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PEOPLES TELEPHONE CO INC
TICKER: PTEL EXCHANGE: NMS

10-K

DOCUMENT-DATE: December 31, 1995
FILING-DATE: April 2, 1996

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION
13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended

December 31, 1995

Commission File Number: 0-16479

PEOPLES TELEPHONE COMPANY, INC.

(Exact Name of registrant as specified in its charter)

NEW YORK	13-2626435
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

2300 NORTHWEST 89TH PLACE, MIAMI, FLORIDA 33172
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (305) 593-9667

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

TITLE OF EACH CLASS	Name of each exchange ON WHICH REGISTERED
NONE	

that are competitive with other independent operators or the LECs although the industry has become substantially more competitive with regard to commissions. Based upon the new Telecom Act, the Company believes that there will be additional changes in this competitive public payphone environment, which may create both opportunities and risks for the Company, the ultimate outcome of which cannot be predicted with any assurance.

Acquisitions

Until 1995, the Company's core public pay telephone business grew primarily through acquisitions of other public pay telephone companies. The following chart illustrates the growth of the Company's installed public pay telephones:

GRAPHIC OMITTED

Total Number of Phones at Year End

1991	16,680
1992	21,652
1993	35,687
1994	40,017
1995	38,215

In the past, the Company has generally been able to acquire public pay telephones at attractive prices because smaller operators frequently lack the economies of scale that the Company enjoys. When such telephones historically have been operated at a loss, the Company has been able to buy them relatively

inexpensively. Recently, however, the rising cost of acquisitions has made them less economical. The Company's current strategy is to grow its core business internally through increased sales efforts designed to both re-sign current quality accounts and add substantial new ones. Although the Company is not focused at this time on acquisitions, the Company may from time to time pursue an acquisition under circumstances considered beneficial to the Company.

The following table lists the Company's acquisitions of public pay telephones in excess of $500,000 since January 1, 1990.

DATE	COMPANY	NO. OF TELEPHONES
February 1990	First Continental Communications, Inc.	725
June 1990	Advanced Telecom Systems, Inc.	396
August 1990	U.S. Commercial Telephone Corp.	1,808
August 1990	Emro Marketing Company	403
May 1991	Tele-America Communications Corporation	2,525
December 1991	RAM Telephone and Communications, Inc.	1,640
February 1992	Coin-Call Corporation	1,312
February 1992	Emro Marketing Company	449

June 1992	American Payphones, Inc.	1,489
September 1992	**Millicom Services Company**	238
October 1992	Alpha Pay Phones, Ltd. III	655
March 1993	U.S. Tele-Com, Inc.	2,015
November 1993	Ascom Communications, Inc.	11,600
March 1994	Emro Marketing Company	1,045
June 1994	Atlantic Telco Joint Venture	3,300
July 1994	Telecorp Funding, Inc.	600
October 1994	Telecoin Communications, Ltd.	2,155

Competition

The Company believes the principal competitive factors in the public pay telephone business are: (i) commission payments to the Property Owners; (ii) the ability to serve accounts with locations in several LATAs or states; (iii) the quality of service provided to the Property Owners and the users of the telephones; and (iv) responsiveness to customer service needs.

In the public pay telephone business, the Company principally competes with the LECs, and a number of independent providers of public pay telephone services, major operator service providers and interexchange carriers. Some of these independent companies have increased in size by following an acquisition strategy and many of these companies compete for the most favorable public pay telephone contracts and sites. Most LECs and interexchange carriers with which the Company competes have substantially greater financial, marketing and other resources than the Company. In addition, many LECs, faced with competition from independent public pay telephone companies, have increased their compensation arrangements with Property Owners by offering more favorable commission schedules. As a result of the passage of the Telecom Act, under certain

circumstances, the LECs will be allowed to begin providing services outside of their monopoly franchise territories in a more deregulated mode and other companies may also compete against the LECs for this local business. The potential for competition from other new entrants in the payphone industry exists as well. These possibilities present both business opportunities and risks for the Company including, but not necessarily limited to, potential lower interconnection costs due to the advent of competition in the local service business and/or improved revenues as a result of the adoption of compensation for all calls. The risks include increased competition from the LECs and any new entrants and the chance that the FCC-established compensation system will not be adequate.

Telephone Systems Management and Service

The Company has internally developed a computer software system which interfaces with microprocessors in the Company's public pay telephones. The Company's computer system polls the public pay telephones each night to determine the amount of coin revenue in each telephone and to diagnose possible operational problems at the telephones. Polling enables the Company to reduce the number of visits required to each public pay telephone in order to maintain its operation and to collect coins.

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ACCESSION NUMBER:	0000950170-96-000095
CONFORMED SUBMISSION TYPE:	10-K405
PUBLIC DOCUMENT COUNT:	6
CONFORMED PERIOD OF REPORT:	19951231
FILED AS OF DATE:	19960401
SROS:	NASD

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:	PEOPLES TELEPHONE COMPANY I
CENTRAL INDEX KEY:	0000819694
STANDARD INDUSTRIAL CLASSIFICATION:	COMMUNICATION SERVICES, NEC
IRS NUMBER:	132626435
STATE OF INCORPORATION:	NY
FISCAL YEAR END:	1231

FILING VALUES:

FORM TYPE:	10-K405
SEC ACT:	1934 Act
SEC FILE NUMBER:	000-16479
FILM NUMBER:	96542835

BUSINESS ADDRESS:

STREET 1:	2300 NORTHWEST 89TH PL
CITY:	MIAMI
STATE:	FL
ZIP:	33172
BUSINESS PHONE:	3055939667

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TITLE OF EACH CLASS	Name of each exchange ON WHICH REGISTERED
NONE	

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, $.01 PAR VALUE
(TITLE OF CLASS)

Indicate by check mark whether the registrant has (1) 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. [X] Yes No

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

As of March 22, 1996, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $34,899,855. As of March 22, 1996, there were 16,172,684 shares of the registrant's Common Stock outstanding.

