell intrastate interLATA telecommunications services. In support of this request, Applicant states as follows:

1. Applicant is a Delaware Corporation with its principal offices located at:

One Maritime Plaza
Suite 2525
San Francisco, California 94111

A copy of Applicant's Articles of Incorporation and Certificate of Authority to Transact Business in Missouri are attached hereto as Exhibit "A." Applicant's registered agent in Missouri is:

Donald C. Otto, Jr.
Hendren and Andrae
Attorneys at Law
235 East High Street
P. O. Box 1069
Jefferson City, Missouri 65102

2. Applicant seeks certification for the provision of intrastate interLATA telecommunications services on a resold basis within and throughout the State of Missouri and hereby requests such certification pursuant to Section 392-4, RSMo. Under Case No. TX-85-10 at 10 Mo. Reg. 1048 (1985), Applicant submits that no showing of public necessity is required to grant such certification for the provision of competitive interLATA services. Applicant further requests that it be granted all statutory waivers as provided by Section 392, RSMo.

3. Applicant offers interLATA message toll and WATS-type, originating and terminating (800-type), services to the public by rebilling services provided over the networks of facilities-based carriers. Through software, the underlying carriers are able to consolidate the accounts of all of Applicant's customers in a single account (i.e., Applicant's account) for billing purposes. In consolidating the accounts in a single account, Applicant is able to take advantage of significant discounts offered by the underlying carriers to customers with substantial toll traffic. Applicant, in turn, bills its customers for their individual usage, passing on a portion of the savings.

Applicant seeks certification to offer its services throughout the State of Missouri. Applicant's "1+" message toll service is only available in areas served by exchanges converted to equal access.

Applicant does not offer intraLATA toll service. Applicant does not offer "0+" or "00+" operator assisted services.

4. Applicant possesses the technical and financial resources necessary to offer its services to the public. Attached as Exhibit "B" are Applicant's most recent Annual Report and Form 10-K.

5. Applicant's tariff, which contains the rates, terms, and conditions applicable to the provision of its services, is attached as Exhibit "C" to this Application, pursuant to Section 392.220, RSMo., and 4 CSR 240.30.010. Applicant will comply with notice and other requirements applicable to filing new or amended tariffs.

6. Applicant offers its services on a nondiscriminatory basis to the public. In accordance with Section 392.200, RSMo., Applicant will not unjustly discriminate among customers.

7. Pursuant to Section 386.570, RSMo., Applicant will comply with all applicable rules and regulations of the Commission except such rules and regulations as the Commission may specifically waive, pursuant to Section 392.390.3, RSMo.

8. Applicant will file Missouri-specific annual reports, pursuant to Section 392.210, RSMo., and such other reports or information as the Commission may require. Applicant will comply with jurisdictional reporting requirements, pursuant to Section 392.30.3, RSMo. Applicant does not offer intraLATA service.

9. By this Application and Exhibit "B," which includes the management resumes of Applicant's principals, Applicant demonstrates that it has the technical and managerial ability and financial resources to conduct this business.

10. Applicant will commence its proposed long distance services under authority sought by this Application over the entire state. Attached as Exhibit "C," and by this reference made a part hereof, is a description of service and proposed rates to be included in Applicant's tariff.

11. Chapter 392, RSMo. (1989 Supp.), further classified telecommunications companies and services as competitive, transitionally competitive or noncompetitive. Section 386.020(7) defines a competitive telecommunications company as follows:

> (7) "competitive telecommunications company," a telecommunications company which has been classified as such by the Commission pursuant to Section 392.361, RSMo.; or pursuant to Section 392.370, RSMo.

Section 386.020(8) defines a competitive telecommunications service as follows:

> (8) "Competitive telecommunications service," a telecommunication service which has been classified as such by the Commission pursuant to Section 392.361, RSMo., or which has become a competitive telecommunications service pursuant to Section 392.370, RSMo.

Finally, Section 386.020(32) defines resale service as follows:

> (32) "Resale of telecommunications service," the offering or providing of telecommunications service primarily through the use of services or facilities owned or provided by a separate telecommunications company, but does not include the offering or providing of private shared tenant services.

Both company and services are subject to sufficient competition to justify a lesser degree of regulation, and that such lesser regulation is consistent with the protection of ratepayers and promotes the public interest. Section 392.361, RSMo.

12. Any questions regarding this Application should be directed to the following:

Jeffrey L. Bailey
Senior Vice-President
Phoenix Network, Inc.
One Maritime Plaza
Suite 2525
San Francisco, California 94111

and

Donald C. Otto, Jr.
Hendren and Andrae
Attorneys at Law
P. O. Box 1069
Jefferson City, Missouri 65102
(Attorneys for Phoenix Network, Inc.,
d/b/a Office Depot Communications)

A statement regarding representation by a foreign attorney and designation of local counsel is attached as Exhibit "V" hereto, which statement complies with 4 CSR 240-2.040.

WHEREFORE, Applicant, Phoenix Network, Inc., Office Depot Communications, respectfully requests the Public Service Commission of Missouri to issue a Certificate of Public Service authorizing Applicant to provide intrastate interLATA telecommunications services in Missouri.

Respectfully submitted this
5 day of June, 1992,

PHOENIX NETWORK, INC.
d/b/a OFFICE DEPOT COMMUNICATIONS

By Jeffrey Bailey
Jeffrey L. Bailey, Senior
Vice-President and Chief
Financial Officer

One Maritime Plaza
Suite 2525
San Francisco, California 94111

FILED
JUN - 9 1992
PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of Application of Phoenix Network, Inc., d/b/a Office Depot Communications, For a Certificate of Service to Provide IntraState InterLATA Telecommunications Services	)	Application No. TA-92-301

STATE OF CALIFORNIA)
) SS
COUNTY OF San Francisco)

AFFIDAVIT

I, Jeffrey L. Bailey, Senior Vice-President of Phoenix Network, Inc., d/b/a Office Depot Communications, hereby authorize Donald C. Otto, Jr., or any member of the law firm of Hendren and Andrae, 235 East High Street, P. O. Box 1069, Jefferson City, Missouri 65102, to sign all pleadings and documents necessary to receive the approval of the Missouri Public Service Commission for the Application in the above-captioned matter.

Jeffrey L. Bailey
Jeffrey L. Bailey

Subscribed and sworn to before me this 5th day of June, 1992.

Denise Ann Duenwald
Notary Public

My Commission Expires:
August 4, 1995

OFFICIAL NOTARY SEAL
DENISE ANN DUENWALD
Notary Public — California
SAN FRANCISCO COUNTY
My Comm. Expires AUG 04,1995

FILED
JUN - 9 1992
PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of Application of Phoenix Network, Inc., d/b/a Office Depot Communications, For a Certificate of Service to Provide IntraState InterLATA Telecommunications Services	)	Application No. TA-92-301

STATE OF CALIFORNIA)
) SS
COUNTY OF San Francisco)

VERIFICATION

I, Jeffrey L. Bailey, the Senior Vice-President of Phoenix Network, Inc., d/b/a Office Depot Communications, and as such, I am authorized to act in its behalf. I have read the foregoing Application and I am informed and believe that the matters contained therein are true.

Jeffrey L. Bailey

Subscribed and sworn to before me this 5th day of June, 1992.

Denise Ann Duenwald
Notary Public

My Commission Expires:
August 4, 1995

OFFICIAL NOTARY SEAL
DENISE ANN DUENWALD
Notary Public — California
SAN FRANCISCO COUNTY
My Comm. Expires AUG 04, 1995

FILED
JUN - 9 1992
PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of Application of Phoenix Network, Inc., d/b/a Office Depot Communications, For a Certificate of Service to Provide IntraState InterLATA Telecommunications Services	)	Application No. TA-92-301

VERIFICATION BY ATTORNEY

Now on this 8th day of June, 1992, appears before me, Donald C. Otto, Jr., attorney for Applicant, and states that the information contained in the attached Application for Certification is true and accurate to his best information and belief.

Donald C. Otto, Jr.

STATE OF MISSOURI)
) SS
COUNTY OF COLE)

Subscribed and sworn to before me this 8th day of June, 1992.

Patricia D Palmer
Notary Public

My Commission Expires:

PATRICIA D. PALMER
NOTARY PUBLIC, STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXPIRES AUG. 21, 1995

Exhibit "A"

State of Delaware

Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF PHOENIX NETWORK, INC. FILED IN THIS OFFICE ON THE SEVENTEENTH DAY OF MAY, A.D. 1989, AT 9 O'CLOCK A.M.

! ! ! ! ! ! ! ! ! !

DEPARTMENT OF STATE
OFFICE OF THE SECRETARY OF STATE
DELAWARE

753137002

Michael Harkins, Secretary of State

AUTHENTICATION: 12132926

DATE: 05/17/1989

FILE

CERTIFICATE OF INCORPORATION

OF

PHOENIX NETWORK, INC.

The undersigned, a natural person (the "Sole Incorporator"), for the purpose of organizing a corporation to conduct the business and promote the purposes hereinafter stated, under the provisions and subject to the requirements of the laws of the State of Delaware hereby certifies that:

ARTICLE I

The name of the corporation (hereinafter called the "Corporation") is Phoenix Network, Inc.

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is 229 South State Street, County of Kent, Dover, Delaware and the name of the registered agent of the Corporation in the State of Delaware at such address is The Prentice-Hall Corporation System, Inc.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

This Corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Corporation is authorized to issue is Two Hundred Twenty-Five Million (225,000,000) shares. One Hundred Twenty-Five Million (125,000,000) shares shall be Common Stock, each having a par value of $0.001. One Hundred Million (100,000,000) shares shall be Preferred Stock, each having a par value of $0.001.

The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and the liquidation preferences of any wholly unissued series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issuance of

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shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status that they had prior to the adoption of the resolution originally fixing the number of shares of such series.

ARTICLE V

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors shall have the power to adopt, amend, repeal or otherwise alter the bylaws without any action on the part of the stockholders; provided, however, that any bylaws made by the Board of Directors and any and all powers conferred by any of said bylaws may be amended, altered or repealed by the stockholders.

ARTICLE VI

A director of the Corporation shall, to the full extent permitted by the Delaware General Corporation Law, not be liable to the Corporation or its stockholders for monetary damages for breach of his fiduciary duty as a director.

ARTICLE VII

The name and the mailing address of the Sole Incorporator is as follows:

NAME	MAILING ADDRESS
David R. Lee	c/o Cooley Godward Castro Huddleson & Tatum One Maritime Plaza, Suite 2000 San Francisco, California 94111

IN WITNESS WHEREOF, this Certificate has been subscribed this 16th day of May, 1989 by the undersigned who affirms that the statements made herein are true.

David R. Lee
Sole Incorporator

Acknowledged this
16th day of May, 1989

Sole Incorporator

20029973
051689

STATE OF MISSOURI

ROY D. BLUNT

SECRETARY OF STATE

CORPORATION DIVISION - CERTIFICATE OF AUTHORITY

WHEREAS,
PHOENIX NETWORK, INC.

USING IN MISSOURI THE NAME
PHOENIX NETWORK, INC.

HAS COMPLIED WITH THE GENERAL AND BUSINESS CORPORATION LAW WHICH GOVERNS FOREIGN CORPORATIONS; BY FILING IN THE OFFICE OF THE SECRETARY OF STATE OF MISSOURI AUTHENTICATED EVIDENCE OF ITS INCORPORATION AND GOOD STANDING UNDER THE LAWS OF THE STATE OF DELAWARE.

NOW, THEREFORE, I. ROY D. BLUNT, SECRETARY OF STATE OF THE STATE OF MISSOURI, DO HEREBY CERTIFY THAT SAID CORPORATION IS FROM THIS DATE DULY AUTHORIZED TO TRANSACT BUSINESS IN THIS STATE, AND IS ENTITLED TO ALL RIGHTS AND PRIVILEGES GRANTED TO FOREIGN CORPORATIONS UNDER THE GENERAL AND BUSINESS CORPORATION LAW OF MISSOURI.

IN TESTIMONY WHEREOF, I HAVE SET MY HAND AND IMPRINTED THE GREAT SEAL OF THE STATE OF MISSOURI, ON THIS, THE 18TH DAY OF DECEMBER, 1990.

Roy D. Blunt

Secretary of State

$150.00

Exhibit "B"

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended April 30, 1991

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____________ to ________________

Commission File No. 2-78639-D

Phoenix Network, Inc.
(Exact Name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

84-0881154
(I.R.S. Employer Identification No.)

1 Maritime Plaza, Ste. 2525, San Francisco, California 94111
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (415) 981-3000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK $0.001 PAR VALUE
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ____

Based on the bid price of July 23, 1991, the aggregate market value of the voting stock held by nonaffiliates of the Registrant was $6,689,500.

The number of shares outstanding of the Registrant's Common Stock, $0.001 par value, was 7,272,256 at July 23, 1991.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

ITEM 1. BUSINESS

General Overview

Phoenix Network, Inc. ("Phoenix" or the "Company") is a nonfacilities-based rebiller of long distance telecommunication services designed primarily for small to medium sized commercial accounts and for residential customers. The Company has the ability to place customers on the facilities of American Telephone and Telegraph ("AT&T"), U.S. Sprint Telecommunications Corporation ("Sprint") and MCI Communications Corporation ("MCI") for long distance service which is billed by the carriers to Phoenix. Phoenix then bills its customers directly for their individual usage. Individually, the Company's customers do not have sufficient long distance usage to qualify for the major carriers' rates available to large users of long distance services. By combining all of its customers' traffic under the Company's accounts with the carriers, Phoenix can take advantage of substantial volume discounts offered by the carriers and, in turn, can pass along a portion such savings to its customers. Through the Company's sophisticated computerized billing system, Phoenix additionally can provide its customers with customized management reports which allow them to better manage their telecommunication costs. As of April 30, 1991, the Company had approximately 12,000 customers throughout the United States.

