In addition, a Delaware corporation may adopt an amendment to its certificate of incorporation or by-laws expressly electing not to be governed by Section 203 of the DGCL if, in addition to any other vote required by law, such amendment is approved by the affirmative vote of a majority of the shares entitled to vote. Such amendment will not, however, be effective until 12 months after such stockholder vote and will not apply to any business combination with an interested stockholder who was such on or prior to the effective date of such amendment. Because the ACC Certificate of Incorporation and Bylaws do not opt out of Section 203 of the DGCL, such section of the DGCL is applicable to the Merger. The Board of Directors of ACC approved the Merger prior to the execution of the Merger Agreement and, therefore, Section 203 of the DGCL has been satisfied with respect to the Merger.

Appraisal Rights

Under the DGCL, stockholders have the right to demand and receive payment of the fair value of their stock in the event of a merger or consolidation. However, except as otherwise provided by the DGCL, stockholders do not have appraisal rights if, among other things, the consideration they receive for their shares consists of (i) shares of stock of the corporation surviving or resulting from such merger or consolidation, (ii) shares of stock of any other corporation which at the effective date of the merger or consolidation will be either listed on a national securities exchange (which is true in the case of the TCG Class A Common Stock) or designated as a national market system security on an inter-dealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 stockholders, (iii) cash in lieu of fractional shares of the corporations described in clause (i) or (ii) of this sentence, or (iv) any combination of shares of stock and cash in lieu of fractional shares described in the foregoing clauses (i), (ii) and (iii). See "Summary—No Rights of Dissenting Stockholders."

Stockholder Rights Plan

On October 3, 1997, the Board of Directors of ACC declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of ACC Stock. The dividend was paid on October 15, 1997 (the "Record Date") to the shareholders of record on October 15, 1997. Each Right entitles the registered holder to purchase from ACC one one-thousandth of a share (a "Unit") of Series A Preferred Stock, par value $1.00 per share (the "ACC Preferred Stock"), of ACC at a price of $150 per one one-thousandth of a share of ACC Preferred Stock (the "Purchase Price"), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement dated as of October 3, 1997, as the same may be amended from time to time (the "Rights Agreement"), between ACC and First Union National Bank, as Rights Agent (the "Rights Agent").

Initially, the Rights will attach to all certificates representing shares of outstanding ACC Stock, and no separate Rights Certificates will be distributed. The Rights will separate from the ACC Stock and the "Distribution Date" will occur upon the earlier of (i) 10 days following a public announcement (the date of such announcement being the "Stock Acquisition Date") that a person or group of affiliated or associated persons (other than ACC, any subsidiary of ACC or any employee benefit plan of ACC or such subsidiary (an "Acquiring Person")) has acquired, obtained the right to acquire, or otherwise obtained beneficial ownership of 7.5% or more, for the period commencing November 7, 1997 and ending on December 31, 1998, and 15% or more thereafter, of the then outstanding shares of ACC Stock, and (ii) 10 business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person becomes an Acquiring Person) following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 7.5% or more, for the period commencing November 7, 1997 and ending on December 31, 1998, and 15% or more thereafter, of the then outstanding shares of ACC Stock. Until the Distribution Date, (i) the Rights will be evidenced by ACC Stock certificates and will be transferred with and only with such ACC Stock certificates, (ii) new ACC Stock certificates issued after the Record Date (also including shares distributed from treasury) will contain a notation incorporating the Rights Agreement by reference and (iii) the surrender for transfer of any certificates representing outstanding ACC Stock will also constitute the transfer of the Rights associated with the ACC Stock represented by such certificates.

The Rights are not exercisable until the Distribution Date and will expire at the close of business on the tenth anniversary of the Rights Agreement unless earlier redeemed by ACC. Pursuant to the Merger Agreement, the parties may terminate the Merger Agreement and the Merger if the Merger does not occur by November 28, 1998. Assuming that the Merger occurs prior to such date, the Rights will not be exercisable at all.

The Rights Agreement, as amended, has been filed as an exhibit to ACC's Registration Statement on Form 8-A dated October 3, 1997 (as amended on Form 8-A/A dated December 10, 1997).

TCG does not have a stockholder rights plan.

Amendments to Charters

Under the DGCL, unless otherwise provided in the charter, a proposed charter amendment requires an affirmative vote of a majority of all votes entitled to be cast on the matter. If any such amendment would adversely affect the rights of any holders of shares of a class or series of stock, the vote of the holders of a majority of all outstanding shares of the class or series, voting as a class, is also necessary to authorize such amendment. The ACC Certificate of Incorporation provides that certain articles of its Certificate of Incorporation may not be altered, amended or repealed by shareholders except by the affirmative vote of the holders of at least 80% of the issued and outstanding ACC Stock, and also provides that special meetings of shareholders may only be called by the Chairman of the Board, President or the Board of Directors, and not by any shareholder.

The TCG Certificate of Incorporation does not alter the basic DGCL requirements for the amendment of its charter.

Amendments to By-laws

Under the DGCL, the power to adopt, alter and repeal the by-laws is vested in the stockholders, except to the extent that the charter or the by-laws vest it in the board of directors.

The ACC Certificate of Incorporation provides that its Bylaws may not be altered, amended or repealed by shareholders except by the affirmative vote of the holders of at least 80% of the issued and outstanding ACC Stock, and also provides that special meetings of shareholders may only be called by the Chairman of the Board, President or the Board of Directors, and not by any shareholder.

The TCG Certificate of Incorporation provides that the stockholders may alter, amend, repeal or adopt new Bylaws at any regular meeting of the stockholders or at any special meeting of the stockholders if notice of such alteration, amendment, repeal, or adoption of new Bylaws is contained in the notice of such special meeting.

Preemptive Rights

Under the DGCL, a stockholder does not possess preemptive rights unless such rights are specifically granted in the certificate of incorporation. Both the ACC and TCG certificate of incorporation do not provide for preemptive rights.

Stockholder Action

Under the DGCL, unless otherwise provided in the certificate of incorporation, any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a written consent or consents setting forth the action taken is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote upon such action were present and voted. ACC's Certificate of Incorporation expressly includes a provision prohibiting shareholders' action by written consent in lieu of a special or annual meeting.

The TCG Certificate of Incorporation contains no provision prohibiting stockholder action by written consent. The TCG Bylaws permit stockholder action to be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, is signed by the holders of record of shares of TCG Common Stock having not less than the minimum number of votes necessary to authorize or take such action at a meeting at which the holders of record of all shares of TCG Common Stock entitled to vote thereon were present and voted.

Special Stockholder Meetings

The DGCL provides that a special meeting of stockholders may be called by the board of directors or by such person or persons as may be authorized by the certificate of incorporation or by the by-laws. The ACC Bylaws provide that special meetings of stockholders may be called at any time by the Chairman of the Board, or by the Chief Executive Officer, or by the President and Chief Operating Officer, or by a majority of the entire Board of Directors acting with or without a meeting.

The TCG Bylaws provide that special meetings may be called by the President and must be called by the President or the Secretary upon the written request of a majority of the TCG Board or at the written request of stockholders owning a majority of the voting power of TCG's capital stock entitled generally to vote for the election of directors.

Number and Election of Directors

The DGCL permits the certificate of incorporation or the by-laws of a corporation to contain provisions governing the number and terms of directors. However, if the certificate of incorporation contains provisions fixing the number of directors, such number may not be changed without amending the certificate of incorporation. The ACC Certificate of Incorporation provides that the number of directors shall be not less than three, with the exact number to be determined by the Board.

The TCG Certificate of Incorporation provides that the number of directors shall be as provided for in the TCG Bylaws, unless the Bylaws fail to contain the provision for the number of directors, in which case the number of directors shall be 13. The TCG Bylaws provide that the number of directors is to be set according to the TCG Certificate of Incorporation.