Documents incorporated by reference:

Information contained in the registrant's 1996 definitive proxy material to be filed with the Securities and Exchange Commission has been incorporated by reference in Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

GLOSSARY

Billed Party Preference is a plan that would automatically route "0+" dialed non-coin calls from pay telephones to the "billed party's" preferred carrier, thereby bypassing the opportunity for the pre-subscribed carrier of the public pay telephone provider to handle and receive revenues from the call.

Dial-Around Compensation is compensation paid to competitive public pay telephone providers for the use of their public pay telephones to access

operator service providers or interexchange carriers other than the primary operator service providers selected by the owner of the public pay telephone. The FCC ruled on May 8, 1992 that competitive public pay telephone providers would receive $6.00 per telephone per month as compensation for interstate "dial-around" calls. This flat rate system was made effective in June 1992. The per telephone/per month system has been replaced by a flat rate per call payment system of $0.25 a call for calls delivered to AT&T Corp. ("AT&T") and Sprint Corporation ("Sprint"), pursuant to the FCC's grant of waivers for these two companies during 1995. The remaining interexchange carriers continue to pay their respective pro-rata shares of the flat $6.00 per telephone per month payment. These industry-wide dial-around payment mechanisms are subject to modification on a company specific basis under individual contractual arrangements with the carrier(s), such as the Company's current operator service agreement with AT&T, as well as under prospective FCC rulings and the Telecom Act (as defined hereafter).

FCC is the Federal Communications Commission, which regulates the interstate common carriage of telecommunications.

Interexchange carrier or "IXC" is a telecommunications provider of transmission services between exchanges, typically referred to as long-distance or toll telephone service.

InterLATA calls are calls between local access and transport areas ("LATAs").

IntraLATA calls are calls originated and terminated in the same LATA.

LEC is a local exchange carrier, which is a company providing local telephone services.

Non-coin calls are calling card, credit card, collect and third-party billed calls.

Operator service provider is a company providing automated and/or live operator service related to long distance calls.

Property Owners or location owners are the owners of: (i) the locations, such as convenience stores, service stations, grocery stores, hospitals, hotels, shopping centers, truck stops and airports, at which public pay telephones are installed; and (ii) correctional facilities at which telephones are located.

Public Switched Network is the traditional domestic telephone network, including local, intraLATA and interLATA facilities used to carry, switch and connect telephone calls between the calling and called parties.

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RBOCs are the seven (7) Regional Bell Operating Companies, which were formed as a result of the AT&T divestiture.

Telecommunications Act of 1996 (the "Telecom Act") means the comprehensive legislative amendments to the Communications Act of 1934, adopted by Congress and signed into law by President Clinton on February 8, 1996.

GENERAL

Peoples Telephone Company, Inc. (the "Company" or "Peoples") believes that it is the largest independent operator of public pay telephones in the United States on the basis of number of public pay telephones in service. Since installing its first public pay telephone in 1985, the Company's core public pay telephone business has grown rapidly to an installed base, as of December 31, 1995, of approximately 38,200 public pay telephones in 41 states and the District of Columbia.

The Company owns, operates, services and maintains a system of independent public pay telephones and inmate telephones. Its public pay telephone business generates revenues from coin calls and non-coin calls such as calling card, credit card, collect and third-party billed calls made from its telephones. The Company has historically grown through acquisitions of public pay telephones from independent operators. Since 1990, the Company has acquired over 33,000 public pay telephones from 27 independent public pay telephone operators. The Company, in the past, has utilized its size and experience in integrating acquisitions to continue expanding its public pay telephone business and it may do so again. However, during 1995, the Company did not acquire additional public pay telephones from external sources and has no current plans to make such acquisitions during 1996, although it may consider attractive opportunities as they arise. Currently, the Company is focusing on its existing pay telephone operation with the intention of increasing its cash flow, improving operating efficiency, increasing internal growth and returning to profitability. The Company grows internally by entering into contracts for the installation of public pay telephones in locations where the Company believes there will be significant demand for public pay telephone service, such as convenience stores, grocery stores, service stations, shopping centers, hotels, restaurants, airports and truck stops. The Company's nationwide presence in the public pay telephone market makes it an attractive supplier of public pay telephone services for companies whose operations are regional or national. The Company is seeking to achieve balanced internal growth by increasing the number of public pay telephones with both large, national, corporate accounts and smaller, quality, regional and local accounts. The Company believes that substantially all of its public pay telephones, including its acquired public pay telephones, are in high traffic locations.

Management believes that the Company's leading market share among independents, nationwide presence and superior level of customer service are primary competitive strengths of the Company. As a high volume consumer of long-distance telephone service, the Company has been able to negotiate favorable terms and conditions from operator and long-distance telephone service providers such as AT&T and MCI Communications, Inc. ("MCI"). In addition, due to its large size, the Company realizes economies of scale from its field service, collection and other selling and administrative expenses compared to smaller companies in the industry.

In late 1994, the Company adopted a new strategic plan to focus on its core public pay telephone business and to sell certain non-strategic businesses. The sale of these non-strategic businesses took place in 1995. See "Business-Prepaid Calling Cards/International Telephone Centers" and "Business-Discontinued Operations" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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In July 1995, in an effort to extend its debt maturities to reflect the long-term nature of its assets and to provide increased operational and financial flexibility to take advantage of growth opportunities in its core public pay telephone business, the Company refinanced its existing debt through the sale of $100.0 million of 12 1/4% Senior Notes Due 2002. Further, the Company sold $15.0 million of Series C Cumulative Convertible Preferred Stock to

UBS Partners, Inc. ("UBS"), an affiliate of Union Bank of Switzerland. Pursuant to the terms of the preferred stock, two representatives of UBS joined the Company's Board of Directors replacing two former directors. Further, the Company simultaneously entered into a new revolving credit facility with Creditanstalt-Bankverein, its senior lender. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources".