The Company was incorporated in Colorado in 1982 under the name Commonwealth Capital, Ltd. and completed a public offering of its Common Stock in 1983. In 1987, Thomas H. Bell acquired control of the Company, and the Company changed its name to Phoenix Network, Inc. and entered its present business by acquiring Phoenix Telcom, Inc. The Company was reincorporated in the State of Delaware in 1989. The Company's executive office is located at 1 Maritime Plaza, Suite 2525, San Francisco, California 94111, and its telephone number at that location is (415) 981-3000.

Industry Overview

The long distance market represents approximately $60 billion in annual revenue and is estimated to be growing at a rate of 12%-15% per year. Approximately 89% of this market is held by three companies (AT&T, MCI, and Sprint).

Commercial outgoing long distance service represents 35% to 40% of this market. The primary market of the Company covers commercial businesses spending between $250 and $5,000 per location in long distance, which is believed to represent approximately $12 billion in annual long distance usage.

Industry Composition

The long distance industry is composed of three different types of organizations competing for the same customer base: carriers, resellers, and rebillers.

Carriers are those companies that provide service over their own long distance lines and switching equipment and bill their customers directly.

Resellers utilize lines owned by third parties but operate their own switching equipment and bill their customers directly.

Rebillers do not own any telephone equipment or participate in the call completion process. The service provider for the customer of a rebiller is typically a carrier or reseller. That carrier or reseller provides the rebiller with a magnetic tape of long distance usage of its customers who then receive an invoice directly from the rebiller. The rebiller generates its gross margin as the difference between the rates it pays (large user) and the rates it charges to its customers (small users).

The Company's Services and Operations

On behalf of its customers, Phoenix establishes a carrier relationship that provides 24-hour station to station, operator-assisted and directory-assisted long distance telephone service to all areas of the United States, Canada and over 60 foreign countries. Since all transmission services are provided directly by the carrier to the customer, Phoenix's customers are able to obtain through the Company substantially all of the basic services offered by the carrier to its customers, but at rates generally lower than those available directly from the carrier.

Phoenix is able to offer its customers reduced rates while at the same time generating positive gross profit margins by combining the long distance traffic of its customers to qualify for discount pricing made available by carriers to large volume customers. Such discounts vary from carrier to carrier and from time to time, and the magnitude and other characteristics of such discounts directly affect the gross margin which Phoenix is able to earn while still offering its customers acceptable savings. To date, sufficient bulk-usage discounts have been available to meet the Company's and its customers' requirements, but there can be no assurance that such discounts will continue to be available.

Once a long distance user has become a Phoenix customer and selected a long distance carrier, the Company either establishes the customer as a customer of the carrier (if it is not already so established) or notifies the carrier of the customer relationship (if the customer is already using the carrier). In either case, the carrier provides long distance transmission services directly to the customer and delivers monthly to Phoenix a magnetic tape containing detailed usage data for all Phoenix customers utilizing that carrier, including the amount billed to the Company for each call at the rates applicable to the Company under its agreement with the carrier. The Company is responsible for paying the carrier for the usage of all of its customers.

Strategy

Phoenix neither owns nor leases any long distance equipment. When Phoenix signs up a new customer such as ABC Company, Phoenix notifies a selected carrier that the phone numbers which previously were billed to ABC now should be billed directly to Phoenix. This means the usage for ABC is now included in the volume discounts achieved by the combination of approximately 12,000 other Phoenix customers. Phoenix believes the carriers provide these discounts to companies such as Phoenix for the following three reasons:

1. As tariffed public utilities, the carriers must provide service to any potential user who meets their standard credit requirements.

2. The carriers must offer the same discounts to one large user as another. Large users receive lower prices than smaller users.

3. The carriers typically view companies like Phoenix as an alternative marketing channel, providing the carrier with incremental new minutes of long distance with no marketing cost, minimal support cost, and less bad debt risk.

At the end of the month each carrier submits call detail reports to Phoenix on magnetic tape which Phoenix then rebills and collects from the end user. The Company's customers receive a lower overall invoice than they would receive on their own from the same carrier. The Company's customers also receive a variety of value added services at little or no additional cost. Phoenix realizes its gross margin on the difference between its volume discounts and those passed on to its customers.

Phoenix markets its services through a variety of marketing channels which include direct sales, telemarketing, and affinity group marketing. Due to the nature of its business, the Company can originate marketing activities in virtually any area of the country, with no up front capital expense. There are no special lines, switches, or dialers necessary to use the service.

Sales and Marketing

The marketing and sales force of the Company is made up of three groups; independent sales distributors, independent telemarketing companies, and affinity organizations. The sales distributors only receive compensation on collected revenue from the customers they introduce to Phoenix. They are paid in perpetuity as long as they continue to represent Phoenix and the customer continues to use and pay for the services of Phoenix. This compensation approach avoids the overhead of a significant sales force which has been the industry's traditional approach to building a customer base.

Direct Sales

Direct sales are generated by a network of over 100 independent sales distributors located throughout the United States. Many of these sales distributors have invested in marketing organizations of their own which use their "spheres of influence" to acquire new customers for the Company.

The Company is expanding its distributorship network and has established a separate department to identify and train potential distributors. The Company is also targeting interconnect companies who sell and install small to medium-sized commercial phone systems (Key systems, and PBX's) as independent sales distributors. The Company has a marketing agreement with Comdial Network Services ("Comdial"), a leading manufacturer of business telephone systems, which allows Comdial to offer the Company's services through its nationwide dealer network of approximately 600 interconnect companies and national accounts under the name Comdial Network Services.

Affinity Marketing

In 1990, the Company began marketing the services of Office Club Communications, a dba of Phoenix. This program makes available to the customers of Office Club, a major west coast retailer of office supplies and equipment, a program of discount long distance services. After the completion of a testmarketing phase, the Company began introducing its direct sales program in all 58 Office Club stores throughout the western United States. This program introduction was completed in June 1991.

Also in June, the Company completed a similar agreement with Office Depot, an office supply retailer based in Florida. The Company is currently working with Office Depot to get the program operating in all 144 stores throughout the southern and midwestern states. The Company expects to pursue additional programs with other similar groups.

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In the fourth quarter of fiscal 1991, the Company introduced a new residential program which targets religious affinity groups. Under the program, which utilizes an independent distributor, the Company establishes an arrangement with local religious organizations (such as churches, temples, etc.) whereby the members can become Phoenix customers and 10% of their paid long distance usage is remitted to the organization on a monthly basis. Such 10% discount is in lieu of the discount that they would otherwise receive as Phoenix customers. The independent distributor also receives a commission on the usage.

Telemarketing

The Company utilizes the services of a telemarketing company to target small commercial prospects spending between $250 and $5,000 per month on long distance expenses. The telemarketing firm is compensated on a one-time fee basis for customers it refers to the Company.

Pricing

The Company establishes its prices on the basis of cost and competition. Phoenix customers generally report savings of between 5% and 35% compared to the service they were previously using. On average, customers receive a 10% reduction in their overall cost of domestic long distance usage. Actual savings vary depending on the service the customer was using prior to becoming a customer of the Company. The Company offers a written guarantee to its customers to pay 110% of the difference between a customer's most recent Phoenix invoice and what that customer would have spent on any program offered by any of the three major long distance carriers. The Company uses computer models and management reports that can determine the projected savings of a potential customer, or the actual savings of a new customer.

Management Reports

The Company believes that prospective customers are looking for more than cost savings from their long distance company. As competition increases in the future, the successful companies will be those that can provide additional value added services such as custom management and call detail reports. The Company believes that as much as 15% of prospective customer long distance usage can be eliminated with good management control. Management reports are a time saving service to help managers identify these unnecessary costs.

Six different management reports are available for a Phoenix customer to use in the review of his monthly usage. Two of the reports identify and sort calls over a customer specified cost level or time length. A third report presents all calls during non-business hours. A fourth report identifies the most frequently called numbers. All four of these reports have threshold levels that can be established individually by the customer. The Company does not know of any other companies that offer a small commercial user the opportunity to customize management information in this manner. A fifth report builds a matrix of calls showing day/evening/night vs. intrastate/interstate/international usage. A sixth report summarizes usage by area code. All six of these reports allow a manager to better monitor changes in calling patterns and identify potential waste or fraud in his long distance usage. Management reports are usually provided free of additional charge to customers.

Four different call detail formats are available so the customer can customize the way his call detail is presented to him. They are: chronological order, by originating phone number, by accounting code, and by terminating phone number.

Additionally, the Company has the ability to write custom reports for a large individual user to replace existing internal reports or provide new reports to that customer.

Customer Service

A second aspect of the Company's emphasis on value added services is its high level of customer service support. The Company believes its ratio of customer representatives to major commercial accounts is higher than that of most competing companies. The Company places a strong emphasis on customer retention. The Company also intends to continue to develop and offer additional value-added services and applications for its customers, which the Company believes will improve customer retention and can lead to new markets.

The Company believes superior customer service such as that offered by AT&T is a significant factor in the choice of a long distance Company by a prospective customer. Consequently, the Company has been expanding its customer service staff in advance of new business as part of its dedication to superior service.

During non-peak hours, customer service representatives call existing customers to survey their satisfaction with Phoenix's service, and then give them 30-60 free minutes of usage, or a free management report for their time. The Company believes the cost of these policies is far less than the cost of losing a customer.

Commissions

The company pays commissions to its independent sales distributors and to other marketing channels based on the volume of business provided by such sources. The commission structure allows for commissions based on either a fixed dollar amount per new order submitted or a percentage (currently averaging between 3% and 10%) of continuing revenue from the customer. Distributors are paid a continuing commission on total revenues from customers they have referred to the Company. These commissions range from 5% to 15% based on the volume of revenues from such customers. Historically, these commissions have averaged between 6% and 7%. Commissions for the affinity marketing programs range from 4% to 6% of revenues generated. The current telemarketer is paid a flat fee per order.

Credit Policy

The Company has a policy of rejecting potential new customers without adequate positive credit information. All accounts billing over $500 receive a Dun & Bradstreet Credit Scoring Report prior to acceptance as a customer. Additionally, many new customers are asked to provide the Company with a copy of their most recent long distance invoice to show they are current with their existing long distance carrier. After a review of the credit history of an account, the Company will accept responsibility for the accounts it considers creditworthy. For those accounts which the Company considers present too great a credit risk, the Company will require the distributor to accept responsibility for collection losses if the distributor still wants the customer to be serviced by Phoenix. Credit losses on most accounts processed prior to 1990 were the responsibility of the distributor, but changes in competitive offerings to potential distributors led the Company to liberalize its credit policy for new accounts.

Vendors

The Company can place customers on the facilities of AT&T, Sprint or MCI and have their traffic billed to Phoenix by the respective carrier under Phoenix's separate accounts with the carriers. The Company also has an agreement with Westinghouse Communications ("Westinghouse") which allows it to place customers on AT&T, Sprint or MCI under Westinghouse's separate accounts with those carriers. The Company places its customers based upon their preference of carriers and, where the decision is left to Phoenix, based upon that account with the most favorable pricing for that particular customer. Currently, the majority of all new accounts are being placed under the Company's individual direct accounts with AT&T and Sprint.

Competition

AT&T, Sprint and MCI currently control approximately 89% of the long distance market. There are over 350 resellers and rebillers that represent the remaining market share.

From time to time any of these entities may be able to provide a range of services comparable to those available to the Company's customers at rates competitive with the Company's fee structure. The same volume-discount pricing that the Company utilizes is available to current and potential competitors. Phoenix does not have proprietary contractual arrangements in that regard. As a result, there are no substantial barriers to the entry of additional competitors into the field. In addition, most prospective Company customers are already receiving service directly from at least one long distance carrier, and the Company must convince prospective customers to alter these relationships to generate new business.

The telecommunications industry is highly competitive and subject to rapid technological and regulatory change. Many existing or potential competitors of the Company have considerably greater resources than the Company. There can be no assurance that the Company will be able to remain competitive in this environment. Although current regulations allow easy entry into the telecommunications market and there are many competitors, the Company believes the market is large enough for many companies to engage in direct competition while continuing to grow.

The Company believes the principal competitive factors in its business include the cost, flexibility and quality of service, as well as the breadth of telemanagement services offered. The Company believes it competes favorably with respect to each of these factors among the commercial and residential users that represent its target market segment. Most importantly, the Company believes that since it concentrates its resources on personalized service and customized billing and reporting, it has distinct advantages over facilities-based carriers, resellers, and other rebillers that compete for customers in the Company's target size range primarily on cost. In addition, it would be difficult for the major national carriers to offer lower rates to Phoenix's customers without also reducing the cost that the Company pays. Since the Company is considered to be a large commercial account for the carriers, it can benefit from lower rates and in turn lower the costs its customers pay.

RISK FACTORS

The following factors should be considered carefully in evaluating the Company and its business.

1. Anticipation of Future Losses

The Company has sustained operating losses in the fiscal years ended April 30, 1990 and April 30, 1991. In building the systems and organization necessary to handle its expected future growth, the Company has invested heavily in the sales, marketing and administrative areas. These factors are expected to result in continued operating losses through at least the early part of fiscal 1992.