In addition, the Amended Stockholders' Agreement provides that at each annual meeting of TCG's stockholders at which directors are elected, the holders of the TCG Class B Common Stock will vote their shares in favor of nominees for director to be designated as follows: (i) the holders of TCG Class B Common Stock will designate ten nominees (with the right of a holder of TCG Class B Common Stock to designate one or more nominees depending on the percentage of the TCG Class B Common Stock held by it), (ii) the Board of Directors of TCG will designate by unanimous consent the Chief Executive Officer of TCG as a nominee and (iii) the Board of Directors with the unanimous approval of the holders of TCG Class B Common Stock that have the right to designate nominees for director shall designate two individuals as nominees for director who are neither employed by nor affiliated with TCG or any holder of TCG Class B Common Stock. Under the Amended Stockholders' Agreement, a holder of TCG Class B Common Stock generally is entitled to designate one director nominee for each 9% of the outstanding shares of TCG Class B Common Stock held by it and its affiliates. The effect of the Amended Stockholders' Agreement is that the holders of the TCG Class A Common Stock do not have the effective voting power, as a class, to nominate any individuals for election to the Board of Directors.

Removal of Directors

The DGCL provides that a director or directors may be removed with or without cause by the holders of a majority of the shares then entitled to vote at an election of directors, except that (i) members of a classified board may be removed only for cause, unless the certificate of incorporation provides otherwise and (ii) in the case of a corporation having cumulative voting, if less than the entire board is to be removed, no director may

be removed without cause if the votes cast against such director's removal would be sufficient to elect such director if then cumulatively voted at an election of the entire board of directors or of the class of directors of which such director is a part. ACC's Bylaws provide that any or all directors may be removed for cause or without cause only by a majority vote of all outstanding shares of stock.

The TCG Bylaws provide that a director or directors may be removed with or without cause at any time by vote of the holders of record of a majority of the voting power of the capital stock, or by written consent of the holders of record of a majority of the voting power of the capital stock.

Vacancies

Under the DGCL, unless otherwise provided in the certificate of incorporation or the by-laws, vacancies on the board of directors and newly created directorships resulting from an increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director, provided that, in the case of a classified board, such vacancies and newly created directorships may be filled by a majority of the directors elected by such class, or by the sole remaining director so elected. In the case of a classified board, directors elected to fill vacancies or newly created directorships shall hold office until the next election of the class for which such directors have been chosen, and until their successors have been duly elected and qualified. In addition, if, at the time of the filling of any such vacancy or newly created directorship, the directors in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), the Delaware Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the total number of outstanding shares entitled to vote for such directors, summarily order an election to fill any such vacancy or newly created directorship, or replace the directors chosen by the directors then in office. The ACC Bylaws provide that vacancies are to be filled by the vote of a majority of the directors then in office, although less than a quorum, and all such directors elected to fill a vacancy remain in office until the next annual election.

The TCG Bylaws provide that all directors elected to fill vacancies or newly created directorships shall remain in office until the next annual election and until their successors are duly elected and qualified.

LEGISLATION AND REGULATION

Introduction. TCG is subject to federal and state regulation. In most states, TCG is subject to certification and tariff filing requirements with respect to intrastate services. TCG is permitted to file tariffs for interstate access services with the FCC, although such tariff requirements are generally less onerous than those imposed on ILECs which offer similar services. On June 19, 1997, the FCC adopted an Order that permits CLECs like TCG to voluntarily withdraw their FCC tariffs for most interstate services. TCG has not decided whether to withdraw its FCC tariff. On the same day, the FCC initiated a further inquiry to determine whether to require that competitive local exchange carriers like TCG withdraw their tariffs. While TCG cannot predict what decision the FCC will reach in this further inquiry, were the FCC to require the withdrawal of TCG's tariffs and replacement of those tariffs with contractual arrangements, TCG could incur substantial legal and administrative expense.

Under the 1996 Act, all local exchange carriers, including TCG, must interconnect with other carriers, make their services available for resale by other carriers, provide non-discriminatory access to rights of way, offer reciprocal compensation for termination of traffic and provide dialing parity and telephone number portability. TCG, ILECs, other CLECs and long distance carriers, will also be required to contribute some portion of their gross revenues (subject to adjustments) to the support of universal service programs under the FCC's rules implementing the universal service provisions of the 1996 Act, which were adopted on May 7, 1997. This order is the subject of appeals pending before the U.S. Court of Appeals for the Fifth Circuit. For the first quarter of 1998, the federal universal service surcharge will be 0.72 percent of all revenues and 3.19 percent of interstate and international revenues for all carriers with interstate revenues. State universal service proceedings are at various stages of implementation, but it is likely that both federal and state contribution requirements will increase substantially in 1999. TCG may also be eligible to receive funds from universal service programs if TCG provides services to schools and libraries. Several parties have sought judicial review of the FCC's universal service rules. In addition, the 1996 Act allows states to adopt universal service rules, so long as they are not inconsistent with the federal program.

Interconnection/Access Arrangements. Under the 1996 Act, ILECs are required to negotiate with TCG to provide for interconnection to the ILEC network. In the event that an interconnection agreement cannot be negotiated the 1996 Act provides for mandatory arbitration before state public utility commissions ("State PUCs"). TCG was able to reach negotiated agreements with NYNEX (now owned by Bell Atlantic) for New York, with Pacific Telesis (now owned by SBC Communications) for California and with BellSouth for its entire region. TCG was required to seek arbitration with ILECs to obtain interconnection agreements in other states where TCG operates. TCG has concluded its initial set of arbitrations and its interconnection agreements are either final or nearing final regulatory approval. However, some ILECs are seeking judicial review of the arbitrated decisions and certain of TCG's final interconnection agreements are subject to appeal to federal and state courts as permitted by the 1996 Act. In particular, TCG's state-arbitrated agreements with U S WEST in Arizona, Colorado, Oregon and Washington State have been appealed by U S WEST. On January 7, 1998, the U.S. District Court in Washington granted TCG's motion and dismissed the U S WEST appeal. The appeals in Arizona, Oregon and Colorado are continuing. TCG's appeal of its Wisconsin arbitration decision was dismissed on October 15, 1997. An additional arbitration appeal brought by SBC Communications is continuing in Texas. In none of these appeals have any preliminary injunctions been sought or granted, and accordingly the interconnection agreements remain valid and in effect in each jurisdiction.

On August 8, 1996, the FCC released both a First Report and Order and a Second Report and Order and a Memorandum Opinion and Order (collectively, the "Interconnection Orders"). The Interconnection Orders established a framework of minimum national standards and procedures to enable State PUCs and the FCC to begin implementing many of the local competition provisions of the 1996 Act. On September 27, 1996, the FCC issued an Order on Reconsideration of the First Report and Order, in which it added a non-usage-sensitive charge to the rate for unbundled switching and clarified that, as a practical matter, an interexchange carrier ("IXC") could not lease unbundled switching for the provision of exchange access service only until July 1, 1997. The

new rules were scheduled to become effective on September 30, 1996. On October 15, 1996, however, the U.S. Court of Appeals for the Eighth Circuit issued a stay of certain provisions of the rules pending its resolution of numerous petitions for review filed by ILECs and others. Specifically, the Court stayed the FCC's pricing rules and its "pick and choose" rule, which would have allowed CLECs to receive the benefit of the most favorable provisions contained in an ILEC's agreements with other carriers. On July 18, 1997, the Court of Appeals held that the pricing rules and the "pick and choose" rule exceeded the FCC's authority and were inconsistent with the terms of the 1996 Act. The Court of Appeals also invalidated the FCC's rule requiring that interconnection agreements negotiated prior to enactment of the 1996 Act be submitted to state commissions for approval, and it held that the FCC had no authority to review or enforce agreements approved by state regulators. On rehearing, the Court of Appeals further held that the FCC has no authority to prohibit ILECs from disconnecting unbundled network elements from each other when competitors ask ILECs to refrain from doing so. The Supreme Court has rejected applications to vacate a stay of the FCC's rules pending appeal, but it has agreed to hear arguments on the merits of the case in the fall of 1998.