In November 1995, the Company's Board of Directors elected a new chief executive officer. In December 1995, the Company's president, who was also a director, resigned from both of those positions and was subsequently replaced as president by the Company's new chief executive officer, who is also a director.

See Note 19 of "Notes to Consolidated Financial Statements" for business segment information.

PUBLIC PAY TELEPHONE INDUSTRY OVERVIEW

According to a report by the North American Telecommunications Association entitled 1993/1994 Telecommunications Market Review & Forecast (the "NATA Report"), calls made from public pay telephones are estimated to represent approximately seven billion dollars in annual revenues to the United States telecommunications industry. Public pay telephones may be owned or operated by LECs or by independent public pay telephone operators. The NATA Report estimates that of the approximately 2.3 million public pay telephones operated in the United States in 1992, approximately 2 million were owned by LECs and approximately 300,000 by independent public pay telephone companies. The NATA Report forecasts projected compounded annual growth of approximately 10% in the domestic installed base of independent public pay telephones through 1997.

The telecommunications marketplace through 1995 has been principally shaped by the 1984 ruling of the United States District Court for the District of Columbia in the well-documented Bell System antitrust divestiture case, United States v. American Telephone & Telegraph Company (the "AT&T Divestiture"). The AT&T Divestiture created various business opportunities in the telecommunications industry. In 1985, the FCC and, thereafter, 45 state public service commissions followed this initiative by authorizing the connection of competitive or independently-owned public pay telephones to the public switched network. Prior to that time, the Bell System and other monopoly LECs owned all public pay telephones in the United States.

As part of the AT&T Divestiture, the United States was divided into geographic areas known as Local Access Transport Areas or "LATAs." The larger LECs (for example, the ones owned by the Regional Bell Operating Companies) and GTE Corporation ("GTE") provide telephone service that both originates and terminates within the same LATA ("intraLATA traffic") pursuant to tariffs filed with and approved by state regulatory authorities. These LECs have generally been prohibited from offering or deriving revenues or income from interexchange services between LATAs. In addition, most state regulatory authorities require LECs to provide local access line service to independent public pay telephone companies. See "Business--Regulation." Until recently, the Company could only obtain local exchange services from the LECs, but this has begun to

change, with various local and intraLATA competitors now being authorized to provide local exchange service. The Company is beginning to test such local service options. These options could result in lower costs and improved service from a variety of future local network providers.

Long-distance companies such as AT&T and MCI have provided service

between LATAs ("interLATA traffic") and, in some circumstances, may also provide long-distance service within LATAs. An interLATA long-distance telephone call generally begins with an originating LEC transmitting the call from the originating public pay telephone to a point of connection with a long-distance carrier. The long-distance carrier, through its owned or leased switching and transmission facilities, transmits the call across its long-distance network to the LEC serving the local area in which the recipient of the call is located. This terminating LEC then delivers the call to the recipient.

Prior to 1987, coin calls were the sole source of revenue for independent public pay telephone operators. Long-distance calling card and collect calls from these public pay telephones were handled exclusively by AT&T. All revenue, except the coins deposited in public pay telephones, went to AT&T rather than the owner of the public pay telephone. Beginning in 1987, a competitive operator service system developed which allowed operator service providers, including other long distance companies, to handle this traffic and to offer independent public pay telephone companies commissions for directing operator assisted or calling card calls to them.

On February 8, 1996, President Clinton signed into law the Telecom Act. Representing the first major revision of the national communications laws in over 60 years, the new law gives the FCC broad powers to preside over the development of competitive telecommunication markets, including both local exchange and public pay telephone services. The significant public pay telephone provisions of the new law are designed to "level the playing field" for public pay telephone service and to address fundamental regulatory and financial inequities that have long plagued the public communications industry. Specific public pay telephone provisions of the Telecom Act require the FCC to adopt rules within nine months of enactment that will: (i) create a standard regulatory scheme for all public pay telephone providers, including the RBOC public pay telephone operations; (ii) require removal by the RBOCs of their public pay telephone operations from their regulated books of account; (iii) prescribe certain safeguards to eliminate future discrimination or subsidization of RBOC public pay telephones; (iv) require "universal compensation" to all public pay telephone providers at a fair level for all calls using public pay telephones (except for 911 emergency and deaf relay (TRS/TDD calls)); (v) provide the right for all pay telephone service providers, subject to existing and future contractual rights with the Location Owner, to select the provider for both intraLata and interLata network services; (vi) evaluate whether and how "public interest" public pay telephones (which are public pay telephones that would not normally be placed in a location under purely competitive conditions but may be required for public policy reasons) should be maintained; and (vii) preempt state requirements that are inconsistent with these provisions. The implementation of this new law by the FCC will have far-reaching implications for the regulatory, operational and economic terms and conditions under which the Company may operate in the future, the effects of which are not determinable with any certainty at this time. See "Business-Competition" and "Business-Regulation."

BUSINESS STRATEGY

The Company's ongoing business objective is to focus on its core public pay telephone business and grow operating cash flow by continuing to expand its base of public pay telephones and lower operational expenses. The Company attempts to implement this objective by focusing on the following strategies:

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Internal Growth. The Company is seeking to achieve balanced internal

growth by increasing the number of public pay telephones that the Company owns, operates or services at both large, national, corporate accounts and smaller, quality, regional and local accounts. The Company believes that its nationwide presence makes it an especially attractive supplier of public pay telephone services for national and regional corporate accounts, where the Company serves as a single provider, offering these accounts a consistent service level and reducing the time and paperwork involved when dealing with multiple providers. The primary focus of the Company's marketing efforts has been, and continues to be, national and regional corporate accounts, which currently include 7-Eleven (2,742 telephones), Emro Marketing Company, a subsidiary of Marathon Oil (2,408 telephones), McDonald's (1,200 telephones), The Vons Companies (773 telephones), Albertsons (617 telephones), Safeway Stores (400 telephones) and Dominick's Finer Foods (355 telephones).