2. Dependence on Service Providers

The Company depends on a continuing and reliable supply of telecommunications services from the facilities-based carriers, particularly AT&T and Sprint. Because the Company does not own switching or transmission facilities, it depends on these providers for the telecommunications services used by its customers and to provide the Company with the detailed information on which it bases its customer billings. The Company's ability to expand its business depends both upon its ability to select and retain reliable providers and on the willingness of such providers to continue to make telecommunications services and billing information available to Phoenix for its customers on favorable terms and in a timely manner.

3. Potential Adverse Effects of Rate Changes

The Company bills its customers for the costs of the various telecommunications services procured on their behalf. The total billing to each customer is generally less than telephone charges for the same service provided by the major carriers. The Company believes its lower customer bills are an important factor in its ability to attract and retain customers. Therefore, changes in the differential between direct dial telephone rates and the cost of the bulk-rate telecommunications services procured by the Company could have a significant effect on the Company. Although prices for both direct dial and bulk-rate services have generally decreased in recent years, the decreases have not affected both types of services equally at all times. As a result, the differential between the costs of the two types of service can increase or decrease from time to time. To the extent this differential decreases, the savings the Company is able to obtain for its customers could decrease and the Company could lose customers or face increased difficulty in attracting new customers. If the Company elected to offset the effect of any such decrease by lowering its rates, the Company's operating results could also be adversely affected.

4. Dependence on Distributors and Telemarketer

The Company depends on a continuing relationship with its key sales distributors and telemarketing companies to acquire new customers. Because the barriers to entry for a potential rebiller are low, and competition for successful marketing personnel is high, the Company expects that over time some of its relationships with sales distributors and telemarketing companies will be modified or even discontinued.

In general, the Company's agreement with its sales distributors provides that all customers introduced to Phoenix by sales distributors are customers of Phoenix and not of the distributor. However, the Company cannot prevent an existing distributor from becoming a competitor and attempting to transfer Phoenix customers to a competing service.

In addition, the relationship between the Company and its current telemarketer could require modification in the future. The telemarketer is not under any obligation to continue working with Phoenix in the event of any such modification.

5. Competition

An existing or potential Phoenix customer has numerous other choices available for its telecommunications service needs, including obtaining services directly from the same carriers whose services the Company offers. From time to time any of these entities may be able to provide a range of services comparable to or more extensive than those available to Phoenix customers at rates competitive with Phoenix's rates. In addition, most prospective Phoenix customers are already receiving service directly from at least one long distance carrier, and thus Phoenix must convince prospective customers to alter these relationships to generate new business. The telecommunications industry is highly competitive and subject to rapid technological and regulatory change. Because the tariffs offered by the major carriers for telecommunication services are not proprietary in nature, there are no effective barriers to entry into the Company's line of business. Because of the considerably greater resources of competitors of the Company, there can be no assurance that Phoenix will be able to remain competitive in the current telecommunications environment. See "Business -- Competition."

6. Reliance Upon Officers and Directors

The Company is highly dependent, at present, upon the personal efforts and abilities of its officers and directors, most notably Thomas H. Bell and Marc L. Goyette. The future success of the Company is, in part, dependent upon its ability to retain its management and other key personnel. The loss of either of Mr. Bell or Mr. Goyette could have a materially adverse impact on the business of the Company.

7. Possible Volatility of Stock Price

The market price of the Company's Common Stock has, in the past, fluctuated substantially over time and may in the future be highly volatile. Factors such as the announcements of rate changes for various carriers, technological innovation or new products or service offerings by the Company or its competitors, as well as market conditions in the telecommunications industry generally and variations in the Company's operating results, could cause the market price of the Common Stock to fluctuate substantially. Because the public float for the Company's Common Stock is small, additional volatility may be experienced.

8. Control by Officers and Directors

As of July 23, 1991, the Company's executive officers and directors will continue to beneficially own approximately 63% of the outstanding shares of the Company's Common Stock. Such stockholders will, therefore, continue to be able to elect a majority of the Company's directors and determine the outcome of most corporate actions requiring stockholder approval.

ITEM 2. PROPERTIES

Phoenix leases approximately 10,000 square feet of office space in San Francisco, California under a lease agreement expiring in 1994. The Company's monthly rental obligation for its facilities is approximately $23,000. The Company anticipates such facilities will be adequate for the Company's operations for the term of the lease.

ITEM 3. LEGAL PROCEEDINGS

In 1988, the Company was served with a complaint filed in Superior Court, County of Marin by Western Union. In 1985, the Company used Western Union to route calls for some of the Company's clients. The Company claims that Western Union disconnected these clients without giving sufficient notice as specified by contract. Western Union claims that the Company failed to pay fully for the usage of the Western Union network and is seeking $143,000 in damages. The Company seeks damages from Western Union for causing the Company to lose clients and for harming the Company's business reputation when it disconnected service to the Company's clients. The suit is still in its discovery phase, and management believes that ultimate resolution of the matter will not result in a material liability to the Company.

In May 1990, ComSol, Inc. ("ComSol") served a complaint on the Company alleging breach of contract and other related claims in connection with the termination of their distributorship with the Company. The complaint seeks to recover compensatory damages to be proven at trial and an order requiring the Company to account to ComSol for revenues collected from the customers referred to Phoenix by ComSol. Commissions that would have been earned by ComSol from the date of termination through June 1990 amount to approximately $90,000. The Company has filed a counterclaim against ComSol and its principals alleging breach of contract, fraud and other claims. Phoenix's counterclaim seeks to recover such amounts as may be proven at trial. The parties are currently engaged in discovery and other pretrial activities.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

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

The Company's Common Stock has been traded in the over-the-counter market since the Company's initial public offering in 1983 and has been quoted on the NASDAQ system under the Symbol "PHXN" since October 24, 1989. The Stock began appearing daily in NASDAQ's Additional List on April 10, 1990. The following table reflects the range of high and low bid quotations for each period indicated. Prior to October 24, 1989, the market for the Company's stock had been relatively inactive and the high and low bid quotations were taken from sources the Company believes to be reliable; however, these bid values cannot be substantiated with certainty. These quotations represent prices between dealers without adjustment for retail markups, markdowns or commissions, and may not represent actual transactions.

Fiscal 1989	Low	High
First quarter ended July 31, 1988	$ .50	$2.50
Second quarter ended October 31, 1988	$1.375	$2.50
Third quarter ended January 31, 1989	$1.25	$2.50
Fourth quarter ended April 30, 1989	$1.25	$2.50

Fiscal 1990	Low	High
First quarter ended July 31, 1989	$1.25	$2.50
Second-quarter ended October 31, 1989	$1.25	$2.50
Third quarter ended January 31, 1990	$1.125	$2.219
Fourth quarter ended April 30, 1990	$1.125	$6.00

Fiscal 1991	Low	High
First quarter ended July 31, 1990	$3.125	$6.125
Second quarter ended October 31, 1990	$1.50	$3.50
Third quarter ended January 31, 1991	$1.313	$2.125
Fourth quarter ended April 30, 1991	$1.00	$4.125

The bid price of the Company's Common Stock as reported by NASDAQ on July 23, 1991 was $2.125.

As of June 30, 1991, there were approximately 1,100 stockholders of record of the Company's Common Stock, including shares held in street name by various brokerage firms.

The Company has not, since 1983, paid any dividends on its Common Stock and the Company does not anticipate the payment of dividends on such stock in the foreseeable future.

As of June 30, 1991, there were 23 stockholders of the Company's Series A Preferred Stock. The Series A Preferred Stock is entitled to a 9% cumulative dividend.

ITEM 6 SELECTED FINANCIAL DATA

The selected consolidated financial data presented below for, and as of the end of, each of the years in the five-year period ended April 30, 1991 have been derived from the consolidated financial statements of the Company, which statements have been audited by Grant Thornton, independent certified public accountants, for the years ended April 30, 1991, 1990 and 1989 and by Michael W. Zinn, Inc., an independent certified public accountant, for the prior years. This data should be read in conjunction with the consolidated financial statements, related notes and other financial information included elsewhere herein.

	Year ended April 30,				
	1987	1988	1989	1990	1991
	(in thousands, except per share data)				
STATEMENT OF INCOME DATA:					
Revenue	$ 136	$ 838	$3,798	$6,144	$13,498
Cost of Revenue	147	529	2,701	4,509	9,921
Gross Margin	(11)	309	1,097	1,634	3,577
Expenses	188	371	977	2,334	4,538
Operating Income (Loss)	(199)	(62)	120	(700)	(961)
Other Income (Expense)- Net	21	21	13	42	(3)
Net Income (Loss)	$ (178)	$ (41)	$ 133	$ (658)	$ (964)

Net Income (Loss) per common share	($ 0.04)	($0.01)	$0.02	$ (0.09)	($0.15)
BALANCE SHEET DATA:					
Working Capital (Deficit)	($107)	($ 37)	($854)	$ 169	$ 301
Total Assets	$202	$455	$2,224	$1,901	$4,786
Stockholders' Equity	$ 23	$ 158	$972	$ 314	$ 718

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

Results of Operations

The following table sets forth for the fiscal periods indicated the percentage of revenues represented by certain items in the Company's statement of income.

	Year Ended April 30,		
	1989	1990	1991
Revenues	100.0%	100.0%	100.0%
Cost of Revenues	71.1	73.4	73.5
Gross profit	28.9	26.6	26.5
Selling, general and administrative expenses	25.7	38.0	33.6
Operating profit (loss)	3.1	(11.4)	(7.1)
Other income (expense)			
Interest income	0.3	0.7	0.2
Interest expense	(0.1)	--	(0.2)
Other income	0.2	--	--
Net Income (loss)	3.5	(10.7)	(7.1)

Revenues increased by $2,345,618, or 62%, from fiscal 1989 to fiscal 1990 and by $7,354,635, or 120%, from fiscal 1990 to fiscal 1991. The increase over these periods is a result of an increase in the average number of monthly customers billing with the Company in each of the years as well as an increase in the average amount billed per customer. The Company's marketing effort over the three year period has increased the number of distributors providing the Company with new business and, in fiscal 1991, has utilized the services of telemarketing firms as a new source of customers. From fiscal 1989, the customer base has grown from an average of approximately 3,000 to approximately 12,000 billing customers as of April 1991. In addition to the growth in the number of customers, the average monthly bill per customer has increased from $98 to $135 over the same period. This increase is due to a change in the customer base from a predominantly residential base to a predominantly commercial base. From late in calendar 1989 through fiscal 1991, the Company's marketing effort has been targeted primarily on commercial accounts. In the fourth quarter of fiscal 1991, the Company has implemented a new residential program aimed at religious affinity groups. The Company expects that the residential percentage of its customer base will increase over the coming fiscal year as a result of this program. Although average residential bills are lower than commercial accounts and require more customer service support, there is a higher gross margin on residential traffic.

The Company's revenue growth in fiscal 1991 was hindered as a result of processing problems and delays experienced by the Company's vendors. As of June 30, 1991, over 2,700 new customer orders submitted by the Company for activation by the carriers in fiscal 1991 have not been converted to the Company's account. The majority of these accounts were submitted for activation under AT&T's SDN service. Approximately 1,300 orders were canceled by customers during fiscal 1991, which Phoenix believes is due primarily to these delays, and the remainder still await processing by the vendors. The Company is working with its vendors to expedite these orders and to improve future order processing. In June 1991, AT&T filed a new tariff, known as "DNS", with the FCC which was designed for resellers such as the Company. The Company believes that the new program will relieve many of the problems previously encountered with activating customers under the SDN program.

The Company's cost of revenue consists of amounts paid to the carriers for transmission services for its customers. Over the three-year period ended April 30, 1991, the gross margin has remained relatively consistent. The increase of 2.3 percentage points in the cost of revenue from fiscal 1989 to fiscal 1990 was due primarily to the change in the customer mix from residential to commercial over this period. The Company pays the carriers for its customers' service based upon the tariffs filed by the carriers under which the Company qualifies for service from the carriers. While the carriers are able to modify their tariff at any time, the Company does not currently foresee any significant change in such rates.

Selling, general and administrative expenses fluctuated as a percentage of revenues from 26% in 1989 to 38% in 1990 to 34% in 1991. Over this period, the Company has grown from 10 employees in April 1989 to 25 in April 1990 to 45 in April 1991. The increase has been required to support the marketing programs and to process the Company's increased volume of business. It is anticipated that general and administrative expenses will continue to decline as a percentage of revenues in the coming year.

Liquidity

To date, the Company has financed its operations through cash flow from operations, the private sales of common and preferred stock and through use of its bank line of credit. The Company maintains a $1,000,000 line of credit through a commercial bank which is subject to renewal on August 31, 1991. The Company is currently not in compliance with certain financial covenants in the loan agreement. Through July 15, 1991, the Company has drawn down $550,000 for working capital purposes and has drawn down $375,000 to place in certificates of deposit which secure two irrevocable letters of credit in favor of a vendor for providing service. These letters of credit will expire in December 1991 if the Company maintains current payments with the vendor. In order to sustain its current growth rate, the Company believes it will require additional capital resources and liquidity in fiscal 1992. The Company is currently investigating available sources of debt or equity financing. There is no assurance that the necessary financing will be available to the Company on satisfactory terms.