As indicated above, an FCC rule temporarily precluded IXCs from leasing unbundled switching (and other unbundled network elements) from ILECs for the provision of exchange access only. The effect of this rule lapsed on June 30, 1997. Since that date, IXCs have been free in principle to lease switching and other network elements from ILECs (through IXC-affiliated CLECs) and to use those facilities for exchange access, with or without any local facilities being provided by the IXCs themselves. On August 18, 1997, the FCC issued an order clarifying that CLECs would be permitted to lease access to ILEC switches and interoffice circuits on a per-minute basis. Subsequent court decisions, however, have made it difficult for IXCs to avoid payment of access charges merely by combining unbundled network elements through affiliated CLECs. The July 18, 1997, Court of Appeals Order vacated an FCC rule directing ILECs to recombine unbundled network elements when asked to do so by requesting CLECs. On October 14, 1997, the Eighth Circuit further ruled that CLECs may not direct ILECs to refrain from disconnecting unbundled network elements from each other. As a consequence, CLECs must either combine the elements themselves or purchase entire retail services at the applicable wholesale discounts if they wish to offer local services to their customers. These decisions make it more difficult for IXCs to use affiliated, non-facilities-based CLECs as vehicles for obtaining discounted network elements, and improve the competitive position of facilities-based CLECs like TCG.

ILEC Provision of InterLATA Services. The 1996 Act requires the Bell Operating Companies (Ameritech, Bell Atlantic, BellSouth, SBC Communications and U S WEST) to satisfy certain conditions and obtain FCC approval before they are permitted to provide long distance services in their local telephone service areas. On June 27, 1997, in its first decision on an application by an ILEC for permission to provide long distance services, the FCC found that the ILEC (SBC Communications) had not satisfied the statutory requirements, and it denied SBC's application to offer long distance in Oklahoma. SBC has appealed the denial of its application. The FCC rejected a similar petition by Ameritech for Michigan on August 19, 1997, on the grounds that the technical quality of services that it provides to competitors is inadequate and its systems for receiving and responding to requests for service from competitors requires substantial improvement. Ameritech has appealed the rejection of its petition. On September 30, 1997, BellSouth Corporation filed an application with the FCC for permission to provide long distance service in South Carolina. The FCC on December 24, 1997, denied the application, and BellSouth has appealed the FCC's ruling. On November 6, 1997, BellSouth filed an application with the FCC for authority to offer long distance services in Louisiana. On February 4, 1998, the FCC denied BellSouth's application. BellSouth has appealed the FCC's denial of its application to the U.S. Court of Appeals for the District of Columbia Circuit.

On December 31, 1997, a federal judge in Texas held that statutory restrictions on the Bell Operating Companies' ("BOCs") provision of long distance and manufacturing services are an unconstitutional bill of attainder because the restrictions target the BOCs without imposing similar restrictions on other similarly situated companies. The decision has been appealed to a federal court of appeals. If upheld, this ruling could allow BOCs to provide interLATA communications services and engage in manufacturing. However, any provision of long distance service by BOCs would remain subject to review and authorization by state commissions and the FCC,

which might impose conditions or requirements that could require or encourage BOCs to open their networks to local competition. Additionally, if the District Court decision is upheld, it is possible that the United States Department of Justice or the U.S. District Court formerly charged with the administration of the Modified Final Judgment might take actions in response thereto.

Access Charge Reform. On December 24, 1996, the FCC adopted certain changes and proposed other changes in the interstate access charge system. The FCC relaxed certain restrictions on ILECs' ability to lower access prices and relaxed the regulation of new switched access services in those markets where there are other providers of access services. The FCC also proposed rules to reform the interstate access charge rate structure, including proposals that would either grant ILECs increased pricing flexibility based on increased levels of competition, or mandate lower rates regardless of the level of competition. On May 7, 1997, the FCC issued an Order relating to access charge reform and other matters. The FCC enacted a number of reforms of its switched access rates and adopted rules that will provide discounts to users of certain CLEC switched access transport services, such as those provided by TCG. The first stage of the FCC's reform went into effect on January 1, 1998. Reform of the FCC's access charge rules will result in a significant restructuring of the rates for ILEC interstate switched access services, and a significant increase in pricing flexibility for ILECs. The FCC's access reform decisions have been appealed to the U.S. Court of Appeals for the Eighth Circuit.

Certain of the FCC's access charge reforms are intended to produce a phased transition leading to rates for ILEC tandem switched access services that are closer to the ILECs' costs. Prior FCC policies had required ILECs to price tandem access services below cost, making up the difference by pricing other access services above cost. TCG believes that the new policies will improve TCG's position in competing for the provision of tandem-switched services. Other elements of the FCC's access reforms will lead to lower ILEC rates for certain switched access services, or a restructuring of ILEC switched access rates. These restructured rates could make ILEC exchange access services more attractive to certain high-volume IXCs while reducing the attractiveness of ILEC exchange access services for lower-volume IXCs.

Treatment of Internet Calls. Various ILECs have urged the FCC to require ISPs to pay the same rates that IXCs pay for access to public switched telephone exchanges. Although this position was rejected by the FCC in its May 7, 1997, access charge Order, certain ILECs have also taken the position that they will not pay the reciprocal compensation normally associated with a local call to CLECs with respect to telephone services from the ILEC's customer to an ISP served by a CLEC on the grounds that such calls are exchange access calls rather than local calls. TCG believes these positions are contrary to the 1996 Act and every state commission which has so far considered the issue has declared that ILECs should pay CLECs reciprocal compensation for the Internet traffic. However, no prediction can be made whether the ILECs ultimately will be successful in asserting their positions. If state commissions, the FCC or courts were to reach final decisions which found in favor of the ILECs, such decisions could result in a material adverse effect on TCG, both as an ISP itself and as a provider of TCG local exchange services to other ISPs.

Pay Telephone Compensation. The U.S. Court of Appeals for the District of Columbia decided on July 1, 1997 to reject the system adopted by the FCC for the compensation of providers of pay telephone services by long distance companies. The Court remanded the matter to the FCC for further proceedings. TCG, as a provider of pay telephone services in a number of cities, is a recipient of such pay telephone compensation payments. On October 9, 1997, the FCC adopted new rules which reduce the compensation to providers of pay telephone services.

Universal Service. In its implementation of the 1996 Act, the FCC established new federal universal service mechanisms. Under the new rules, CLECs gain access to universal service subsidies but are required to contribute to both federal and state universal service funds. Carrier contributions to the federal universal service fund ("USF") are intended to support universal service in rural and high cost areas, services provided to low income consumers and services provided to schools, libraries, and rural health care providers. The contribution factors for the first quarter 1998 contributions are 3.19% of CLECs' estimated quarterly interstate and international gross end user telecommunications revenue and .72% of CLECs' estimated quarterly intrastate,

interstate and international gross end user telecommunications revenue. The contribution factors for the second quarter 1998 contributions are 3.14% and .76% respectively. TCG and ACC cannot predict the exact amount of the federal USF contributions for the remaining quarters of 1998, or thereafter, until the FCC issues contribution factors for such periods. However, starting in 1999, the USF contributions are expected to increase when for the first time the explicit subsidy system begins to support service to the rural areas served by the larger ILECs.

Also beginning in 1998, the FCC will apply a 3.2% levy to international and interstate telecommunications only to support existing subsidies for rural telephone carriers and low income individuals. The levy rate on interstate and international revenues could rise significantly in 1999 when the USF is expanded to provide support for telephone service to rural areas situated within the territories of larger ILECs. State universal service levies are at various stages of enactment, and are likely to take effect no later than the first quarter of 1999. Those rates will vary from state to state and TCG cannot predict what the levy rates will be at this time.

A number of parties have challenged the FCC's universal service order and the cases have been consolidated in the U.S. Court of Appeals for the Fifth Circuit. Either the FCC's reconsideration of its rules or a judicial determination could result in a change in CLEC support payments required for federal universal service programs. Parties sought stays of the rules from both the FCC and the Fifth Circuit. On October 21, 1997, the Fifth Circuit denied those requests.