Superior Level of Customer Service. The Company attempts to provide the highest quality service in the industry and establish strong relationships with its customers. To provide a superior level of customer service, the Company uses "smart" microprocessor-equipped telephones, a sophisticated management information system and a highly trained service and support staff. The Company's advanced telephone technology allows for exact records of telephone activity, revenues which can be easily verified by its customers and rapid response (typically within 48 hours) to equipment malfunctions. As the country's largest independent public pay telephone provider, the Company is in a competitive position to service national and regional corporate accounts, in contrast to smaller competitors or LECs which currently operate only in their specific geographic regions.

Fair Pricing Strategy. The Company pursues a pricing strategy of fair and reasonable pricing for all calls made from its public pay telephones. In connection with this strategy, in 1995 the Company contracted with AT&T to utilize AT&T as a key national carrier from the Company's public pay telephones. The Company believes that the imposition of industry-wide standards, including rate ceilings, will not only provide for a more favorable perception of the industry by consumers, but will also lead to favorable changes in the regulatory environment which will likely enable the Company to better compete with the LECs although there can be no assurances. The Company supports the imposition of industry-wide standards both directly and through industry associations in which the Company's officers are involved.

Increase Economies of Scale and Maximize Operating Efficiency. The Company's size generates economies of scale which provide the Company with operating efficiencies. As a high volume consumer of long-distance service (approximately 12 million minutes per month), the Company has been able to negotiate favorable terms from operator and long-distance service providers such as AT&T and MCI. The Company's "smart" pay telephones, management information systems and highly trained service and support staff have permitted the achievement of savings in the cost of telephone repair and maintenance. In addition, because of its size, the Company has been able to realize economies of scale in field service, collection and other selling and administrative functions. Through the implementation of the strategy of continuing to grow its public pay telephone business by focusing on internal growth, the Company intends to further increase its economies of scale and maximize operating efficiencies.

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PUBLIC PAY TELEPHONES

As of December 31, 1995, the Company's public pay telephone system consisted of approximately 38,200 public pay telephones located in 41 states and the District of Columbia. In 1993, 1994 and 1995, public pay telephones

represented approximately $81.3 million, $115.0 million and $112.2 million of the Company's revenues, respectively. The following chart sets forth the locations of the Company's public pay telephones by state as of December 31, 1995:

STATE	PUBLIC PAY TELEPHONES
Florida	8,213
New York	6,019
California	4,213
Texas	2,107
Maryland	1,990
Virginia	1,820
Pennsylvania	1,486
Tennessee	1,470
Georgia	1,441
Louisiana	1,325
Ohio	1,139
North Carolina	1,135
South Carolina	847
Other States	5,010
Total	38,215

Coin calls are made by depositing coinage into the pay telephone and placing the call. The Company's core public pay telephone business primarily generates revenues from coin and non-coin calls. Non-coin calls include calling card, credit card, collect and third-party billed calls made from its telephones.

Coin Calls

Substantially all of the Company's public pay telephones accept coins as payment for local or long-distance calls and can also be used to place local or long-distance non-coin calls. The Company's public pay telephones generate coin revenues primarily from local calls. In all of the territories in which the Company's public pay telephones are located, the Company charges the same rates for local coin calls as the LEC. In most territories that charge is $.25, although a growing number of jurisdictions have increased or are considering an increase in that charge to $.35. Whereas local coin calls have traditionally been provided for an unlimited call duration, a number of jurisdictions have also begun to allow call timing (i.e. deposit of an additional $.25 after three minutes). The Company pays local line and usage charges to the LECs for each of the Company's installed public pay telephones. These line and usage charges cover basic service to the telephone as well as the transport and completion of local coin calls.

Non-coin Calls

The Company receives revenues from non-coin calls made from its public pay telephones. Non-coin calls include credit card calls, calling card calls, collect calls and third-party billed calls. The services needed to complete a non-coin call include providing an automated or live operator to answer the call, verifying billing information, validating calling cards and credit cards, routing and transmitting the call to its destination, monitoring the call's duration, determining the charge for the call and billing and collecting the

applicable charge. In all jurisdictions permitting public pay telephone services, the Company has the right to select the operator service provider of interLATA and interstate traffic for its public pay telephones. In a number of jurisdictions, the Company has been required to use the LEC for local and intraLATA services. However, the Telecom Act appears to eliminate these requirements prospectively and the Company may be allowed to choose its provider for all calls. The Company also sub-contracts operator service from other companies on a "private-label" basis: customers are connected to the sub-contractors' operators, who identify themselves as "PTC Services." In the alternative, the Company may select a third-party operator service provider. Currently, the Company primarily uses the operator services of AT&T, and several smaller operator service providers. The Company considers a variety of factors prior to deciding which operator service company to select. These factors include financial and other contractual arrangements between the Company and the operator service providers, the location of the telephones, the types of calls made from the location, the profitability of each type of call under each calling alternative, the requirements of the Property Owners and applicable regulatory restrictions.

Except in jurisdictions where the Company is prohibited contractually or otherwise from selecting the operator service provider, or where the Company acts as its own operator service provider, AT&T and other operator service providers handle 0+/0- calls and pay the Company a commission for each call completed by the selected operator service provider. The Company may also install an automated operator system that allows the telephones to collect and store billing information and forward calls to the called party. At locations where the automated operator system is installed, the caller has the option to complete the call through the automated system, the Company's selected operator service provider or an operator service provider accessed by the caller. The FCC has the authority to regulate the amount public pay telephone operators may charge for interstate calls. However, currently no formal rate regulations exist. The FCC is currently considering adoption of a rate ceiling, which may be implemented in 1996, although there can be no assurance as to the timing or substance of any FCC ruling in this regard. See "Business--Regulation."