Recent Developments Affecting the Company

In late June 1991, the AT&T DNS tariff became effective and the Company began submitting orders to AT&T for processing. AT&T has stated that the DNS program, unlike the SDN program, will allow, after a three-month ramp-up. an unlimited number of new sites enrolled per month and that AT&T will provision accounts in 10 working days. Under the SDN program, the new sites were limited to 400 per month and provisioning could take up to six months per account. As a result, the Company believes orders will be activated significantly faster under the DNS program than under the SDN program.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements of the Company and the related report of independent auditors are included as pages F-1 through F-12 of this report:

Report of Independent Certified Public Accountants

Balance Sheets

Statement of Operations

Statement of Stockholders' Equity

Statement of Changes in Financial Position

Notes to Financial Statements

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

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The directors and executive officers of the Company, as of June 30, 1991, are:

Name	Age	Positions With the Company
Thomas H. Bell	43	Chairman of the Board, Chief Executive Officer
Marc L. Goyette	36	President, Chief Operating Officer, Director
Jeffrey L. Bailey	38	Vice President, Chief Financial Officer
J. Rex Bell	37	Vice President
Charles C. McGettigan	45	Director
Merrill L. Magowan	53	Director
James W. Gallaway	51	Director
John P. Bremner	42	Director

Thomas H. Bell

Mr. Bell has served as Chairman of the Board and Chief Executive Officer of Phoenix since the inception of Phoenix Telcom, Inc. in 1985. Mr. Bell served as President of the COmpany from 1985 to September 1990. From 1983 to 1985, Mr. Bell was self employed as a telecommunications consultant.

Marc L. Goyette

Mr. Goyette has been President of the Company since September 1990 and Chief Operating Officer and a director of the Company since November 1988. He also served as Executive Vice

President from November 1988 to September 1990. From 1984 to 1988, he was a Senior Financial Consultant with Merrill Lynch Pierce Fenner & Smith Incorporated, a securities brokerage firm. From 1979 to 1984 he held a management position responsible for Management Information Systems at General Dynamics.

<u>Jeffrey L. Bailey</u>

Mr. Bailey has been Vice President and Chief Financial Officer of the Company since March 1990. He is a Certified Public Accountant and from 1985 to 1990 was a Senior Manager with Grant Thornton, an accounting and management consulting firm. From 1975 to 1985 he was with Arthur Young & Company.

<u>J. Rex Bell</u>

Mr. Bell has been Vice President of the Company since March, 1991. From January, 1990 to March, 1991, he held the position of Director of Marketing. Prior to joining the Company, Mr. Bell was a Senior Telecommunications Consultant from 1984 to 1990 for two California consulting firms, COMSUL, Ltd. and Robin & Dackerman, Inc. Between 1980 and 1984, he held management positions with MCI Communications and Cable and Wireless, Ltd.

<u>Charles C. McGettigan</u>

Mr. McGettigan is currently a managing director and founder of McGettigan, Wick & Co., Inc., an investment banking firm formed in 1988, a general partner of Proactive Partners, L.P., an investment partnership formed in 1991, and a director of Skouras Pictures, Inc., a motion picture distributor, and Shared Technologies, Inc., a shared tenant service provider. From 1980 to 1983 he was a senior vice president of Dillon Read & Co. From 1983 to 1984 he was a general partner of Woodman Kirkpatrick & Gilbreath. From 1984 to 1988 he was a principal of Hambrecht & Quist Incorporated.

<u>Merrill L. Magowan</u>

Since 1982 Mr. Magowan has been the President of Magowan Dirickson Investment Company, a California registered investment advisory firm (formerly known as Magowan Investment Company). He has been a director since August 1988, and Chairman of the Board since August 1989, of Aquatech Systems, a company listed on the Vancouver Stock Exchange. He is also currently a director of Nordeman Grimm (since 1975), an executive search consulting firm, and Anchor Coupling Company (since 1985), a company involved in the hydraulic hose couplings industry. From 1968 to 1986 he was a director of Safeway Stores, Inc.

James W. Gallaway

Mr. Gallaway became a director of the Company in July 1988. He is a founder and former director of Centex Telemanagement ("Centex"). He was a director of Centex from 1984 to 1988 and a Vice President from 1983 to 1986. Since 1980 he has been President of Gallaway Enterprises, Inc., a telecommunications company. Since February 1988, he has served as a director and Vice President of StellarNet, Inc., an information management company in the health care industry. Mr. Gallaway has been a U.S. Marine Corps Reserve Officer since 1962.

John P. Bremner

Mr. Bremner became a director of the Company in June 1991. He is currently President of Devco Investments, Inc., a real estate investment corporation and holding company, and has served in that capacity since 1980. Mr. Bremner has also served as a director of Megaphone International, Inc., an audiotext company, between 1984 and 1989. Mr. Bremner currently is a director of Meganews, Inc., an audiotext company, where he has served in that capacity since 1988 and since 1990 has served as the chief executive officer of Perseids, Ltd., an information services company.

All directors hold office until the next annual meeting of stockholders or until their successors are duly elected and qualified. Officers serve at the discretion of the Board of Directors. Thomas H. Bell and J. Rex Bell are brothers. With the exception of that relationship, there are no other family relationships among officers or directors of the Company.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the cash compensation paid to each of the Company's executive officers whose cash compensation exceeded $60,000 and all executive officers as a group for the fiscal year ended April 30, 1991.

Name of Individual	Capacities in which served	Cash Compensation
Thomas H. Bell	Chief Executive Officer	$147,096
Marc L. Goyette	Chief Operating Officer, President	$110,028
Jeffrey L. Bailey	Chief Financial Officer, Vice President	$ 72,000

J. Erik Mustad (1)	Vice President	$ 65,208
J. Rex Bell	Vice President	$ 61,925
All executive officers as a group (7 persons)		$551,572

(1) No longer associated with the Company.

Directors of the Company receive no compensation for their service as such but are reimbursed for reasonable expenses incurred in attending meetings of the Board of Directors.

Stock Option Plan

The Company's 1989 Stock Option Plan (the "Option Plan") provides for the grant to employees of the Company and its affiliates of options to purchase shares of Common Stock, which options are intended to qualify as incentive stock options under the provisions of Section 422A of the Internal Revenue Code of 1986 (the "Code"), and the grant to employees and officers of and consultants to the Company and its affiliates of options to purchase Common Stock, which options are not intended to qualify as incentive stock options ("nonqualified options"). The aggregate number of shares reserved for issuance under the Option Plan is 2,000,000.

At June 30, 1991, 19,000 shares had been issued upon exercise of options granted under the Option Plan and there were options outstanding to purchase 1,199,499 shares at a weighted average exercise price of $1.628 per share, and an aggregate of 781,501 shares remained available for future grants under the Option Plan.

The Option Plan is administered by the Company's Board of Directors, which has discretion to select grantees, to designate the number of shares to be covered by each option, to establish vesting schedules, to specify the type of consideration to be paid to the Company upon purchase and, subject to certain restrictions, to specify other terms of the options. The maximum term of options under the Option Plan is 10 years. The aggregate fair market value of the Common Stock for which any employee may be granted incentive stock options under the Option Plan that are first exercisable in any one calendar year may not exceed $100,000, plus certain carryover allotments.

The exercise price of incentive stock options granted under the Option Plan must equal at least the fair market value of the Common Stock on the date of grant. The exercise price of nonqualified options granted under the Option Plan must equal at least 85% of the fair market value of the Common Stock on the date of grant. To date, the exercise price of options granted pursuant to the Option Plan has equaled the fair market value of the Common Stock on the date of grant. Shares covered by currently outstanding options under the plan typically become exercisable at the rate of 25% per year over the four years following the date of grant.

During the 1991 fiscal year, one executive officer of the Company was granted an option to purchase 6,000 shares of the Company's Common Stock with an average per share exercise price of $1.625. During the 1991 fiscal year, no options were exercised by any executive officer of the Company.

ITEM 12. SHARE OWNERSHIP OF OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

Certain information is set forth below regarding the beneficial ownership of the Company's Common Stock and Series A Preferred as of June 30, 1991 of (i) all those known by the Company to be beneficial owners of more than 5% of the shares of Common Stock or Series A Preferred outstanding; (ii) all directors; and (iii) all current officers and directors of the Company as a group.

		Beneficial Ownership(1)(2)(3)	
Name and Address	Class	Number of Shares	Approximate Percent of Class
Thomas H. Bell One Maritime Plaza Suite 2525 San Francisco, CA 94111	Common Stock	4,036,056 (4)	51.8%
James W. Gallaway One Maritime Plaza Suite 2525 San Francisco, CA 94111	Common Stock	727,700 (5)	9.6%
Alfred J. Schlette 161 Mitchell Blvd. San Rafael, CA 94903	Common Stock	452,000 (6)	6.2%
Marc L. Goyette	Common Stock	343,500 (7)	4.6%

Bundy Associates c/o Frederick L. Carroll One California Street Suite 2850 San Francisco, CA 94111	Series A Preferred	10,000	6.4%
Jupiter Partners c/o John M. Bryan Bryan & Edwards 600 Montgomery Street, 35th Floor San Francisco, CA 94111	Series A Preferred	10,000	6.4%
Lagunitas Partners c/o Gruber & McBaine Capital Management 50 Osgood Place Penthouse Suite San Francisco, CA 94133	Series A Preferred	20,000 (8)	12.9%
Merrill L. Magowan One Bush Street Suite 1500 San Francisco, CA 94111	Common Stock Series A Preferred	43,750 (9) 10,000	* 6.4%
Charles C. McGettigan 50 Osgood Place Penthouse Suite San Francisco, CA 94133	Common Stock Series A Preferred	145,950 (10) 35,550 (11)	1.1% 20.8%
John P. Bremner	Common Stock Series A Preferred	8.000 (12) 1,000	* *
McMicking Ventures c/o Henry C. McMicking McMicking & Co. 25 Ecker Street, Suite 800 San Francisco, CA 94105	Series A Preferred	10,000	6.4%
Elizabeth D. Wick c/o Myron A. Wick III McGettigan, Wick & Co., Inc. 50 Osgood Place Penthouse Suite San Francisco, CA 94133	Series A Preferred	10,000	6.4%
Lesney Products Corporation 697 Wyckoff Avenue Wyckoff, NJ 07481	Series A Preferred	10,000	6.4%

All Officers and Directors as a group (8 persons)	Common Stock	5,329,956 (13)	62.9%

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* Less than 1%

(1) Unless otherwise indicated and subject to community property laws, each of the stockholders has sole voting and investment power with respect to the shares beneficially owned.

(2) Percentages of beneficial ownership are based upon 7,272,256 shares of the Company's Common Stock and 155,500 shares of Series A Preferred outstanding (plus, in appropriate cases, certain shares of which the persons named in the table have the right to acquire beneficial ownership) and upon information supplied by officers and directors.

(3) Each share of Series A Preferred is convertible into 4 shares of Common Stock at any time by the holders of the Series A Preferred. The beneficial ownership information set forth above may differ if any of the shares of Series A Preferred were converted.

(4) Includes 512,000 shares of which Mr. Bell has the right to acquire beneficial ownership within 60 days of July 31, 1991, by the exercise of stock options or otherwise, as specified in Rule 13d-3(d)(1) ("Rule 13d-3(d)(1)") under the Securities Exchange Act of 1934, as amended.

(5) Includes 315,000 shares of which Mr. Galloway has the right to acquire beneficial ownership within 60 days of July 31, 1991, by the exercise of stock options or otherwise, as specified in Rule 13d-3(d)(1).

(6) Includes 7,500 shares of which Mr. Schlette has the right to acquire beneficial ownership within 60 days of July 31, 1991, by the exercise of stock options or otherwise, as specified in Rule 13d-3(d)(1).

(7) Includes 160,000 shares of which Mr. Goyette has the right to acquire beneficial ownership within 60 days of July 31, 1991, by the exercise of stock options or otherwise, as specified in Rule 13d-3(d)(1).

(8) Excludes an aggregate of 5,000 shares of Series A Preferred owned by the principals of Gruber & McBaine Capital Management.

(9) Includes 40,000 shares of which Mr. Magowan has the right to acquire beneficial ownership within 60 days of July 31,

1991, upon conversion of Series A Preferred as specified in Rule 13d-3(d)(1), and 3,750 shares of which Mr. Magowan has the right to acquire beneficial ownership within 60 days of July 31, 1991, by the exercise of stock options or otherwise, as specified in Rule 13d-3(d)(1).

(10) Includes 145,950 shares of which Mr. McGettigan has the right to acquire beneficial ownership within 60 days of July 31, 1991 as specified in Rule 13d-3(d)(1). A total of 80,000 of such shares would be acquired upon conversion of 20,000 shares of Series A Preferred presently held by McGettigan, Wick Investments, an investment company of which Mr. McGettigan is a principal. A total of 62,200 of such shares would be acquired on exercise of a Warrant held by McGettigan, Wick & Co., Inc., an investment banking firm of which Mr. McGettigan is a Managing Director. A total of 3,750 of such shares would be acquired upon exercise of stock options held by Mr. McGettigan.

(11) Includes 15,500 shares by virtue of a Warrant to purchase Series A Preferred. All of such shares and such Warrant are held by McGettigan, Wick & Co., Inc., an investment banking firm of which Mr. McGettigan is a Managing Director.

(12) Includes 4,000 shares of which Mr. Bremner has the right to acquire beneficial ownership within 60 days of July 31, 1991, upon conversion of Series A Preferred as specified in Rule 13d-3(d)(1).