Other 1996 Act Provisions. The 1996 Act contains other provisions that potentially could affect TCG's business, which may be subject to FCC rulemaking and judicial interpretation, including a provision that limits the ability of a cable television operator and its affiliates to acquire more than a 10% financial interest or any management interest in an ILEC or CLEC that provides local exchange service in such cable operator's franchise area.

Telephone Number Portability Issues. On July 2, 1996, the FCC released its First Report and Order and Further Notice of Proposed Rulemaking promulgating rules and regulations to implement Congress' statutory directive concerning number portability (the "Number Portability Order"). The Number Portability Order was modified on March 6, 1997. As modified, the Number Portability Order requires all ILECs and CLECs to begin phased deployment of a long-term service provider portability method in the 100 largest Metropolitan Statistical Areas ("MSAs") no later than October 1, 1997, and to complete deployment in those MSAs by December 31, 1998 for all MSAs in which another carrier has made a specific request for the provision of portability. After December 31, 1998, each ILEC and CLEC must make number portability available within specific time frames after receiving a specific request by another telecommunications carrier. Until long-term service portability is available, ILECs and CLECs must provide interim versions of number portability as soon as reasonably possible after a specific request from another carrier.

On August 18, 1997, the FCC released its Second Report and Order on number portability, implementing various specific aspects of the number portability program. As new carriers are at a competitive disadvantage without telephone number portability, the Number Portability Orders should enhance the ability of TCG to offer service in competition with the ILECs, but it is uncertain how effective these regulations will be in promoting number portability. The Number Portability Order does not address how the costs of implementing long-term service portability, which could be substantial, will be recovered.

State Regulation. Most State PUCs require carriers that wish to provide local and other jurisdictionally intrastate common carrier services to be authorized to provide such services. TCG's operating subsidiaries are authorized to provide local exchange services in Alabama, Arizona, California, Colorado, Connecticut, Delaware, the District of Columbia, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, Tennessee, Texas, Utah, Virginia, Washington and Wisconsin. TCG expects to file for CLEC authority in a number of additional states, and to seek geographically broadened authority in states in which it already holds CLEC authority for portions of the state.

TCG typically is not subject to price regulation or to rate of return regulation for its intrastate services. In most states, TCG is required to file tariffs setting forth the terms, conditions and prices for its intrastate services. In some jurisdictions, the tariff can list a rate range for intrastate services. TCG may be subject to additional regulatory requirements in some states, such as quality of service requirements, the requirement to offer residential service and make universal service contributions. In New York and New Jersey, TCG has authority to borrow up to $4 billion in long term debt, which is sufficient to amortize all current long term indebtedness of TCG.

Local Government Authorizations. TCG may be required to obtain from municipal authorities in certain cities street opening and construction permits and other rights-of-way to install and expand its digital networks. In some cities, TCG's affiliates or subcontractors may already possess the requisite authorizations to construct or expand TCG networks.

In some of the metropolitan areas where TCG provides network services, TCG may pay license or franchise fees. There can be no assurance that municipalities that do not currently impose fees will not seek to impose fees in the future, nor is there any assurance that following the expiration of existing authorizations, fees will remain at their current levels. Under the 1996 Act, such fees must be fair and reasonable, applied on a competitively neutral and non-discriminatory basis and be publicly disclosed by the relevant governmental entity. There can be no assurance, however, that municipalities that currently favor the ILECs will conform their practices in a timely manner or without legal challenges by TCG or another CLEC. In September 1996, TCG filed suit in federal district court alleging that the City of Dearborn, Michigan acted in an unlawful and discriminatory manner in imposing a fee equal to a percentage of gross revenues for its use of public rights-of-way, which fee is not imposed on the local ILEC (Ameritech Michigan) in violation of applicable state law and Section 253(c) of the 1996 Act. TCG's suit is currently pending in the U.S. District Court for the Eastern District of Michigan (Southern Division). The City of Dearborn has asserted counterclaims against TCG and motions for summary judgment by both parties are pending. In addition, in July 1996, a subsidiary of TCG, Teleport Communications (New York) ("TCNY") filed suit in U.S. District Court in Newark, New Jersey alleging that an ordinance adopted by the Township of Bloomfield, New Jersey imposing a fee per linear foot per year for the right to use a public right-of-way is unlawfully discriminatory, in violation of the United States Constitution and Section 253(c) of the 1996 Act. The lawsuit has been settled and the Township of Bloomfield has enacted a new ordinance. In addition, in February 1997 the City of Chattanooga joined TCG in a pending action in the U.S. District Court for Eastern Tennessee seeking to interpret the nondiscriminatory and competitively neutral requirements of Section 253(c) of the 1996 Act. On October 24, 1997, the District Court granted the defendants' motion for summary judgment, ruling that the City's franchise requirements violated state law.

TCNY and the City of New York entered into a Franchise Agreement, dated as of May 2, 1994 (the "New York Franchise") pursuant to which the City of New York granted TCNY the non-exclusive right for a term of fifteen years to provide Telecommunications Services (as defined in the New York Franchise) in the City of New York. In addition to other payments specifically required by the New York Franchise, the New York Franchise requires that TCNY pay to the City of New York as an annual franchise fee an amount based on a percentage of TCNY's gross revenues. TCG is restricted under the terms of the New York Franchise from providing cable service or mobile telecommunications services in the City of New York.

Regulation of International Services. TCG is authorized to provide resale and facilities-based international telecommunications services to its customers in the United States. If its acquisition of ACC is completed, TCG will provide international telecommunications services to customers in Canada, the United Kingdom, and Germany, and it will become a reseller of local telephone service in Ontario and Quebec, Canada. Thus, the regulatory situations in Canada, the United Kingdom, and to a lesser extent in Germany will have an immediate impact on business operations that TCG is proposing to acquire in those countries. TCG will also be affected by the regulatory situation in additional countries, both because its customers communicate with other places around the world and because other urban centers can provide TCG with expansion opportunities applying its expertise in the provision of competitive local exchange services.

On February 15, 1997, delegations from 69 countries concluded an historic series of negotiations by indicating their conditional acceptance of the World Trade Organization ("WTO") Agreement on Basic Telecommunications Services ("the Basic Telecom Agreement"). Countries representing approximately 82 percent of world telecommunications revenues and approximately 79 percent of the world economy committed themselves to open their telecommunications markets, including local telephone exchanges, to competition by 1998, conditional upon ratification and implementing acts by all of the signatory countries. On January 26, 1998, a meeting of WTO members agreed that the pact would enter into force on February 5, 1998, despite the fact that a handful of signatory countries representing less than 5 percent of world telecommunications traffic had not completed the ratification process.

Much of the language used in the Basic Telecom Agreement resembles language in the 1996 Act. The most far-reaching paragraph in the primary reference document provides that interconnection with a major supplier will be ensured "at any technically feasible point in the network," under non-discriminatory terms and conditions, in a timely fashion under terms, conditions (including technical standards) and cost-oriented rates that are transparent, reasonable, and sufficiently unbundled that the competitive entrant will not need to pay for network components or facilities that it does not require. In the United States, similar language is interpreted as requiring incumbent local exchange telephone companies to provide unbundled local loops at cost-based rates and to allow interconnection with the competitive supplier's network at the telephone company's switching office. It remains to be seen how other countries will interpret that language, and to what extent they will adopt and enforce regulations encouraging competitive entry.