The Company also receives additional interstate revenue from long distance carriers pursuant to FCC regulations as "dial-around compensation" for non-coin calls made from its public pay telephones. A "dialaround" call is made by using an access code to reach an interexchange carrier other than the one designated by the public pay telephone owner. Dial-around compensation to independent public pay telephone operators for interstate calls was originally fixed by the FCC at $6.00 per telephone interstate, per month. Similarly, state regulatory authorities in Florida, Georgia and South Carolina have implemented intrastate dial-around compensation programs for independent public pay telephones in those states. Other states are also currently considering intrastate dialaround compensation programs for independent public pay telephones. AT&T and Sprint were authorized in 1995 to pay their federal portions of dial-around compensation through a $.25 per call flat rate payment in lieu of the flat monthly rate payment amounts assigned by the FCC. See "Business- Regulation". The FCC also has proceedings underway, or to be initiated, addressing per call compensation for all carriers and inclusion of 1-800 subscriber calls (ie: 1-800 FLOWERS/1-800 LLBEAN) in the compensation system. It is anticipated that these later issues will be finally resolved within the context of the FCC's proceedings to implement the Telecom Act although the Company cannot determine with any certainty what such resolution may entail.

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Operating Expenses

The Company pays monthly access charges to the LECs for interconnection

to the Public Switched Network for local calls. These charges are computed, depending on the LEC, on either a flat monthly rate or a fixed monthly charge plus a per message or usage rate based on the time of the call. Additionally, the Company pays the LECs a fee, based on usage, for intraLATA non-coin paid long-distance calls. The Company also typically shares commissions paid by the long-distance carriers with the Property Owners. Once accessed to the Public Switched Network, the Company is also responsible for the associated billing, collection, bad-debt and validation costs when it is acting as the operator service provider. As previously noted, the Company currently is using AT&T as its primary national provider of operator services, where none of these costs applies directly to the Company.

Internal Growth

Placement of Public Pay Telephones. The Company seeks to install its public pay telephones in locations where it believes there will be significant demand for public telephone service, such as convenience stores, grocery stores, service stations, shopping centers, hotels, restaurants, airports and truck stops. In evaluating locations, the Company generally conducts a site survey to examine geographical factors, population density, traffic patterns, historical information (to the extent available) and other factors in determining whether to install a public pay telephone. The Company has focused its efforts to date on securing telephone locations from large, national, corporate accounts which can provide a large number of quality locations and smaller, quality, regional and local accounts.

The Company installs its public pay telephone equipment pursuant to agreements ("Property Agreements") with the Property Owners. The Company's typical Property Agreement has a five-year term and provides the Company with the option to renew for an additional five years. Each agreement provides for a revenue sharing arrangement between the Company and the Property Owner based on the revenue generated from the public pay telephone. The percentage of revenue paid to a Property Owner is generally fixed for the period of the contract. The Company estimates that the average cost of installing a new public pay telephone, including site selection, hardware and labor, is approximately $1,650.

The Company is obligated to repair, maintain and service the public pay telephone equipment installed pursuant to the Property Agreements. Through its computer system, the Company generally is able to determine possible malfunctions before they are reported and usually repairs such malfunctions within 48 hours. Generally, the failure of the Company to remedy a default within 30 days after notice gives the Property Owner the right to terminate the Property Agreement. The Company can generally terminate a Property Agreement on 30 days' prior notice to the Property Owner if the public pay telephone does not generate sufficient total revenue for two consecutive months.

Marketing. Although the Company's past growth in its core public pay telephone business has been primarily driven by acquisitions, the Company is currently focusing on internal growth by increasing the number of public pay telephones that the Company owns, operates or services at both large, national, corporate accounts and smaller, quality, regional and local accounts. The Company believes that its nationwide presence makes it an especially attractive supplier of public pay telephone services for national and regional corporate accounts where the Company serves as a single provider, offering these accounts a consistent level of service and reducing the time and paperwork of dealing with multiple providers. The primary focus of the Company's marketing efforts

has been, and continues to be, national and regional corporate accounts, which currently include 7-Eleven (2,742 telephones), Emro Marketing Company, a

subsidiary of Marathon Oil (2,408 telephones), McDonald's (1,200 telephones), The Vons Companies (773 telephones), Albertsons (617 telephones), Safeway Stores (400 telephones) and Dominick's Finer Foods (355 telephones). As one of the country's largest independent public pay telephone providers, the Company believes it is in a strong position to service national and regional accounts, in contrast to smaller competitors or LECs, which currently operate only in their specific geographic regions. In contrast to the limited resources of the smaller independent public pay telephone operators, the Company's "smart" pay telephones, sophisticated management information systems, and highly trained national service and support staff allow the Company to maintain a high level of service and react quickly to repair damaged equipment. The Company's size and cost structure allow it to offer attractive commissions to Property Owners that are competitive with other independent operators or the LECs although the industry has become substantially more competitive with regard to commissions. Based upon the new Telecom Act, the Company believes that there will be additional changes in this competitive public payphone environment, which may create both opportunities and risks for the Company, the ultimate outcome of which cannot be predicted with any assurance.

Acquisitions

Until 1995, the Company's core public pay telephone business grew primarily through acquisitions of other public pay telephone companies. The following chart illustrates the growth of the Company's installed public pay telephones:

[GRAPHIC OMITTED]

Total Number of Phones at Year End

1991	16,680
1992	21,652
1993	35,687
1994	40,017
1995	38,215

In the past, the Company has generally been able to acquire public pay telephones at attractive prices because smaller operators frequently lack the economies of scale that the Company enjoys. When such telephones historically have been operated at a loss, the Company has been able to buy them relatively

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inexpensively. Recently, however, the rising cost of acquisitions has made them less economical. The Company's current strategy is to grow its core business internally through increased sales efforts designed to both re-sign current quality accounts and add substantial new ones. Although the Company is not focused at this time on acquisitions, the Company may from time to time pursue an acquisition under circumstances considered beneficial to the Company.

The following table lists the Company's acquisitions of public pay telephones in excess of $500,000 since January 1, 1990.