(13) Includes 1,205,700 shares of Common Stock which such persons have the right to acquire beneficial ownership within 60 days of July 31, 1991, by the exercise of stock options or conversion of Series A Preferred Stock, as specified in Rule 13d-3(d)(1).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the summer of 1990, McGettigan, Wick & Co., Inc. ("McGettigan, Wick"), an investment banking firm, advised the Company with respect to a $1,555,000 private placement of 155,500 shares of Series A Preferred Stock. In connection with such engagement, the Company paid aggregate fees to McGettigan, Wick of $77,750 and granted McGettigan, Wick a Warrant to purchase 62,200 shares of Common Stock. Charles C. McGettigan, a director of the Company, is a Managing Director of McGettigan, Wick. As part of such private placement, the Company sold 20,000 shares of Series A Preferred Stock for the purchase price of $200,000 to McGettigan, Wick Investments, an investment company of which Mr. McGettigan is a principal. The Company also sold 10,000 shares of Series A Preferred Stock for the purchase price of $100,000 to

Magowan Investment Company, an investment company of which Mr. Magowan, a director of the Company, is a principal.

Mr. Gallaway, a director of the Company, is Chief Executive Officer and a principal stockholder of Gallaway Enterprises, Inc. ("GEI"), which has been a distributor of the Company since November 1988. During the last fiscal year, the amount paid by the Company to GEI for its services as a distributor was not material.

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

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

1. Financial Statements: The financial statements and schedules filed as part of this report are set forth following page F-1 of this report.

3. Exhibits

3.1 Restated Certificate of Incorporation of the Company (1)

3.2 Bylaws of the Company (2)

10.1 1989 Stock Option Plan (2)

10.2 Forms of option grant pursuant to the 1989 Stock Option Plan (2)

10.3 Sales Agreement dated March 19, 1990 between the Company and Westinghouse Communications (2)

10.4 Form of Series A Preferred Stock Purchase Agreement (3)

10.5 Sublease and Consent with Richard Goldman & Co. (3)

11. Computation of earnings per share.

22.1 Subsidiaries of Phoenix Network, Inc.

b. Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of the period covered by this report.

(1) Filed as an Exhibit to the Company's quarterly report on Form 10-Q for the quarterly period ended October 31, 1990, and incorporated herein by reference.

(2) Filed as an Exhibit to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1990, and incorporated herein by reference.

(3) Filed as an Exhibit to the Company's quarterly report on Form 10-Q for the quarterly period ended July 31, 1990 and incorporated herein by reference.

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.

PHOENIX NETWORK, INC.

By: /s/ Thomas H. Bell
Thomas H. Bell
Chief Executive Officer

Date: July 26, 1991

Pursuant to the requirement 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 dates indicated.

Signature	Title	Date
/s/ Thomas H. Bell Thomas H. Bell	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	July 26, 1991
/s/ Marc L. Goyette Marc L. Goyette	President, Chief Operating Officer and Director	July 26, 1991
/s/ Jeffrey L. Bailey Jeffrey L. Bailey	Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	July 26, 1991
Charles C. McGettigan	Director	
/s/ Merrill L. Magowan Merrill L. Magowan	Director	July 26, 1991

____________________ James W. Gallaway	Director	
/s/ John P. Bremner John P. Bremner	Director	July 26, 1991

One California Street
San Francisco, CA 94111-5476
415-986-3900
FAX 415-986-3516

Grant Thornton

Accountants and
Management Consultants

The U.S. Member Firm of
Grant Thornton International

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors
Phoenix Network, Inc.

We have audited the accompanying consolidated balance sheets of Phoenix Network, Inc. (a Delaware Corporation) and Subsidiary as of April 30, 1991 and 1990, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended April 30, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the 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 consolidated financial position of Phoenix Network, Inc. and Subsidiary as of April 30, 1991 and 1990, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended April 30, 1991, in conformity with generally accepted accounting principles.

As discussed in Note B, the Company elected to effect a quasi-reorganization as of April 30, 1989 resulting in the revaluation of its assets and the elimination of the Company's accumulated deficit.

Grant Thornton

GRANT THORNTON

San Francisco, California
July 12, 1991

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULE

Board of Directors
Phoenix Network, Inc.

In connection with our audit of the consolidated financial statements of Phoenix Network, Inc. and Subsidiary referred to in our report dated July 12, 1991, which is included in the Company's annual report on Form 10-K, we have also audited Schedule VIII for the year ended April 30, 1991. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

Grant Thornton

GRANT THORNTON

San Francisco, California
July 12, 1991

Phoenix Network, Inc. and Subsidiary

CONSOLIDATED BALANCE SHEETS

April 30,

ASSETS

	1991	1990
Current assets		
Cash	$ 435,746	$ 579,295
Accounts receivable, net of allowance for doubtful accounts of $182,093 in 1991 and $18,119 in 1990	3,466,645	1,044,315
Prepaid expenses	214,256	58,568
Deferred charges	184,946	74,249
Total current assets	4,301,593	1,756,427
Furniture and equipment - at cost, less accumulated depreciation	454,942	145,025
Other assets	29,180	-
	$ 4,785,715	$1,901,452

LIABILITIES AND STOCKHOLDERS' EQUITY

	1991	1990
Current liabilities		
Note payable to bank	$ 300,000	$ -
Accounts payable and accrued expenses		
Trade	3,527,643	1,503,390
Other	133,795	84,254
Capital lease obligation - current	39,457	-
Total current liabilities	4,000,895	1,587,644
Capital lease obligation - noncurrent	66,489	-
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock - $.001 par value, authorized 5,000,000 shares, issued 155,500 shares in 1991 and none in 1990, liquidating preference of $10 per share aggregating $1,555,000	156	-
Common stock - $.001 par value, authorized 20,000,000 shares, issued 7,241,006 shares in 1991 and 1990	7,241	7,241
Additional paid-in capital	2,406,415	967,584
Accumulated deficit from May 1, 1989	(1,692,959)	(658,495)
Treasury stock - 1,300 shares at cost	(2,522)	(2,522)
	718,331	313,808
	$ 4,785,715	$1,901,452

The accompanying notes are an integral part of these statements.

Phoenix Network, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended April 30,

	1991	1990	1989
Revenues	$13,498,154	$6,143,519	$3,737,901
Cost of revenues	9,921,095	4,509,347	2,701,132
Gross profit	3,577,059	1,634,172	1,096,769
Selling, general and administrative expenses	4,538,400	2,334,862	977,163
Operating profit (loss)	(961,341)	(700,690)	119,606
Other income (expense)			
Interest income	31,131	42,002	10,531
Interest expense	(27,456)	-	(4,809)
Other - net	(6,823)	193	7,618
	(3,148)	42,195	13,340
NET EARNINGS (LOSS)	$ (964,489)	$ (658,495)	$ 132,946
NET EARNINGS (LOSS) PER COMMON SHARE	$(.15)	$(.09)	$.02

The accompanying notes are an integral part of these statements.

Phoenix Network, Inc. and Subsidiary

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three years ended April 30, 1991

	Preferred stock Shares	Preferred stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit prior to May 1, 1989	Accumulated deficit since May 1, 1989	Treasury stock Shares	Treasury stock Amount
Balance at May 1, 1988	-	$ -	5,486,813	$5,487	$ 528,841	$(373,790)	$ -	1,300	$(2,522)
Stock options exercised	-	-	400,000	400	39,600	-	-	-	-
Issuance of common stock	-	-	1,354,193	1,354	817,737	-	-	-	-
Net earnings	-	-	-	-	-	132,946	-	-	-
Quasi-reorganization as of April 30, 1989:									
Decrease in investment	-	-	-	-	(177,750)	-	-	-	-
Transfer of deficit to additional paid-in capital	-	-	-	-	(240,844)	240,844	-	-	-
Balance at April 30, 1989	-	-	7,241,006	7,241	967,584	-	-	1,300	(2,522)
Net loss	-	-	-	-	-	-	(658,495)	-	-
Balance at April 30, 1990	-	-	7,241,006	7,241	967,584	-	(658,495)	1,300	(2,522)
Issuance of preferred stock	155,500	156	-	-	1,438,831	-	-	-	-
Preferred dividends paid	-	-	-	-	-	-	(53,975)	-	-
Net loss	-	-	-	-	-	-	(984,499)	-	-
Balance at April 30, 1991	155,500	$156	7,241,006	$7,241	$2,406,415	$ -	$(1,692,969)	1,300	$(2,522)

The accompanying notes are an integral part of this statement.

Phoenix Network, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended April 30,

	1991	1990	1989
Cash flows from operating activities:			
Cash received from customers	$ 11,075,824	$ 6,307,749	$ 2,764,241
Interest received	31,131	42,002	10,531
Cash paid to suppliers and employees	(12,611,392)	(6,577,491)	(2,714,047)
Interest paid	(27,456)	-	(4,809)
Net cash provided by (used in) operating activities	(1,531,893)	(227,740)	55,916
Cash flows from investing activities:			
Payments on capital lease obligation	(19,210)	-	-
Purchases of certificates of deposit	-	-	(401,913)
Redemptions of certificates of deposit	-	401,913	-
Purchases of furniture and equipment	(266,004)	(60,869)	(110,618)
Payments on notes receivable - related parties	-	17,500	12,476
Proceeds from sale of fixed asset	4,546	-	-
Net cash provided by (used in) investing activities	(280,668)	358,544	(500,055)
Cash flows from financing activities:			
Proceeds from issuance of preferred stock	1,438,987	-	-
Proceeds from note payable to bank	550,000	-	-
Payments on note payable to bank	(250,000)	-	-
Preferred stock dividends	(69,975)	-	-
Proceeds from issuance of common stock	-	-	819,091
Proceeds from exercise of stock options	-	-	40,000
Net cash provided by financing activities	1,669,012	-	859,091
Net increase (decrease) in cash	(143,549)	130,804	414,952
Cash at beginning of year	579,295	448,491	33,539
Cash at end of year	$ 435,746	$ 579,295	$ 448,491

	1991	1990	1989
Reconciliation of net earnings (loss) to net cash provided by (used in) operating activities:			
Net earnings (loss)	$ (964,489)	$ (658,495)	$ 132,946
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation	65,655	34,250	20,561
(Increase) decrease in accounts receivable	(2,422,330)	164,230	(1,039,603)
Increase in prepaid expenses	(155,688)	(29,657)	(1,675)
Increase in deferred charges	(110,697)	(74,249)	-
Increase in other assets	(29,180)	-	-
Increase in accounts payable and accrued expenses	2,073,794	336,181	943,687
Loss on sale of asset	11,042	-	-
Net cash provided by (used in) operating activities	$ (1,531,893)	$ (227,740)	$ 55,916

	1991	1990	1989
Schedule of noncash investing activity			
Capital lease obligation for equipment	$ 125,156	$ -	$ -

The accompanying notes are an integ. al part of these statements.

NOTE A - DESCRIPTION OF COMPANY AND SUMMARY OF ACCOUNTING POLICIES

Phoenix Network, Inc. ("Phoenix" or the "Company") is a nonfacilities-based rebiller of long distance telecommunication services designed primarily for small to medium sized commercial accounts and for residential customers. The Company has the ability to place customers on the facilities of AT&T, US Sprint and MCI Communications Corporation for long distance service which is billed by the carriers to Phoenix. Phoenix then bills its customers directly for their individual usage.

The following is a summary of the Company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements.

- Principles of Consolidation

  The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany transactions are eliminated in consolidation.

- Furniture and Equipment

  Depreciation of furniture and equipment is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives utilizing the straight-line method.

NOTE B - QUASI-REORGANIZATION

In connection with the business combination effected in fiscal 1988 and the subsequent focus by the Company solely upon the telecommunication business, the Company, with the approval of the Board of Directors, implemented a quasi-reorganization effective April 30, 1989 and revalued its assets. The quasi-reorganization, which did not require the approval of the Company's shareholders, resulted in a decrease in the investment valuation of $177,750, the elimination of the accumulated deficit of $240,844 and a decrease in additional paid-in capital of $418,594.

NOTE C - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	April 30, 1991	April 30, 1990
Data processing	$ 291,031	$135,582
Furniture and fixtures	162,093	39,146
Other equipment	124,580	37,018
	577,704	211,746
Less accumulated depreciation	(122,762)	(66,721)
	$ 454,942	$145,025

NOTE D - LINE OF CREDIT

The Company has a line of credit agreement with a commercial bank in the amount of $1,000,000 expiring August 31, 1991. Borrowings under the agreement bear interest at 1.5% over prime, are secured by the Company's accounts receivable, personally guaranteed by an officer of the Company, and require a compensating balance of $250,000 with the commercial bank. At April 30, 1991, $300,000 is outstanding on the line at 10.5%. The Company is in violation of the net worth loan covenants as of April 30, 1991. Average month-end outstanding borrowings for the year ended April 30, 1991 were $281,250 at a weighted average interest rate of 11.0%.

NOTE E - LEASES

The Company leases certain equipment under a capitalized lease agreement representing assets of $125,156 and accumulated depreciation of $11,662 as of April 30, 1991. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated at the Company's incremental borrowing rate at the inception of the lease.

Future minimum lease payments for years ending April 30, are as follows:

1992	$ 51,665
1993	37,585
1994	32,891
1995	6,458
	128,599
Amount representing imputed interest	(22,653)
Present value of future minimum lease payments	$105,946

The Company has operating leases for office space and equipment which expire on various dates through 1995 and which require that the Company pay certain maintenance, insurance and other operating expenses. Rent expense for the year's ending April 30, 1991, 1990 and 1989 was $238,964, $104,409 and $67,218, respectively.

Minimum rental payments required under operating leases for the years ending April 30 are as follows:

1992	$287,101
1993	285,126
1994	284,546
1995	54,518
1996	2,296
	$913,587

NOTE F - COMMITMENTS AND CONTINGENCIES

The Company signed an agreement with AT&T in February, 1991 to enable the Company to provide service to its customers under AT&T's Software Defined Network (SDN). The term of the agreement is March 1991 through March 1996 during which time the Company must meet certain usage requirements in four of the five years. Additionally, the Company signed an agreement with AT&T in April 1991 for AT&T's Distributed Network Services (DNS). Under this agreement, the Company must meet certain usage requirements over a three year period.