In the United States, there has been extensive litigation and disputes over the terms, conditions and implementation of interconnection. It is reasonable to assume that the process of implementing other countries' commitments under the Basic Telecom Agreement will be at least as difficult. The United States had a quarter century of experience with various forms of telecommunications competition before the 1996 Act was adopted, but most other countries have had far less experience with competition. As far-reaching as the WTO Basic Telecom Agreement may appear on its face, it will be meaningful only to the extent that it is effectively enforced. The WTO dispute resolution process will not be freely accessible to any company that considers itself an injured party. Under United States law, no person other than the United States government itself will have any cause of action or defense before the WTO. This is consistent with the WTO's Dispute Annex, which itself provides an opportunity for action or defense only by WTO members, that is, governments. The implication is that national governments both in the United States and in other countries will serve as gatekeepers and will exercise their sovereign authority to choose which cases to litigate. Thus, TCG's ability to invoke any rights provided by the Basic Telecom Agreement will be dependent upon the willingness of a host government to pursue issues of concern to TCG. TCG can provide no assurance that the United States or any other host government will be willing to pursue TCG's concerns through the WTO dispute resolution process or that, if such a government were willing to do so, that it would obtain a favorable ruling from the WTO.

Regulation of International Services in the United States

ACC's U.S. subsidiaries are subject to certification and tariff filing requirements for all international operations. ACC has been required to seek separate certification authority from the FCC to provide private line or switched services or to resell private line services between the U.S. and any foreign country. ACC's ACC Global Corp. subsidiary has received authority from the FCC to resell private lines for switched services between the U.S. and Canada, and was the first entity to file to obtain such authority between the U.S. and the United Kingdom, which it received in September 1994. ACC has sought authority to resell private lines on a switched service basis between the U.S. and other countries. ACC is also authorized to acquire interests in international facilities, enabling its recent acquisition of IRUs. Additionally, TCG, through certain subsidiaries, holds international operating authority from the FCC allowing it to resell international services provided by other carriers, and to interconnect internationally on a facilities basis. TCG's international authority is comparable to that of ACC.

Under recently adopted FCC policies and under proposals to implement the WTO agreement, it could become easier, from a regulatory perspective, to obtain such authority for additional markets. In November 1997,

the FCC adopted an order revising a special rule that had applied to carriers seeking to connect international private lines to the public-switched network and provide services to the public. Previously, the agency had required carriers seeking to provide such service to demonstrate that the foreign country on the other end of the private line allows resale opportunities equivalent to those permitted in the U.S. The FCC said that it will no longer require equivalency demonstrations in such applications involving WTO member countries, if at least 50 percent of the U.S.-billed traffic on the routes in question are at or below rate benchmarks approximating carrier costs. Otherwise, equivalency demonstrations will continue to be required before the agency will grant authorization to interconnect international private lines to public switched telephone networks.

In compliance with U.S. commitments made under the Basic Telecom Agreement, the FCC has modified its regulations to accommodate increased entry by foreign carriers into the U.S. market. These regulatory changes could expose TCG's international services to increased competition, though similar developments in other WTO countries could open up additional opportunities for TCG abroad.

Regulation in Canada

Long Distance Telephone Service in Canada. Long distance telecommunications services in Canada generally are subject to regulation by the CRTC. As a result of significant regulatory changes during the past several years, the historical monopolies for long distance service granted to regional telephone companies in Canada have been terminated. This has resulted in a significant increase in competition in the Canadian long distance telecommunications industry. Competition is also emerging in many other segments of the market. However, despite the very impressive competitive in-roads that have been made in the long distance market, the Stentor companies continue to have the vast share of the local and calling card markets. The CRTC continues to take steps toward increased competition.

Commencing in 1990 the CRTC permitted non-facilities-based carriers such as ACC Canada to compete on a resale basis in long distance markets internationally and domestically in certain parts of Canada. In 1992 the CRTC permitted domestic facilities-based long distance competition in certain parts of Canada. Over the next several years domestic long distance competition was extended to most parts of Canada. In addition to any charges for the use of resold facilities, long distance competitors must pay contribution charges which are remitted to incumbent and competitive local exchange carriers. These contribution charges represent a portion of the subsidy that long distance services have traditionally contributed to the provision of local exchange services. As well, long distance competitors must pay other charges in respect of network modification, switching, aggregation, billing, collecting and other costs. The levels of these various charges and the services to which they are applied are determined by the CRTC and are subject to change by the CRTC from time to time.

In a decision released in May 1997, the CRTC removed restrictions on international simple resale by Canadian domestic transmission facilities-based carriers. Prior to this decision, only non-facilities based carriers such as ACC Canada were permitted to engage in international simple resale. The decision also re-emphasized the restriction on "switched hubbing" (i.e. routing Canada overseas traffic to or from a destination country over resold international private lines supplied by Teleglobe Canada between Canada and an intermediary country), unless agreed to by all countries or operating authorities involved, including Teleglobe Canada. After subsequent proceedings in the courts and the CRTC to vary or reverse these rulings, the CRTC determined in December 1997 to permit switched hubbing. Teleglobe Canada has subsequently applied to the CRTC seeking an order staying the CRTC's December 1997 ruling on switched hubbing and filed a petition to the Governor in Council requesting the switched hubbing restriction be reinstated pending a review of Teleglobe Canada's regulatory regime as referenced below.

In February 1996, the CRTC introduced a regime of price regulation for Teleglobe Canada's services to be in effect from April 1996 to December 1999, barring any exceptional changes to Teleglobe Canada's operating environment. Required Teleglobe Canada rate reductions have the effect of reducing the price ACC can charge its customers. In February 1997, the Canadian government committed under the WTO negotiations to terminate Teleglobe Canada's status as the monopoly transmission facilities-based provider of Canada-overseas

telecommunications services by October 1, 1998. The Canadian House of Commons has passed legislation to implement this change in Teleglobe's status, to put in place a licensing regime for telecommunications service providers providing international telecommunications services within a class or classes specified by the CRTC, and to administer numbering resources in Canada. In October 1997 the CRTC issued a public notice asking for comments on, among other things, the licensing and regulatory regime which should be used for Teleglobe Canada and other international telecommunications services providers after October 1, 1998. The CRTC suggested that international services provided by resellers might be within such a regime.

In December 1997, the CRTC released a decision under which it will forbear from regulation of Stentor toll and toll-free services. Among other things, the Stentor companies will no longer be required to file tariffs for these services, and these services will no longer be required to meet an imputation test (which prevented pricing below cost). However, the CRTC will continue to apply a cap on overall North American basic toll rates charged by the Stentor companies, and will continue to exercise some of its powers with respect to just and reasonable rates and prohibitions on unjust discrimination and undue preference in respect of these services. The CRTC also released a decision under which it will forbear from regulation of certain Stentor high capacity interexchange private line services on specified high traffic routes. Among other things, the Stentor companies will no longer be required to file tariffs for these services or demonstrate that the rates for them are just and reasonable, there will no longer be a prohibition on unjust discrimination and undue preference in respect of these services, and these services will no longer be required to meet an imputation test.

In June 1997 Stentor applied to the CRTC for: (i) the elimination of contribution charges payable by alternate providers of long distance services such as ACC on international circuits, with offsetting adjustments to domestic contribution rates; or (ii) the implementation of a per-minute contribution mechanism applicable to international long distance minutes, rather than the per-circuit mechanism still used for international circuits. In December 1997, the CRTC issued an order retaining per-circuit contribution rates, but increasing them to reflect carriage of 14,000 rather than 7,000 minutes per circuit per month.

ACC cannot predict the timing or the outcome of any of the pending and ongoing proceedings described above, or the impact they may have on the competitive position of ACC Canada.

Local Telephone Service in Canada. On May 1, 1997, the CRTC released a number of decisions which opened the Canadian local telecommunications market to competition. The decisions apply in the territories of the Stentor telephone companies, except SaskTel in Saskatchewan (which has subsequently announced plans to open local telephone service in the province to competition). The decision enables the systems operated by competitive local exchange carriers ("CLECs") to be interconnected with the systems operated by incumbent local exchange carriers ("ILECs"). CLECs will not merely be customers of ILECs, but will be carriers equal in status to ILECs in the local exchange market.