<TABLE>
<CAPTION>

DATE	COMPANY
<S>	<C>
February 1990	First Continental Communications, Inc.
June 1990	Advanced Telecom Systems, Inc.

August 1990	U.S. Commercial Telephone Corp.
August 1990	Emro Marketing Company
May 1991	Tele-America Communications Corporation
December 1991	RAM Telephone and Communications, Inc.
February 1992	Coin-Call Corporation
February 1992	Emro Marketing Company
June 1992	American Payphones, Inc.
September 1992	Millicom Services Company
October 1992	Alpha Pay Phones, Ltd. III
March 1993	U.S. Tele-Com, Inc.
November 1993	Ascom Communications, Inc.
March 1994	Emro Marketing Company
June 1994	Atlantic Telco Joint Venture
July 1994	Telecorp Funding, Inc.
October 1994	Telecoin Communications, Ltd.

</TABLE>

Competition

The Company believes the principal competitive factors in the public pay telephone business are: (i) commission payments to the Property Owners; (ii) the ability to serve accounts with locations in several LATAs or states; (iii) the quality of service provided to the Property Owners and the users of the telephones; and (iv) responsiveness to customer service needs.

In the public pay telephone business, the Company principally competes with the LECs, and a number of independent providers of public pay telephone services, major operator service providers and interexchange carriers. Some of these independent companies have increased in size by following an acquisition strategy and many of these companies compete for the most favorable public pay telephone contracts and sites. Most LECs and interexchange carriers with which the Company competes have substantially greater financial, marketing and other resources than the Company. In addition, many LECs, faced with competition from independent public pay telephone companies, have increased their compensation arrangements with Property Owners by offering more favorable commission schedules. As a result of the passage of the Telecom Act, under certain

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circumstances, the LECs will be allowed to begin providing services outside of their monopoly franchise territories in a more deregulated mode and other companies may also compete against the LECs for this local business. The potential for competition from other new entrants in the payphone industry exists as well. These possibilities present both business opportunities and risks for the Company including, but not necessarily limited to, potential lower interconnection costs due to the advent of competition in the local service business and/or improved revenues as a result of the adoption of compensation for all calls. The risks include increased competition from the LECs and any new entrants and the chance that the FCC-established compensation system will not be adequate.

Telephone Systems Management and Service

The Company has internally developed a computer software system which interfaces with microprocessors in the Company's public pay telephones. The Company's computer system polls the public pay telephones each night to determine the amount of coin revenue in each telephone and to diagnose possible operational problems at the telephones. Polling enables the Company to reduce the number of visits required to each public pay telephone in order to maintain its operation and to collect coins.

Based on the results of each night's polling, the Company determines which telephones require collection or service. Each of the Company's collectors generally remove from 20 to 25 sealed coin boxes each day, depending upon the number of public pay telephones within the collector's specified collection route. Once the route is completed, the collector returns to one of the Company's coin collection rooms located at its executive office or one of its regional offices, where the seal on the coin box is removed and the coins are electronically counted. The actual amount in each coin box is automatically recorded and compared to the expected amounts determined by polling the public pay telephone on the previous night.

The Company maintains a staff of approximately 300 field service telephone technicians located throughout the states in which the Company's public pay telephones are installed. The Company has imposed a high standard of service and maintenance in order to ensure that the public pay telephones are operating properly and generating maximum revenue. Through its computer system, the Company generally is able to determine malfunctions before they are reported and is able, in most cases, to repair such malfunctions within 48 hours. The most typical payphone malfunctions or problems are caused by vandalism and theft. On average, less than 4% of the Company's public pay telephones are out of service or are not operating properly at any one time. For accounting purposes, telephone repair costs are expensed by the Company as incurred. The Company is also continuously monitoring and reviewing the latest technology in the industry to prevent tampering, vandalism, fraud and theft at public pay telephones. The Company's management systems allow the Company to decentralize its operations by giving the field operations access to more information, thus allowing for quicker response time and reducing the time a phone is out of service.

The Company has undertaken a refurbishment program to improve the condition of its public pay telephones. In connection with this program the Company has created its own repair center located at its headquarters. This repair center has assisted in lowering the Company's repair costs and providing a steadier supply of repaired equipment back to the field. As part of its refurbishment program, the Company has refurbished approximately 5,000 public pay telephones.

Telephone Equipment Suppliers

The Company purchases its public pay telephones from independent manufacturers. The Company's public pay telephones use microprocessors that provide voice synthesized calling instructions and the capability to detect and count coins deposited during each call. These "smart" public pay telephones also provide information to the caller at certain intervals regarding the time remaining on each call and the need for an additional deposit. As of December 31, 1995, approximately 31,000, or 81%, of the public pay telephones that the Company operates were manufactured by Intellicall, Inc. ("Intellicall"). The Company also operates public pay telephones manufactured by Elcotel, Inc. ("Elcotel"). The Company believes that it can purchase public pay telephones from Elcotel or other public pay telephone manufacturers on terms similar to those in effect with Intellicall. The Company has a non-exclusive arrangement with Intellicall whereby the software and engineering schematics to repair the Intellicall telephones are held in escrow, to protect the Company against the bankruptcy of, the cessation of business operations by, or the failure to provide system support maintenance by, Intellicall. Therefore, the Company believes that the loss of Intellicall as a manufacturer of the Company's public pay telephones would not have a material adverse effect on its business.

Billing and Collection

The Company uses Zero Plus Dialing, Inc. ("ZPDI"), a third party billing and collection clearinghouse, to process and collect non-coin telephone revenues for calls generated at certain public pay telephones and all correctional phones, and handled by the Company's contracted operator service providers and interexchange carriers. The Company forwards the call records to ZPDI, which then sends the records to the appropriate LEC for billing and collection. The LEC includes the rated calls on LEC customers' monthly telephone bills. The LEC forwards the proceeds from the billed and collected call records to ZPDI, less the billing and collection fees charged by the LEC and a reserve for uncollectibles. ZPDI remits the proceeds to the Company, less the ZPDI processing fee. The entire billing and collection cycle generally takes between 60 and 120 days after the call record is submitted to ZPDI.