In March 1990, the Company entered into a three year agreement with Westinghouse Communications (Westinghouse), a wholly-owned subsidiary of Westinghouse Electric Corporation, under which Westinghouse will assist the Company in the providing and management of certain services from AT&T, U.S. Sprint Communications Company and MCI Communications Corp. The Company's accounts receivable in excess of those required to secure the Company's bank line of credit are pledged to secure amounts due Westinghouse.

NOTE G - CAPITAL STOCK

Preferred Stock Issuance

In September 1990, the Company completed a private placement of 155,500 shares of its Series A Preferred Stock at $10 per share. The shares are entitled to 9% cumulative dividends and are convertible into 622,000 shares of common stock at $2.50 per share. In connection with the offering the Company also issued a warrant to an investment banking firm controlled by an individual who was subsequently elected to the Company's Board of Directors for 62,200 shares of common stock with an exercise price of $2.50 per share. The warrants expire in September 1995. Net proceeds to the Company from the private placement, after offering costs of $116,054 were $1,438,987.

Common Stock Issuance

During the year ended April 30, 1989, the Company issued 1,354,193 shares of common stock in a private offering. Proceeds after expenses amounted to $819,091. In connection with the offering, a director of the Company was granted a stock warrant to purchase 300,000 shares of common stock at $.75 per share. The warrants expire in July 1993. As of April 30, 1991, no warrants have been exercised.

Stock Options

On September 24, 1987, the Company granted certain directors stock options to purchase up to 900,000 shares of common stock at a price of $0.10 per share, expiring no earlier than ten (10) years from the effective date. During 1989, options for 400,000 shares were exercised for $40,000. At April 30, 1991, options for 500,000 shares remain outstanding.

NOTE G - CAPITAL STOCK (continued)

The Company's 1989 Stock Option Plan authorizes the grant of incentive stock options or supplemental stock options for up to 2,000,000 shares of common stock. The exercise price of each incentive stock option shall be not less than 100% of the fair market value of the stock on the date the option is granted. The exercise price of each supplemental stock option shall be not less than eighty-five percent (85%) of the fair market value of the stock on the date the option is granted.

Stock option activity was as follows:

	Number of shares	Option price per share
Options outstanding May 1, 1989	1,097,000	\$.10 to \$1.375
Granted	905,700	\$1.25 to \$2.50
Cancelled	30,400	\$1.375 to \$1.50
Options outstanding April 30, 1990	1,972,300	\$.10 to \$2.50
Granted	528,700	\$1.625 to \$3.125
Cancelled	782,501	\$1.375 to \$2.50
Options outstanding at April 30, 1991	1,718,499	\$.10 to \$3.125
Exercisable at April 30, 1991	962,649	
Available for grant at April 30, 1991	781,501	

NOTE H - EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share is based upon the weighted average number of common and common equivalent shares outstanding except where such calculation is anti-dilutive. The weighted average number of common and common equivalent shares outstanding utilized in the computation of net earnings (loss) per share was 7,241,006 in 1991, 7,241,006 in 1990 and 7,124,722 in 1989. Dividends on the preferred stock were utilized to arrive at the adjusted net loss in computing earnings (loss) per common share.

NOTE I - LITIGATION

The Company is a party to various actions in the ordinary course of business. In the opinion of management, the outcome of these matters would not have a material effect on the financial statements.

NOTE J - INCOME TAXES

In 1989, the Company adopted Statement of Financial Accounting Standards No. 96 (SFAS 96), Accounting for Income Taxes, issued in December, 1987. The adoption of SFAS 96 did not have a material effect on net earnings for the year ended April 30, 1989.

As of April 30, 1991, the Company has available to offset future Federal taxable income, net operating loss carryforwards of approximately $1,700,000, which expire in varying amounts from 2000 through 2006. The principle temporary differences relate to the timing of the deductions for bad debt expense and certain prepaid expenses. The net operating loss (NOL) carryforwards available to offset future financial reporting income are approximately the same as for federal tax purposes. NOL's generated prior to the quasi-reorganization will be credited to additional paid-in capital when they are utilized for financial reporting purposes.

The Company's effective income tax rate is different from the Federal statutory income tax rate because of the following factors:

	1991	1990	1989
Federal tax rate applied to earnings (loss) before taxes	34.0%	34.0%	34.0%
Surtax exemption	-	-	(7.4)
Net operating loss	(35.0)	(33.5)	(28.0)
Other	1.0	(.5)	1.4
Effective tax rate	-%	-%	-%

Phoenix Network, Inc. and Subsidiary

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

Year ended April 30, 1991

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts	$ 18,119	$ 331,785	(1) $ 167,811	$ 182,093

(1) Write-offs of uncollectible accounts

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K ANNUAL REPORT PURSUANT
TO SECTION 13 OR 15 (d)
OF THE SECURITIES ACT OF 1934
FOR THE FISCAL YEAR
ENDED APRIL 30, 1991

PHOENIX NETWORK, INC.

EXHIBITS

Exhibit Number	Exhibit	Sequential Page Number
11	Computation of earnings per share	
22.1	Subsidiaries of Phoenix Network, Inc.	
24.0	Consent of Grant Thornton	

EXHIBIT 11

PHOENIX NETWORK, INC.
Statement of Computation of Per Share Earnings

	Year Ended 4/30/89	Year Ended 4/30/90	Year Ended 4/30/91
Primary:			
Net Earnings (Loss)	$ 132,946	$(658,495)	$(964,489)
Preferred Stock Dividend	-	-	(93,300)
Adjusted Net Loss	$ 132,946	$(658,495)	$(1,057,789)
Weighted average number of shares outstanding	7,124,722	7,241,006	7,241,006
Net income (loss) per common share	$ 0.02	$(0.09)	$(0.15)
Fully Diluted:			
Net Loss	$ 132,946	$(658,495)	$(964,489)
Weighted average number of shares outstanding:			
Primary	7,124,722	7,241,006	7,241,006
Convertible pfd stock conversion	-	-	414,667
Stock option conversion	-	-	1,258,717
Total	7,124,722	7,241,006	8,914,390
Net income (loss) per common share	$0.02	$(0.09)	$(0.11)

EXHIBIT 22.1

SUBSIDIARIES OF PHOENIX NETWORK, INC.

1. Phoenix Telcom, Inc. (a wholly-owned subsidiary)

EXHIBIT 24.0

Board of Directors
Phoenix Network, Inc.

We have issued our reports dated July 12, 1991, accompanying the consolidated financial statements and schedule included in the Annual report of Phoenix Network, Inc. on Form 10-K for the year ended April 30, 1991. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Phoenix Network, Inc. on Form S-8 (File No. 2-78639-D, effective July 12, 1990).

Grant Thornton

GRANT THORNTON

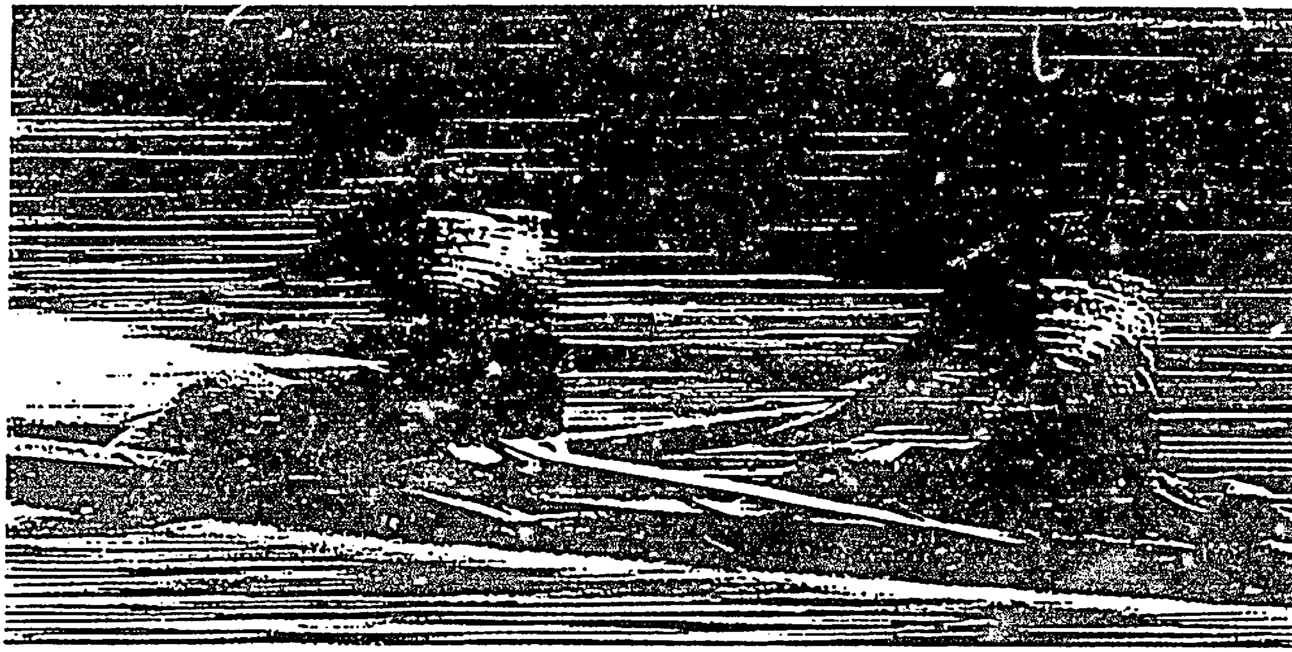
San Francisco, California
July 26, 1991

Financial Highlights Fiscal Years Ended April 30

Statement of Operations Data	
[illegible]	[illegible]
Net Earnings (Loss)	[illegible]
Net Earnings (Loss) Per Share	[illegible]
Balance Sheet Data	
[illegible]	[illegible]
Total [illegible]	[illegible]
Stockholders' Equity	[illegible]
Common Shares Outstanding at Year End	[illegible]

Corporate Profile

Phoenix Network is the recognized leader of the nonfacilities based resale long distance industry. Founded in 1985, we offer customers an innovative approach to managing their long distance expense. Phoenix negotiates with common carriers to obtain a better package of services than customers could obtain on their own and provides unique billing and information reports tailored to our customers' needs.



A winning team isn't born overnight. It begins with a vision of success, an ability to see opportunities where others before have failed to look.

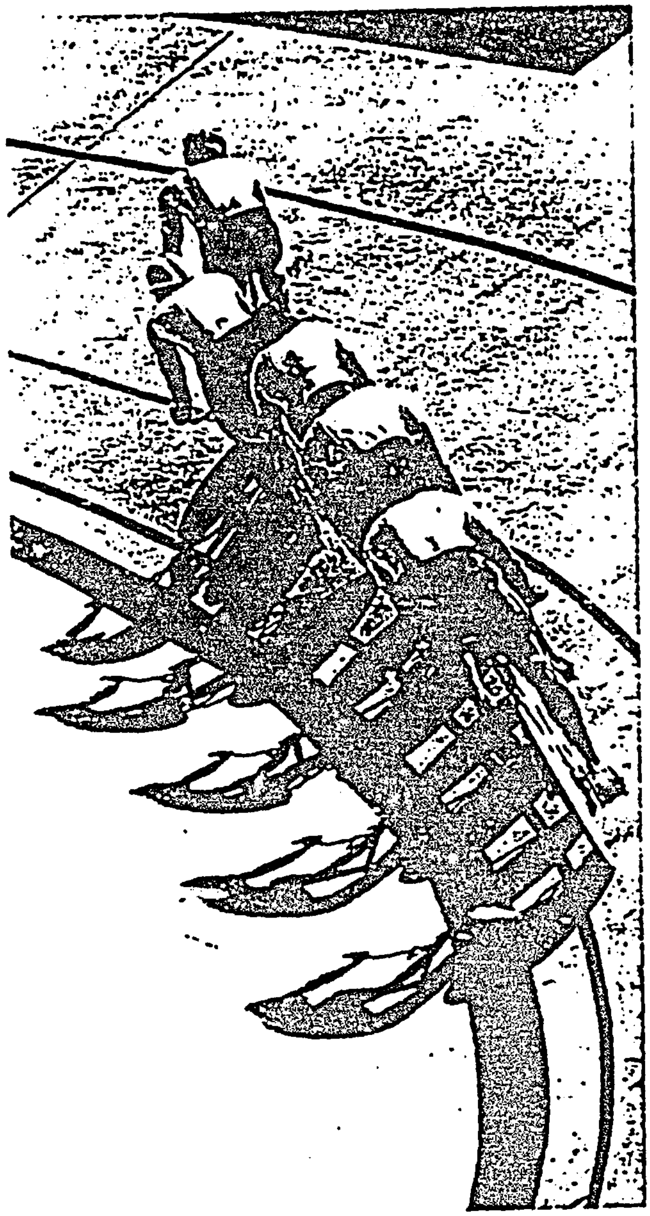
Such was the case with Phoenix Network. The divestiture of AT&T opened fertile ground for the growth of new long distance providers. As each entered the market, it spent millions of dollars building what became redundant long distance networks.

Phoenix quickly sized up the overcapacity, devising a way to buy that capacity and sell it to customers at a lower price. At the same time, we saw the need for the kind of personalized service the other carriers, because of their size, were unable to deliver.