CLECs will have access to the following services of the ILECs found to be essential by the CRTC: central office codes; subscriber listings; and local loops situated in small urban and rural areas. These facilities are subject to mandatory unbundling and mandated pricing. A number of other items, while not found to be essential, were directed by the CRTC to be unbundled for a period of five years, during which period those items are also to be provided to competitors at mandated prices.

The May 1 decisions replaced the historical rate base rate of return regulation of ILECs with price cap regulation for an initial period of four years. In order to prevent ILECs from engaging in anti-competitive pricing, ILECs will be required to demonstrate that services provided to their customers are not priced below cost.

Prior to these decisions, competitors could resell Centrex and other bulk services, as well as individual business lines. Resale of residential lines was not allowed. The decisions now allow competitors to resell all bundled local services (including residential lines), and those services which are unbundled pursuant to the decisions. However, contrary to the submissions of some resellers, the CRTC did not order the ILECs to provide their services to resellers at wholesale prices, but rather such services were to be sold to resellers at the same

price that retail customers paid to purchase such services. Therefore, the scope for non-facilities-based local competition is significantly restricted.

A subsequent decision of the CRTC in June 1997 allowed transmission facilities-based local and long distance carriers (but not resellers such as ACC Canada) to "co-locate" their equipment in the central offices of ILECs on terms and conditions contained in tariffs or intercarrier agreements.

A number of issues relating to local competition remain to be resolved, including the determination of final rates, finalization of arrangements regarding local number portability, and certain other interconnection arrangements.

Under the local competition decisions, only transmission facilities-based carriers (which are required, among other things, to meet majority Canadian ownership requirements) may become CLECs. In September 1997 ACC Canada asked the CRTC to remove this requirement and to establish entry procedures and regulatory obligations for telecommunications service providers that are not facilities-based carriers but that wish to become CLECs.

ACC cannot predict the timing or the outcome of any of the pending and ongoing proceedings described above, or the impact they may have on the competitive position of ACC Canada.

Telecommunications Act. In October 1993, the Telecommunications Act replaced the Railway Act (Canada) as the principal telecommunications regulatory statute in Canada. This Act provides that all federally-regulated telecommunications common carriers as defined therein (essentially all transmission facilities-based carriers) are under the regulatory jurisdiction of the CRTC. It also gives the federal government the power to issue directions to the CRTC on broad policy matters. The Act does not subject non-facilities-based carriers, such as ACC Canada, to foreign ownership restrictions, tariff filing requirements or other regulatory provisions applicable to facilities-based carriers. However, to the extent that resellers acquire their own facilities in order to better control the carriage and routing of their traffic, certain provisions of this Act may be applicable to them.

Regulation in the United Kingdom

In the United Kingdom, telecommunication services are subject to specific legislation and provisions contained in telecommunications licenses issued under the Telecommunications Act 1984. It is a criminal offense to run a telecommunications system without a license. Licenses are granted by the Secretary of State for Trade and Industry following recommendation by the Department of Trade and Industry ("DTI"). Enforcement and modification of licenses is undertaken by the Director General of the Office of Telecommunications ("Oftel") under powers contained in the Telecommunications Act 1984.

Until 1982, British Telecom was the sole provider of public telecommunications services throughout the U.K. This monopoly ended when, in 1982, the British government granted Mercury Communications Ltd., which has since been acquired by CWC, a license to run its own telecommunications system under the British Telecommunications Act 1981. Both British Telecom and CWC are licensed under the subsequent Telecommunications Act 1984 to run transmission facilities-based telecommunications systems and provide telecommunications services.

In 1991, the British government established a "multi-operator" policy to replace the duopoly that had existed between British Telecom and CWC in the U.K. The duopoly continued in respect of international facilities until 1996 (see below). It is the stated goal of Oftel under the multi-operator policy to create a competitive market for telecommunications services from which detailed regulation can eventually be withdrawn. Under the existing multi-operator policy, the DTI will recommend the grant of a license to operate a telecommunications network to any applicant that the DTI believes has a reasonable business plan and where there are no other overriding considerations not to grant such license. All public telecommunications operators and international facilities operators operate under individual licenses granted by the Secretary of State for Trade

and Industry pursuant to the Telecommunications Act 1984. Currently, carriers operating under licenses which carry the necessary authorization are permitted to interconnect with British Telecom's network, subject to equipment compatibility. Under the terms of its license, British Telecom is required to allow any such licensed operator to interconnect its system with British Telecom's system, unless it is not reasonably practicable to do so (e.g., due to incompatible equipment).

In December 1996, the U.K. government overturned the existing duopoly for international facilities by issuing International Facilities Licenses ("IFL") to independent operators. An IFL permits its holder to provider international telecommunications services over its own international infrastructure. ACC U.K. was awarded its IFL in December 1997.

Oftel has historically imposed further mandatory price reductions on British Telecom in order to reduce its retail prices. In August 1997, Oftel imposed further price reductions which, although more limited in scope than those previously set, may have the effect of reducing the prices ACC can charge its customers in order to remain competitive.

The interconnection regime in the U.K. allows operators to obtain cost-based, non-discriminatory charges for interconnection services. Oftel regulates the interconnection charges charged to the operators by British Telecom and other PTOs. Oftel introduced a new access charge control regime in October 1997. Under the new regime, British Telecom has flexibility in setting access charges, subject to certain safeguards. Oftel sets the starting charges based on interim determined prices for 1997-1998 less 10%. From October 1998, the rates charged by British Telecom to other carriers are subject to certain price floors and ceilings established by Oftel for prospectively-competitive and non-competitive services. Oftel has the power to intervene and determine charges and other terms if an operator believes that it is not being offered fair pricing.

In October 1996, Oftel amended British Telecom's license to introduce a "Fair Trading Condition" which allows Oftel more easily to enforce European competition laws prohibiting anti-competitive behavior and abuse of British Telecom's dominant position. The Fair Trading Condition allows Oftel to react to anti-competitive behavior without the delays of lengthy license modifications. The Fair Trading Condition has now been incorporated into most other licenses including those held by ACC U.K., and is indicative of Oftel's approach to discouraging anti-competitive behavior.

U.K. regulation is affected by its membership of the European Union. There are two strands of EU regulation, one requiring the liberalization of European telecommunications markets and encouraging competition within those markets, the other concerned with harmonization measures across Member States. The U.K. has already adopted the liberalization regulations issued by the European Commission and is in the process of considering and implementing harmonization Directives. Recent Directives include the Licensing Directive and the Interconnection Directive which have required recent changes to the U.K. licensing regime such as alterations to license conditions to reflect the Interconnect Directive and the replacement of individual licenses for international simple voice resale through registration with the DTI. Further changes which are anticipated include a review of licensing with a view to merging the licenses for international facilities and national fixed link services in order to meet the Licensing Directive requirements. This is due to be completed and implemented by December 1998. Another aspect of the Interconnect Directive requires equal access by carrier pre-selection to be introduced by 1 January 2000 at the latest. It is anticipated that equal access will assist new market entrants such as ACC U.K. further to erode British Telecom's dominance and lead to increased competition.

The U.K. will remain subject to future EU regulation particularly in the field of telecommunications, which the EU has indicated is a key industry to encourage competition in all Member States. Future developments in EU regulation will need to be closely followed.

Regulation in Germany

The German telecommunications market began deregulating in January 1998, as a result of the European Union ("EU") mandate to open telecommunications markets to competition. Most significantly, the German

market opened for interconnection in January 1998. ACC has established a subsidiary in Germany and signed a resale agreement with Deutsche Telekom ("DT") on May 20, 1997. Further, ACC received a Class 4 full voice telephony license from the German Ministry of Post and Telecommunications which was effective January 1, 1998. This license is a requirement for ACC to become a switch-based provider of telecommunications services in Germany. In October 1997, ACC signed a network interconnect agreement with DT, which permits utilization of DT's network to link ACC with its customers. With this agreement in place, ACC has installed a switch which it plans to have in service during the first quarter of 1998. ACC achieved a small amount of revenue in the fourth quarter of 1997 as a switchless reseller, and anticipates potentially more substantial revenue growth as a switch-based reseller when the market is fully deregulated. Through December 31, 1997, the German Ministry of Post and Telecommunications was responsible for acting as the regulatory authority for telecommunications in Germany. After January 1, 1998, a new body called the Regulatory Authority for Telecommunications and Post (the "Reg TP") assumed responsibility for telecommunications-related regulatory activities. Among other powers, the Reg TP will grant licenses, decide disputes over special network access and interconnection, approve telecommunication rates, discharge numbering functions, promote and safeguard competition, oversee compliance with the German Telecommunications Act, oversee compliance with the conditions imposed on licensees and prohibit providers of telecommunications services without valid licenses from performing such activities.