INMATE TELEPHONES

General

In December 1994, the Company's Board of Directors approved the divestiture of its inmate telephone operation because of increasing commissions and declining margins in the inmate telephone business. Accordingly, the Company's inmate telephone business was designated and accounted for as a discontinued operation at December 31, 1994. In September 1995, the Company decided to retain the remaining inmate operations. This decision was a result of the Company's belief that the remaining operations can contribute to the cash flow and operating results of the Company for a variety of reasons, including the 1995 sale of the Company's less attractive inmate telephone operations and the current geographic grouping of facilities served by the Company. As a result, the inmate operations have been reclassified and included in continuing operations.

In October 1995, the Company sold approximately 511 inmate telephone lines to AmeriTel Pay Phones, Inc. ("AmeriTel") for approximately $2.2 million subject to certain conditions. The sale of the bulk of the facilities covered by the Company's agreement with AmeriTel has been consummated. However, certain facilities in outlying locations have not been transferred pending the satisfaction of certain contractual conditions precedent. These facilities, for which the total purchase price aggregates to approximately $1.0 million, are currently being managed by AmeriTel.

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The Company is operating the remaining inmate telephone operations and is implementing a targeted growth strategy for the division. As of December 31, 1995, the Company operated approximately 2,200 telephone lines in over 130 correctional facilities in 14 states. In 1993, 1994 and 1995, inmate telephones represented approximately $35.2 million, $42.4 million and $26.0 of the Company's revenues, respectively.

The following chart sets forth the state by state breakdown of locations served by the Company's inmate division, based on the number of in-service lines, as of December 31, 1995:

STATE	NO. OF LINES
Texas	826
Ohio	230
Georgia	221
Colorado	214
Nevada	149
Missouri	115

Other States	448
Total	2,203

Historically, revenues for the average inmate telephone have been substantially higher than for a public pay telephone due to higher usage rates and the fact that inmates may only make collect calls, which have the highest revenue per call after person-to-person calls. Furthermore, maintenance and related labor costs for inmate telephones are lower than for public pay telephones due to the use of automated operator services and the lack of coin collecting and coin mechanism repairs.

Operations

Within correctional facilities, the Company currently utilizes automated operator calling systems from a number of providers. All of these systems limit inmates to collect calls. In facilities with more than 50 inmates, the Company generally installs its proprietary prison pay telephone system. This calling system is a configuration of proprietary software based on an integrated microcomputer platform and basic telecommunications hardware consisting of dialers and storage modules.

The system is programmed to record the details of each call (i.e., the number dialed, the "bill to" number and the length of call). The call detail is polled (extracted) from each system on a daily basis into the system's centralized billing center. The Company then rates the calls according to the Company's state and federal tariffs and according to any contractually agreed upon rates, and then bills the calls in the manner described in "Public Pay Telephones-Billing and Collection." The Company's proprietary prison pay telephone system provides extensive anti-fraud, call monitoring and surveillance capabilities for the correctional facilities where its inmate systems are installed. These include reports of frequently called numbers, calls of longer than normal duration and calls by more than one inmate to the same number. Upon request, the Company will provide the facility with the specific call detail.

Service

The systems in each facility are provided and installed at no cost to the governmental agency. The Company shares a percentage of the revenues it receives with the governmental agency. The Company generally provides all service-related activities. Service issues are reported to the Company's Technical Support Center through a 24-hour, toll-free (800) number. Service is typically restored on a major outage within 48 hours. Most problems are corrected remotely and, generally, an on-site visit is not required.

Competition

In the inmate telephone business, the Company competes with approximately 20 independent providers of inmate telephone systems, the LECs and interexchange carriers. The Company believes that the principal competitive factors in the inmate telephone market are rates of commissions paid to the correctional facilities, system features and functionality, service and the ability to customize inmate call processing systems to the specifications and needs of the correctional facility. The Company competes for business primarily on local, county and state levels. The cost of market entry and the complexity of the bid process increases proportionally with respect to the size of the correctional facility. While the local and county markets are somewhat fragmented with many service providers, state correctional facilities are

generally bid on a single statewide contract basis. Depending on the type of facility and the particular state, the Company must direct its marketing efforts to municipal purchasing officers, enforcement or jail administrators or to the independent contractors that operate the facility. The Company currently provides no inmate services to federal facilities. During 1995, competitive pressures in the inmate telephone business resulted in an erosion in margins on new contracts and appeared to limit the prospects for long-term growth and profitability. The Company believes that a growth strategy focused on servicing local and county facilities may provide some insulation from further erosion of margins involved in larger state and federal bids. In addition, a recent FCC ruling removing RBOC inmate operations from the regulated rate base, coupled with the provisions of the Telecom Act, may restore greater viability to the inmate telephone business although there can be no assurances of this.

OTHER OPERATIONS

Long-distance Reseller

The Company has developed a program to "resell" certain operator (0+/0-) services and transmission (1+) services to other independent pay telephone providers. The company is able to arbitrage these services to smaller payphone companies based upon the favorable higher volume terms and conditions under which the Company is able to obtain the services from the underlying local and interexchange carriers. Network and operator services which the Company is authorized to resell, include those of AT&T, MCI and Ameritech.

PREPAID CALLING CARD/INTERNATIONAL TELEPHONE CENTERS

In December 1994, in an effort to return its focus to its core public pay telephone business, the Company's Board of Directors approved the sale of the Company's prepaid calling card and international telephone center operations.

Prepaid Calling Card Business

In March 1994, the Company sold certain assets in connection with the Company's New York public telephone centers to Global Link Teleco Corporation, then known as Phone Zone Teleco Corporation, ("Global Link") for a total purchase price of $2.5 million as well as a 10% equity interest in the acquiror. These assets were sold after the Company decided it would concentrate on providing telecommunication services to the retail telephone centers owned by Global Link while Global Link concentrated on managing and opening additional retail centers.