The visionary founders of Phoenix mapped out a strategy for a team on which every player would win. Small to medium-sized businesses, underserved in the past, would receive high-quality, large company communications access, at a better price and with unsurpassed customer support. Carriers would be better able to maximize their networks. And Phoenix would become a profitable, successful company for which the future would be limitless.

Marc L. Goyette
Chief Operating Officer

"We don't want to be all things to all people. The customer we're here to serve is the small and medium-sized business. We simply want to help them get more for less."



When Phoenix's history is recounted, 1990 will be remembered as the culmination of a building effort that helped the company achieve record-breaking financial growth.

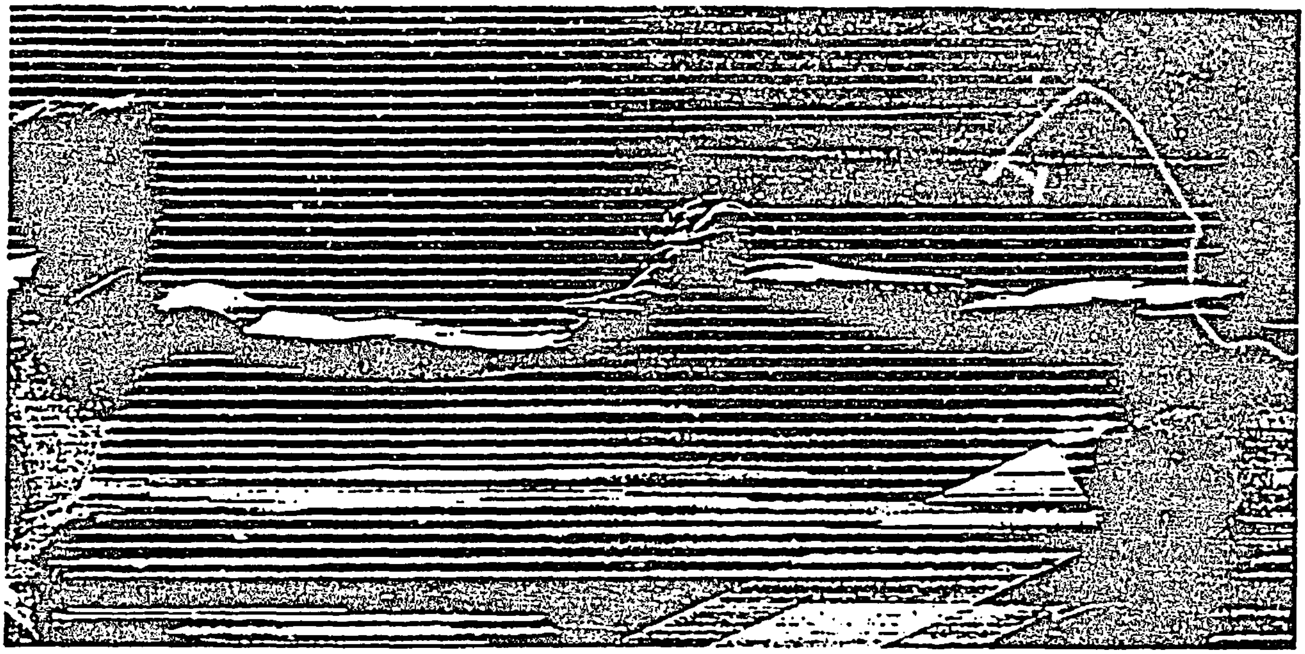
This investment in our future did not come cheaply. The adage, "It takes money to make money" well applies to our fiscal 1990 loss – a direct result of our increased spending in personnel and software systems.

To ensure the Phoenix team worked in sync and had the necessary tools to move forward aggressively, a sophisticated computerized data processing system was put into place. This system enables Phoenix to monitor a great volume of information on a minute-by-minute basis.

Not only are we able to track every call made by each of our 10,000 customers as well as every dollar earned by each of our 100 distributors, we're also able to meet the highly detailed reporting requirements demanded by regulatory agencies and the investment community. And perhaps most importantly, we've created the infrastructure so critical to future growth.

Jeffrey L. Bailey
Chief Financial Officer

"We have built an organization capable of handling substantial growth. We have better defined our strengths and opportunities and developed new value-added services. We are now well-positioned to satisfy an unfulfilled need in the long distance industry."



The vision has been implemented. The systems established. It's time to take the next step, the one that will send us surging ahead of the competition.

The direction now is marketing. We've expanded that department to better assist distributors in delivering Phoenix's superior rates and services to customers. The additional staff will enable us to improve our training, support and services.

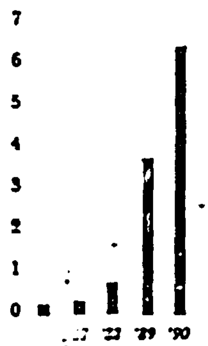
And we've hired professional distributors who bring telecommunications expertise, a strong entrepreneurial spirit and excellent business sense to our fast-moving operations. Already serving established customer bases, their reach extends to most of the major cities in the United States. They understand the marketplace and are well able to educate customers confused and bombarded by conflicting long distance claims.

Our new marketing thrust positions us to take advantage of an estimated $50-60 billion market. We have the team, the longevity and the experience. And customers, as they become more knowledgeable about the industry, want to make their own decisions about long distance, rather than be dictated to by large commercial carriers. At Phoenix, we stand ready to help them.

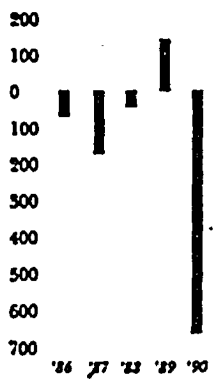
J. Erik Mastad
Executive V. P., Marketing

"We have just scratched the surface of the market. Our growth will come from doing the same things we've always done—only for an expanded customer base."

Revenue
Millions



Net Earnings (Loss)
Thousands



Consolidated Balance Sheets

Assets	April 30, 1990	1989
Current Assets		
Cash	$ 579,295	$ 443,491
Certificates of deposit	-	401,913
Accounts receivable, net of allowance for doubtful accounts of $18,119 in 1990 and $27,645 in 1989	1,044,315	1,208,545
Notes receivable from related parties	-	17,500
Deposits and prepaid expenses	58,568	28,911
Deferred charges	74,249	-
Total current assets	1,756,427	2,105,360
Furniture and Equipment – at cost, less accumulated depreciation	145,025	118,406
	$1,901,452	$2,223,766

Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses		
Trade	$1,503,390	$1,238,617
Other	84,254	12,846
Total current liabilities	1,587,644	1,251,463
Commitments and Contingencies	-	-
Stockholders' Equity		
Common stock – authorized 125,000,000 shares of $.001 par value; issued 7,241,006 shares in 1990 and 1989	7,241	7,241
Additional paid-in capital	967,584	967,584
Accumulated deficit from May 1, 1989	(658,495)	-
Treasury stock – 1,300 shares at cost	(2,522)	(2,522)
	313,808	972,303
	$1,901,452	$2,223,766

The accompanying notes are an integral part of these statements.

	Year Ended April 30, 1990	1989	1988
Revenues	$6,143,519	$3,797,901	$837,896
Cost of revenues	4,509,347	2,701,132	529,309
Gross profit	1,634,172	1,096,769	308,587
Selling, general and administrative expenses	2,334,862	977,163	370,880
Operating profit (loss)	(700,690)	119,606	(62,293)
Other income (expense)			
Interest income	42,002	10,531	36
Interest expense	-	(4,809)	(13,857)
Other income	193	7,618	35,213
	42,195	13,340	21,392
Net Earnings (Loss)	$ (658,495)	$ 132,946	$(40,901)
Net Earnings (Loss) Per Share	$(.09)	$.02	$(.01)

The accompanying notes are an integral part of these statements.

Three Years Ended April 30, 1990

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit Prior to May 1, 1989	Accumulated Deficit Since May 1, 1989	Treasury Stock – Shares	Treasury Stock – Amount
Balance at May 1, 1987	5,486,813	$5,487	$351,091	$(331,417)	$ -	1,300	$(2,522)
Contribution of investment in marketable security	-	-	177,750	-	-	-	-
Net loss for the year	-	-	-	(40,901)	-	-	-
Other	-	-	-	(1,472)	-	-	-
Balance at April 30, 1988	5,486,813	5,487	528,841	(373,790)	-	1,300	(2,522)
Stock options exercised	400,000	400	39,600	-	-	-	-
Issuance of common stock	1,354,193	1,354	817,737	-	-	-	-
Net earnings for the year	-	-	-	132,946	-	-	-
Quasi-reorganization as of April 30, 1989:							
Decrease in investment	-	-	(177,750)	-	-	-	-
Transfer of deficit to additional paid-in capital	-	-	(240,844)	240,844	-	-	-
Balance at April 30, 1989	7,241,006	7,241	967,584	-	-	1,300	(2,522)
Net loss for the year	-	-	-	-	(658,495)	-	-
Balance at April 30, 1990	7,241,006	$7,241	$967,584	$ -	$ (658,495)	1,300	$(2,522)

The accompanying notes are an integral part of this statement.

	Year Ended April 30, 1990	1989
Cash flows from operating activities:		
Cash received from customers	$6,307,749	$2,764,241
Interest received	42,002	10,531
Cash paid to suppliers and employees	(6,577,491)	(2,714,047)
Interest paid	-	(4,809)
Net cash provided by (used in) operating activities	(227,740)	55,916
Cash flows from investing activities:		
Purchases of certificates of deposit	-	(401,913)
Redemptions of certificates of deposit	401,913	-
Purchases of furniture and equipment	(60,869)	(110,618)
Payments on notes receivable – related parties	17,500	12,476
Net cash provided by (used in) investing activities	358,544	(500,055)
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	819,091
Proceeds from exercise of stock options	-	40,000
Net cash provided by financing activities	-	859,091
Net Increase in Cash	130,804	414,952
Cash at beginning of year	448,491	33,539
Cash at end of year	$ 579,295	$ 448,491
Reconciliation of net earnings (loss) to net cash provided by (used in) operating activities:		
Net earnings (loss)	$ (658,495)	$ 132,946
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation	34,250	20,561
(Increase) decrease in accounts receivable	164,230	(1,039,603)
Increase in deposits and prepaid expenses	(29,657)	(1,675)
Increase in deferred charges	(74,249)	-
Increase in accounts payable and accrued expenses	336,181	943,687
Net Cash Provided by (Used in) Operating Activities	$ (227,740)	$ 55,916

The accompanying notes are an integral part of these statements.

	Year Ended April 30, 1988
Applications of working capital:	
Operations:	
Net loss	$(40,901)
Charges (credits) to operations not using (providing) working capital:	
Depreciation	6,482
Gain on sale of equipment	(73)
Working capital applied to operations	(34,492)
Acquisition of furniture and equipment	(2,204)
Increase in investments	(177,750)
Other	(1,471)
Total applications	(215,917)
Sources of working capital:	
Increase in additional paid-in capital	177,750
Decrease in amount due – stock subscription	98,777
Proceeds from sale of equipment	9,000
Total sources	285,527
Increase in Working Capital	$ 69,610
Changes in components of working capital:	
Cash	$ (7,752)
Accounts receivable	137,588
Notes receivable	29,976
Deposits	27,256
Accounts payable and accrued expenses	(167,887)
Notes payable	21,449
Unearned revenues	29,000
Increase in Working Capital	$ 69,610

The accompanying notes are an integral part of this statement.

Note A. Summary of Business and Accounting Policies

The Company is a nationwide provider, through arrangements with Westinghouse Communications, Inc., AT&T, U.S. Sprint Communications Company and MCI Communications Corp., of long-distance telephone services designed primarily for commercial accounts.

The following is a summary of the Company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany transactions are eliminated in consolidation.

Furniture and Equipment

Depreciation of furniture and equipment is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives utilizing the straight-line method.

Note B. Quasi-Reorganization

In connection with the business combination effected in fiscal 1988 and the subsequent focus by the Company solely upon the telecommunication business, the Company, with the approval of the Board of Directors, implemented a quasi-reorganization effective April 30, 1989 and revalued its assets. The quasi-reorganization, which did not require the approval of the Company's shareholders, resulted in a decrease in the investment valuation of $177,750, the elimination of the accumulated deficit of $240,844 and a decrease in additional paid-in capital of $418,594.

Note C. Furniture and Equipment

Furniture and equipment consist of the following:

	April 30, 1990	April 30, 1989
Data processing	$135,562	$ 80,475
Furniture and fixtures	39,146	36,326
Other equipment	37,018	34,077
	211,746	150,878
Less accumulated depreciation	(66,721)	(32,472)
	$145,025	$118,406

Note D. Line of Credit

The Company has a line of credit agreement with a commercial bank in the amount of $250,000 expiring August 31, 1990. Borrowings under the agreement bear interest at 1.5% over prime and are secured by the Company's accounts receivable. There have been no borrowings under this agreement through April 30, 1990.

Note E. Commitments and Contingencies

In March 1990, the Company entered into a three year agreement with Westinghouse Communications (Westinghouse), a wholly-owned subsidiary of Westinghouse Electric Corporation, under which Westinghouse will assist the Company in the providing and management of services from AT&T, U.S. Sprint Communications Company and MCI Communications Corp. Under this agreement, the Company will become a customer of Westinghouse for purchasing certain services from the three major long distance carriers. The Company's accounts receivable in excess of those required to secure the Company's bank line of credit are pledged to secure amounts due Westinghouse.

Note E. Commitments and Contingencies (cont.)

The Company has operating leases for office space and equipment which expire on various dates through 1994 and which require that the Company pay certain maintenance, insurance and other operating expenses.