LEGAL MATTERS

The validity of the issuance of the shares of TCG Class A Common Stock offered hereby will be passed upon for TCG by Dow, Lohnes & Albertson, PLLC, Washington, D.C.

EXPERTS

The financial statements of TCG as of December 31, 1997 and 1996 and for the two years then ended and of TCG and TCG Partners for the year ended December 31, 1995, included in this Proxy Statement/Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is included in this Proxy Statement/Prospectus, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of ACC included in this Proxy Statement/Prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said report.

GLOSSARY

Access charges—The fees paid by long distance carriers for the local connections between the long distance carriers' networks and the long distance carriers' customers.

ATM (asynchronous transfer mode)—A commercialized switching and transmission technology that is one of a general class of packet technologies that relay traffic by way of an address contained within the first five bits of a standard fifty-three bit-long packet or cell. ATM-based packet transport was specifically developed to allow switching and transmission of mixed voice, data and video at varying rates. The ATM format can be used by many different information systems, including LANs.

BOC (Bell Operating Company)—A telephone operating subsidiary of an RBOC; an incumbent local exchange carrier.

Central offices—A telecommunications center where switches and other telecommunications facilities are housed. CLECs may connect with ILEC networks either at this location or through a remote location.

Centrex—A switched service that offers dial tone and other features similar to those of Private Branch Exchange (''PBX''), except the switching equipment is located at the carrier's premises and not at the customer's premises. These features include direct dialing within a given telephone system, direct dialing of outgoing telephone calls and automatic identification of incoming telephone calls. This is a value-added service that carriers can provide to a wide range of business customers.

Colocation—The ability of a telecommunications carrier to interconnect its network to the ILEC's network by extending its facilities to the ILEC's central office. Physical colocation occurs when the interconnecting carrier places its network equipment within the ILEC's central offices. Virtual colocation is an alternative to physical colocation under which the ILEC permits a carrier to interconnect its network to the ILEC's network in a manner which is technically, operationally and economically comparable to physical colocation, even though the interconnecting carrier's network connection equipment is not physically located within the central offices.

Contribution Charges—Charges payable by non-Stentor interexchange carriers for the benefit of local exchange carriers to represent a portion of the subsidy that long distance services have traditionally contributed to the provision of local exchange service.

CLEC (competitive local exchange carrier)—A company that provides local exchange services in competition with the incumbent local exchange carrier.

Dedicated—Telecommunications lines dedicated to, or reserved for use by, a particular customer along predetermined routes (in contrast to links which are temporarily established).

Digital—A means of storing, processing and transmitting information by using distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies use a sequence of these pulses to represent information as opposed to the continuously variable analog signal. The precise digital numbers preclude most distortion (such as graininess or snow in the case of video transmission, or static or other background distortion in the case of audio transmission).

Diverse routing—A telecommunications network configuration in which signals are transmitted simultaneously along two different paths so that if one path is cut or impaired, traffic can continue in the other direction without interrupting service. TCG's networks generally provide diverse routing.

DS-0, DS-1, DS-3—Standard North American telecommunications industry digital signal formats, which are distinguishable by bit rate (the number of binary digits (0 and 1) transmitted per second). DS-0 service has a bit rate of 64 kilobits per second. DS-1 service has a bit rate of 1.544 megabits per second and DS-3 service has a bit rate of 44.736 megabits per second. A DS-0 can transmit a single uncompressed voice conversation.

Fiber Miles—The number of route miles of fiber optic cable installed (excluding pending installations) along a telecommunications path multiplied by the number of fibers in the cable. See the definition of "route mile" below.

Fiber Optics—Fiber optic technology involves sending laser light pulses across glass strands in order to transmit digital information. Fiber optic cable is the medium of choice for the telecommunications and cable industries. Fiber is immune to electrical interference and environmental factors that affect copper wiring and satellite transmission.

ILECs (incumbent local exchange carriers)—The local phone companies, either a BOC, Stentor member or an independent carrier (such as GTE) which provides local exchange services.

Internet—The name used to describe the global open network of computers that permits a person with access to the Internet to exchange information with any other computer connected to the network.

ISDN (Integrated Services Digital Network)—ISDN is an internationally agreed standard which, through special equipment, allows two-way, simultaneous voice and data transmission in digital formats over the same transmission line. ISDN permits video conferencing over a single line, for example, and also supports a multitude of value-added switched service applications such as Incoming Calling Line Identification. ISDN's combined voice and data networking capabilities reduce costs for end users and result in more efficient use of available facilities. ISDN combines standards for highly flexible customer to network signaling with both voice and data within a common facility.

ISP—Internet service provider.

IXC (interexchange carrier)—a long distance carrier.

Kbps (kilobits)—One thousand bits of information. The information-carrying capacity (i.e., bandwidth) of a circuit may be measured in "thousands of bits per second."

LANs (local area networks)—The interconnection of computers for the purpose of sharing files, programs and peripheral devices such as printers and high-speed modems. LANs may include dedicated computers or file servers that provide a centralized source of shared files and programs. LANs are generally confined to a single customer's premises and may be extended or interconnected to other locations through the use of bridges and routers.

LATA (local access and transport area)—The geographical areas within which a local telephone company may offer telecommunications services, as defined in the divestiture order known as the Modified Final Judgment ("MFJ") unless and until redefined by the FCC pursuant to the Telecommunications Act of 1996.

Local exchange—A geographic area defined by the appropriate regulatory authority in which telephone calls generally are transmitted without toll charges to the calling or called party.

Local Exchange Service/Local Exchange Telephone Service—Basic local telephone service, including the provision of telephone numbers, dial tone and calling within the local exchange area.

Long distance carriers (interexchange carriers or IXCs)—Long distance carriers providing services between LATAs, on an interstate or intrastate basis, and in Canada, between local exchanges. A long distance carrier may be facilities-based or offer service by reselling the services of a facilities-based carrier.

Local transport services—Dedicated lines between the ILEC's central offices and long distance carrier POPs used to carry switched traffic.

Mbps (megabit)—One million bits of information. The information-carrying capacity (i.e., bandwidth) of a circuit may be measured in "millions of bits per second."

Multiplexing—An electronic or optical process that combines a number of lower speed transmission signals into one higher speed signal. There are various techniques for multiplexing, including frequency division (splitting the total available frequency bandwidth into smaller frequency slices), time division (slicing a channel into time slots and placing each signal into its assigned time slot), and statistical (wherein multiplexed signals share the same channel and each transmits only when it has data to send).

Nodes—An individual point of origination and termination or intersection on the network, usually where electronics are housed.

PBX (private branch exchange)—A customer owned and operated switch on customer premises, typically used by large businesses with multiple telephone lines.

PBX trunk—A transmission facility which connects a PBX to a CLEC's or ILEC's central office switching center.

POPs (points of presence)—Locations where a long distance carrier has installed transmission equipment in a service area that serves as, or relays telephone calls to, a network switching center of the same long distance carrier.

Peering arrangements—arrangements between Internet service providers which allow them to establish mutual connections to the Internet on a preferred basis.

Private line—A private, dedicated telecommunications link between different customer locations (excluding long distance carrier POPs).

Public switched network—The switched network available to all users generally on a shared basis (i.e., not dedicated to a particular user). The local exchange telephone service networks operated by ILECs are the largest and often the only public switched networks in a given locality.