At April 30, 1990, minimum rental payments required under operating leases are as follows:

Year Ending April 30	
1991	$35,940
1992	11,832
1993	6,853
1994	6,498
	$61,173

Note F. Common Stock

On September 23, 1987, the Company acquired Phoenix Telcom, Inc., in a business combination accounted for as a pooling of interests. Phoenix Telcom, Inc., which is a telecommunications company, became a wholly-owned subsidiary of the Company through the exchange of 4,500,000 shares of the Company's common stock for all of the outstanding stock of Phoenix Telcom, Inc.

On November 9, 1987 the common stock was adjusted for a 1 for 100 reverse stock split and the financial statements have given effect to the reverse stock split.

Private Placement Offering

During the year ended April 30, 1989, the Company issued 1,354,193 shares of common stock in a private offering. Proceeds after expenses amounted to $819,091.

Stock Options

On September 24, 1987, the Company granted certain directors stock options to purchase up to 900,000 shares of the Company's common stock at a price of $0.10 per share, expiring no earlier than ten (10) years from the effective date. During 1989, options for 400,000 shares were exercised at $0.10 per share. At April 30, 1990, options for 500,000 shares remain outstanding.

Note F. Common Stock (cont.)

The Company's 1989 Stock Option Plan authorizes the grant of incentive stock options or supplemental stock options for up to 2,000,000 shares of common stock. The exercise price of each incentive stock option shall be not less than 100% of the fair market value of the stock on the date the option is granted. The exercise price of each supplemental stock option shall be not less than eighty-five percent (85%) of the fair market value of the stock on the date the option is granted.

Stock option activity was as follows:

	Number of Shares	Option Price per Share
Options outstanding April 30, 1988	900,000	$.10
Granted	597,000	$1.375
Exercised	400,000	$.10
Options outstanding April 30, 1989	1,097,000	$.10 - $1.375
Granted	905,700	$1.25 - $2.50
Cancelled	30,400	$1.375 - $1.50
Options outstanding April 30, 1990	1,972,300	$.10 - $2.50
Exercisable at April 30, 1990	603,925	
Available for grant at April 30, 1990	527,700	

Stock Warrants

A director of the Company was granted a stock warrant to purchase 300,000 shares of common stock at $.75 per share. As of April 30, 1990, no warrants have been exercised.

Note G. Earnings (Loss) per Common Share

Earnings (loss) per common share is based upon the weighted average number of common and common equivalent shares outstanding except where such calculation is anti-dilutive. The weighted average number of common and common equivalent shares outstanding utilized in the computation of the net earnings (loss) per share was 7,241,006 in 1990, 7,124,722 in 1989 and 5,486,580 in 1988.

Note H. Litigation

The Company is a party to various actions in the ordinary course of business. In the opinion of management, the outcome of these matters would not have a material effect on the financial statements.

Note I. Income Taxes

In 1989, the Company adopted Statement of Financial Accounting Standards No. 96 (SFAS 96), Accounting for Income Taxes, issued in December, 1987. The adoption of SFAS 96 did not have a material effect on net earnings for the year ended April 30, 1989.

As of April 30, 1990, the Company has available to offset future Federal and State taxable income, net operating loss carry forwards of approximately $770,000 and $630,000, respectively, which expire in varying amounts from 2000 through 2005.

There are no significant temporary differences. The net operating loss (NOL) carryforwards available to offset future financial reporting income for federal tax purposes is approximately $570,000. NOL's generated prior to the quasi-reorganization will be offset against additional paid-in capital when they are utilized for financial reporting purposes.

The Company's effective income tax rate is different from the Federal statutory income tax rate because of the following factors:

	1990	1989	1988
Federal tax rate applied to earnings (loss) before taxes	34.0%	34.0%	36.0%
Surtax exemption	-	(7.4)	-
Net operating loss carryforward	(33.5)	(28.0)	(33.9)
Other	(.5)	1.4	(2.1)
Effective tax rate	- %	- %	- %

Note J. Statement of Cash Flows

In accordance with Statement of Financial Accounting Standards No. 95 (SFAS 95), issued in November, 1987, a statement of cash flows is presented in place of a statement of changes in financial position for the year ended April 30, 1989. As permitted by SFAS 95, the Company has elected not to present statements of cash flows beginning with the year ended April 30, 1988.

Report of Independent Certified Public Accountants

To the Stockholders and Board of Directors
Phoenix Network, Inc.

We have audited the accompanying consolidated balance sheets of Phoenix Network, Inc. (a Delaware Corporation) and Subsidiary as of April 30, 1990 and 1989, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Phoenix Network, Inc. as of April 30, 1988 for the year then ended were audited by other auditors whose report dated September 13, 1988 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Phoenix Network, Inc. and Subsidiary as of April 30, 1990 and 1989, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note B, the Company elected to effect a quasi-reorganization as of April 30, 1989 resulting in the revaluation of its assets and the elimination of the Company's accumulated deficit.

As discussed in Note J, the Company changed to the presentation of a statement of cash flows in place of a statement of changes in financial position beginning with the year ended April 30, 1989.

Grant Thornton

San Francisco, California
July 12, 1990

Exhibit "C"

P.S.C Mo. No. 1
Cancelling P.S.C. No.

Original Sheet No. 14
Original Sheet No.

Phoenix Network, Inc. For Missouri Intrastate InterLATA Service

Name of Issiung Corporation

Community, Town or City

Section 2 - DESCRIPTION OF SERVICES

2.1 - Categories of Service

Equal Access service is a message toll interLATA telecommunications service offered to residential and business telephone customers served by exchanges converted to equal access.

Dedicated Access service is an interLATA telecommunications service available to residential and business customers with substantial calling volumes. This service includes offerings for originating traffic an "800" offerings for traffic terminating at a customer's location.

2.2 - Subscriber Service Offerings

a. Carrier's Equal Access services are:

RA: Subscribers to this service, which is designed for residential customers, receive a basic MTS service.

EM, ES, EP (A), EP (S) Subscribers to these services select the underlying facilities-based long distance carrier to carry their traffic

EZ: Subscribers to this service authorize Carrier to select the long distance carrier that offers the greatest savings to the customers.

EX: Subscribers to this service receive an 800-type service and are billed for terminating minutes of use, but are not required to obtain a dedicated access facility.

A0, A1: Subscribers to these services utilize the AT&T system for service. A0 provides for monthly discounts and A1 provides for a periodic discount every 9 months.

S1, S2: Subscribers to these services utilize the Sprint system for service. S1 provides for a periodic discount every 12 months in addition to monthly discounts and S2 provides for a periodic discount every 6 months.

DATE OF ISSUE __________ DATE EFFECTIVE __________

ISSUED BY __________ Chief Financial Officer San Francisco, CA
Officer Title Address

Section 2 - DESCRIPTION OF SERVICES

2.2 - Subscriber Service Offerings (Cont.)

b. Carrier's Dedicated Access services are designated by the letter "D" in the name of the service. Carrier Dedicated Access services are:

DA, DM, DS: Subscribers to these services select the underlying long distance carrier to carry their traffic and are required to obtain a T-1 circuit or other dedicated access line ("DAL") from the local operating company.

DN: Subscribers to this service who have their traffic carried by a particular long distance carrier must obtain a T-1 circuit or DAL and must terminate the traffic via a T-1 circuit or DAL to a customer that subscribes to the same service.

DX: Subscribers to this 800-type service have their traffic carried by a particular long distance company and must obtain a T-1 circuit or DAL.

c. Travel Card Service: Subscribers to this service initiate a call by dialing an authorized "800" number, furnishing the subscriber's authorization code and then dialing the called location.

d. Directory Assistance: This service is furnished by the facilities-based carrier and the charges are passed through by the Carrier to the subscriber.

2.3 - Mileage Between Rate Centers

The mileage between rate centers is calculated based on V and H coordinates as obtained by references to AT&T Tariff FCC No. 10.

Section 2 - DESCRIPTION OF SERVICES

Method of Calculation

The airline mileages between two rate centers is calculated as follows:

$$\text{Mileage} = \sqrt{\frac{(V_1 - V_2)^2 + (H_1 - H_2)^2}{10}}$$

where V_1 and H_1 are the V and H coordinates of point 1 and V_2 H_2 are the coordinates of point 2.

The mileage is rounded up to an integer value to determine the airline mileage.

Section 3 - Rates

3.1 Equal Access Services Intrastate Rates - Per Minute of Use

RA, EPA, A0, A1, S2

Mileage	Day Init'l	Day Add'l	Evening Init'l	Evening Add'l	Night Init'l	Night Add'l
0-23	.2300	.1700	.1840	.1360	.1495	.1105
24-50	.4[illegible]	[illegible]00	.3360	.2000	.2730	.1[illegible]
51-100	.4800	.3100	.3840	.2480	.3120	.2015
101-190	.5400	.3600	.4320	.2880	.3510	.2340
191-300	.5700	.4000	.4560	.3200	.3705	.2600
301-END	.6000	.4300	.4800	.3440	.3900	.2795

EM,EPS,EZ

Mileage	Day	Eve	N/WE
0-25	.1989	.1689	.1289
26-END	.2689	.1889	.1889

S1

Mileage			
0-25	.1989	.1689	.1289
26-END	.2389	.1889	.1889

ES

ALL	.2449	.2201	.2201

DATE OF ISSUE ____________ DATE EFFECTIVE ______________

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Officer Title Address

Section 3 - Rates

Equal Access Services Intrastate Rates - Per Minute of Use (Cont.)

EX

0-292	.2237	.1843	.1483
293-430	.2313	.1905	.1533
431-925	.2352	.1935	.1558
926-1910	.2425	.1998	.1608
1911-3000	.2465	.2030	.1633
3001-END	.2692	.2219	.1783

Discounts

EM

	First $150Mo.	0%
	$150 to $2,000/Mo.	12%
	Over $2,000/Mo.	20%
EZ	First $750/Mo.	0%
	$750 to $1,500/Mo.	5%
	Over $1,500/Mo.	10%

EPS, ES

First $3,000/Mo.	0%
Over $3,000/Mo.	5%

EX

First $50/Mo.	15%
$50 - $350/Mo.	20%
$350 - $1350/Mo.	25%
Over $1350/Mo.	30%

EPA, AO

40% on all minutes

A1

Subscribers to this service who pay their monthly charges on a timely basis for eight consecutive months receive in their bill on the succeeding month a credit equal to the lesser of: the total interstate and intrastate usage charges incurred during the ninth month, or the average monthly total interstate an intrastate charges incurred during the seventh, eighth and ninth months, provided that the credit may not exceed a maximum of $2,000.

Section 3 - RATES

3.1 - Equal Access Services Intrastate Rates (Cont'd)

Discounts

S2

Subscribers to this service who pay their monthly charges on a timely basis for five consecutive months receive in their bill on the succeeding month a credit equal to the lesser of: the total interstate and intrastate usage charges incurred during the fifth month, or the average monthly total interstate and intrastate charges incurred during the third, forth and fifth months, provided that the credit may not exceed a maximum of $2,000.

S1

First $200/month	0%
$200 to $2,000	8%
over $2,000/month	18%

Subscribers to this service who pay their monthly charges on a timely basis for eleven consecutive months receive in their bill on the succeeding month a credit for the domestic usage billed, or the average domestic usage billed over the eighth, ninth and tenth months, provided that the credit may not exceed a maximum of $2,000.

Section 3 - RATES

3.2 Dedicated Access Services Intrastate Rates - Per Minute of Use

	MILEAGE	DAY	EVENING	N/WE
DA	0-55	0.1130	0.0790	0.0720
	56-292	0.1320	0.0930	0.0840
	293-430	0.1440	0.1010	0.0910
	431-925	0.1580	0.1100	0.1000
	926-1910	0.1700	0.1190	0.1080
DN	0-55	0.0610	0.0430	0.0370
	56-292	0.0800	0.0560	0.0480
	293-430	0.0920	0.0650	0.0550
	431-925	0.1060	0.0740	0.0640
	926-1910	0.1180	0.0830	0.0710

Phoenix Network, Inc. For Missouri Intrastate InterLATA Service

Name of Issiung Corporation ' Community, Town or City

Section 3 - RATES

3.2 Dedicated Access Services Intrastate Rates - Per Minute of Use

DM	0-55	0.0990	0.0735	0.0655
	56-292	0.1090	0.0890	0.0755
	293-430	0.1290	0.0935	0.0790
	431-925	0.1390	0.1035	0.0855
	926-1910	0.1490	0.1090	0.0955
DS	0-55	0.0990	0.0735	0.0655
	56-292	0.1090	0.0890	0.0755
	293-430	0.1290	0.0935	0.0790
	431-925	0.1390	0.1035	0.0855
	926-1910	0.1490	0.1090	0.0955
DX	0-292	0.1532	0.1252	0.1043
	293-430	0.1615	0.1318	0.1100
	431-925	0.1658	0.1355	0.1128
	926-1910	0.1743	0.1427	0.1188

Volume Discounts

DA	First $10,000/Mo	5%
	$10,000 to $30,000	10%
	over $30,000	10%
DM	First $4,999/Mo	0%
	$5,000 to $25,000/Mo.	5%
	over $25,000/Mo.	10%
DX	$0 to $10,000/Mo.	15%
	$10,000 to $30,000	25%
	over $30,000	30%

3.3 Travel Card Service

Flat rate of $0.22 per minute

1. $0.55 surcharge per call
2. One minute billing increments

3.3 Directory Assistance

1. $0.65 per call

DATE OF ISSUE ___________ DATE EFFECTIVE ______________

ISSUED BY ________ Chief Financial Officer San Francisco, CA
Officer Title Address