PUC (public utility commission) or State PUC—A state regulatory body, established in most states, which regulates utilities, including telecommunications companies providing intrastate services. In some states this regulatory body may have a different name, such as public service commission ("PSC").

RBOC (Regional Bell Operating Company)—The holding company which owns a BOC.

Reciprocal compensation—An arrangement in which two local exchange carriers agree to terminate traffic originating on each other's networks in exchange for a negotiated level of compensation.

Redundant electronics—A telecommunications facility that uses two separate electronic devices to transmit a telecommunications signal so that if one device malfunctions, the signal may continue without interruption.

Route mile—The number of miles along which fiber optic cables are installed.

SONET (synchronous optical network)—A set of standards for optical communications transmission systems that define the optical rates and formats, signal characteristics, performance, management and maintenance information to be embedded within the signals and the multiplexing techniques to be employed in optical communications transmission systems. SONET facilitates the interoperability of dissimilar vendors equipment. SONET benefits business customers by minimizing the equipment necessary for various telecommunications applications and supports networking diagnostic and maintenance features.

Special access services—The lease of private, dedicated telecommunications lines or circuits on an ILEC's or a CLEC's network which run to or from the long distance carrier's POPs. Special access services do not require the use of switches. Examples of special access services are telecommunications circuits running between POPs of a single long distance carrier, from one long distance carrier's POP to another long distance carrier's POP or from an end user to its long distance carrier's POP.

Switch—A mechanical or electronic device that opens or closes circuits or selects the paths or circuits to be used for the transmission of information. Switching is a process of linking different circuits to create a temporary transmission path between users. Within this document, switches generally refer to voice grade telecommunications switches unless specifically stated otherwise.

Switched access services—The connection between a long distance carrier's POP and an end user's premises through the switching facilities of a local exchange carrier.

Toll services—In the United States, otherwise known as Extended Area Service, EAS or intraLATA toll services are those calls that are beyond the free local calling area but originate and terminate within the same LATA; such calls are usually priced on a measured basis. In Canada, toll services are those calls that extend beyond the free local calling area.

Tier I Internet service provider—an Internet service provider which has peering arrangements with other leading Internet service providers.

Voice grade equivalent circuit—One DS-0. One voice grade equivalent circuit is equal to 64 kilobits of bandwidth.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Teleport Communications Group Inc.:

We have audited the accompanying consolidated balance sheet of Teleport Communications Group Inc. and its subsidiaries ("TCG") as of December 31, 1997 and 1996 and the related consolidated statements of operations, changes in stockholders' equity and partners' capital (deficit), and cash flows for the two years then ended and the related combined statements of operations, changes in stockholders' equity and partners' capital (deficit), and cash flows of Teleport Communications Group Inc. and its subsidiaries and TCG Partners ("TCGP"), which were under common ownership and management, for the year ended December 31, 1995. These financial statements are the responsibility of 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, such financial statements present fairly, in all material respects, the consolidated financial position of TCG and subsidiaries at December 31, 1997 and 1996 and the results of their operations and their cash flows for the years ended December 31, 1997 and 1996 and the results of the combined operations and cash flows of TCG and TCGP for the year ended December 31, 1995 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
New York, New York

March 3, 1998

TELEPORT COMMUNICATIONS GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1997 AND 1996
(In thousands)

	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 173,331	$ 277,540
Marketable securities	306,828	440,806
Accounts receivable:		
Trade—net of allowance for doubtful accounts ($11,684 in 1997 and $5,989 in 1996)	85,081	46,325
Related parties	6,351	4,191
Miscellaneous—net of allowance for doubtful accounts ($297 in 1997 and $1,406 in 1996)	6,639	6,795
Accounts receivable—net	98,071	57,311
Prepaid expenses	13,988	9,531
Other current assets	7,943	2,373
Total current assets	600,161	787,561
Fixed assets—at cost:		
Communications network	1,722,093	1,211,922
Other	150,990	92,307
	1,873,083	1,304,229
Less accumulated depreciation and amortization	(379,987)	(236,967)
Fixed assets—net	1,493,096	1,067,262
Investments in and advances to unconsolidated affiliates	8,822	126,561
Goodwill and other intangible assets, net of accumulated amortization ($13,836 in 1997 and $3,789 in 1996)	237,806	57,764
Licenses—net of accumulated amortization ($183 in 1997)	39,503	—
Other assets	76,913	10,949
Total assets	$2,456,301	$2,050,097

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

TELEPORT COMMUNICATIONS GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS—(Continued)

DECEMBER 31, 1997 AND 1996
(In thousands, except share amounts)

	1997	1996
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities ($4,019 in 1997 and $1,079 in 1996 with related parties)	$ 282,231	$ 215,808
Current portion of capital lease obligations ($28,172 in 1997 and $21,139 in 1996 with related parties)	33,724	24,063
Short-term bank debt	52,575	—
Other current liabilities	6,742	2,365
Total current liabilities	375,272	242,236
Capital lease obligations ($13,388 in 1997 and $28,716 in 1996 with related parties)	19,095	34,489
Senior Notes	300,000	300,000
Senior Discount Notes	734,984	659,567
Unamortized notes costs	(23,059)	(25,761)
TCI Subordinated Note (including accrued interest of $0 in 1997 and $1,007 in 1996)	—	27,007
Other liabilities	18,393	15,689
Total liabilities	1,424,685	1,253,227
Commitments and contingencies		
Stockholders' equity:		
Common Stock, Class A $.01 par value: 450,000,000 shares authorized, 61,273,746 and 28,668,400 shares issued and outstanding at December 31, 1997 and 1996	613	287
Common Stock, Class B $.01 par value: 300,000,000 shares authorized, 121,464,778 and 139,250,370 shares issued and outstanding at December 31, 1997 and 1996	1,215	1,393
Additional paid-in capital	1,654,328	1,197,252
Unrealized gain (loss) on marketable securities	164	(25)
Accumulated deficit	(503,679)	(281,012)
	1,152,641	917,895
Less cost of Class B Common Stock held in treasury, 7,975,738 shares at December 31, 1997 and 1996	(121,025)	(121,025)
Total stockholders' equity	1,031,616	796,870
Total liabilities and stockholders' equity	$2,456,301	$2,050,097

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

TELEPORT COMMUNICATIONS GROUP INC. AND SUBSIDIARIES

STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(In thousands, except share amounts)

	Consolidated 1997	Consolidated 1996	Combined 1995
Revenues:			
Telecommunications services ($9,968, $2,330 and $154 with related parties in 1997, 1996 and 1995, respectively)	$ 494,304	$ 244,864	$ 134,652
Management and royalty fees from affiliates	—	22,805	31,517
Total revenues	494,304	267,669	166,169
Expenses:			
Operating	283,440	157,591	93,118
Selling, general and administrative	165,977	85,025	50,475
In-process research and development costs	22,000	—	—
Depreciation and amortization	155,402	78,416	37,837
Total expenses	626,819	321,032	181,430
Operating loss	(132,515)	(53,363)	(15,261)
Interest:			
Interest income	31,111	30,219	4,067
Interest expense ($2,022, $14,997 and $18,763 with related parties in 1997, 1996 and 1995, respectively)	(116,172)	(73,633)	(23,331)
Total interest	(85,061)	(43,414)	(19,264)
Loss before minority interest, equity in losses of unconsolidated affiliates and income tax provision	(217,576)	(96,777)	(34,525)
Minority interest	—	3,520	663
Equity in losses of unconsolidated affiliates	(3,427)	(19,400)	(19,541)
Loss before income tax provision	(221,003)	(112,657)	(53,403)
Income tax provision	(1,664)	(2,193)	(401)
Net loss	$ (222,667)	$ (114,850)	$ (53,804)
Loss per share	$ (1.34)	$ (1.00)	$ (0.77)
Weighted average number of shares outstanding	165,728,059	114,443,695	70,000,140

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