As part of its decision to divest itself of non-strategic assets, in February 1995, the Company sold substantially all the assets of its prepaid calling card business to Global Link for $6.3 million consisting of $1.0 million in cash, a $5.3 million in promissory note due February 1998, bearing interest at 8.5%, payable quarterly and shares of common stock of Global Link. As a result of the February 1995 transaction, the Company's interest in the outstanding common stock of Global Link was 19.99%.

On March 1, 1996, Global Link consummated a merger transaction (the "Merger") with Global Telecommunications Solutions, Inc. ("GTS"). In connection with the Merger, the Company exchanged its outstanding notes and other receivables including accrued interest and its 19.9% equity ownership in Global Link for shares of GTS common stock, $0.6 million in cash and $1.5 million of notes receivable with various due dates through September 1997. Mr. Jody Frank,

a director of the Company, is a shareholder of GTS.

International Telephone Centers

In September 1995, the Company sold its approximately 24% interest in Artel Business & Telecommunications, Inc. ("Artel"), an international telecommunications joint venture in Russia which was established to provide international telephone access and intercity service to selected cities in Russia through public telephone calling centers in Moscow. The sale was to Alternative Telecommunication Services International Limited, the Company's partner in Artel. The Company received $0.5 million in cash and a promissory note for $1.5 million bearing interest at 8% to be paid in six installments over two years.

DISCONTINUED OPERATIONS

Cellular Telephone Operations

In December 1994, as part of its effort to return its focus to its core public pay telephone business, the Company adopted a formal plan to divest itself of its cellular telephone operations conducted through PTC Cellular, Inc. ("PTCC"), the Company's 90% owned subsidiary. PTCC operated cellular telephones installed in rental cars as well hand-held portable cellular telephones.

In November 1995, substantially all of the assets of PTCC were sold to Shared Technologies Cellular, Inc. ("STC") effective as of November 1, 1995. The assets were sold for a promissory note in the amount of $2.0 million payable semiannually with a term of 5 years and an interest rate of 8%, a potential $2.5 million royalty earn-out, shares of STC common stock and $0.3 million in cash. STC also assumed the payment of $1.2 million of PTCC's liabilities. In addition, the Company's hand-held portable cellular telephone assets were sold to STC in July 1995 for approximately $0.2 million in cash.

REGULATION

The Company's operations are significantly influenced by the regulation of public pay telephone, inmate telephone, long-distance reseller and other telecommunications services. Authority for regulation of these services has traditionally been vested concurrently in the FCC and the various state public utility commissions. Regulatory jurisdiction has generally been determined by the interstate or intrastate character of the subject service, and the degree of regulatory oversight varies among jurisdictions. While most matters affecting the Company's operations fall within the administrative purview of these regulatory agencies, state and federal legislatures and the federal district court administering the AT&T Divestiture consent decree have also been involved in establishing certain rules governing aspects of the Company's operations.

Passage of the new Telecom Act (see "Public Public Pay Telephone Industry Overview") vests broad new authority in the FCC with regard to the regulation of public pay telephone services. As an outgrowth of the Telecom Act, the Company believes there will be an expansion of the FCC's role in shaping overall regulatory requirements for the public pay telephone industry while there will be a decrease in the respective roles of state regulators and the AT&T Divestiture court as it pertains to public pay telephone service although there can be no assurances given the limited experience of the industry under the Telecom Act. Specifically, pursuant to Section 276, the rules adopted by the FCC under the new payphone provisions of the Telecom Act will preempt any inconsistent payphone regulation by a state authority. Moreover, based upon the general interpretation given throughout the telecommunications industry, once

the FCC adopts regulations to implement Section 276, there will be no effective ongoing role of the AT&T Divestiture court for any purpose relevant to the Company's operations. Although this expected restructuring of the traditional jurisdictional and regulatory authorities for public pay telephone service comports with the best current information available to the Company, final analysis must await the adoption of rules by the FCC within nine months of the passage of the Telecom Act, as provided under the Telecom Act, and the conclusion of any potential litigation contesting the FCC's action. Pending adoption of the FCC's Telecom Act implementation rules, the Company believes that the prior federal and state regulatory structures will remain applicable, and the Company will continue to operate in accordance therewith.

State Regulation

State regulatory commissions have historically been responsible for regulating the rates, terms and conditions of intrastate public pay telephone and inmate telephone services. This has involved the setting of rate ceilings on service provided to end users of the payphone; establishing rates paid by competitive public pay telephone providers to the LEC's for lines and local/intraLATA services; imposing mandatory service and operational requirements and, in several cases, establishing an intrastate "dial-around" compensation or "set use fee" mechanism for payphone providers. As discussed above, these existing state regulatory rules are subject to significant revision, and the Company believes preemption of some aspects of state regulation may occur on a prospective basis pursuant to the terms of the Telcom Act and the regulations to be adopted thereunder by the FCC.

To date, the degree to which states regulate the types of services offered by the Company varies widely, from certain states which do not require any certification or authorization to operate within the state, to other states that have prohibited non-LEC public pay telephone services entirely. In most states which permit such services, approval to operate in the state involves the submission of a certification application and an agreement by the Company to comply with the rules, regulations and reporting requirements of the state. The Company has obtained the requisite regulatory approvals to provide public pay telephone, and where applicable, inmate telephone services, in all states in which the Company currently provides such services.

Although there can be no assurances, the Company believes that other provisions of the Telecom Act may allow preemption of state regulations otherwise prohibiting public pay telephone competition within a state, which would create the opportunity to provide service in all state jurisdictions including the four that have limited entry to date: Alaska, Connecticut, Hawaii and Oklahoma. In addition, Hawaii and Oklahoma now have proceedings underway that may result in the lifting of competitive payphone entry restrictions at the state level even prior to any challenges of state bans under the Telecom Act. A petition, based on the Telecom Act, to preempt Connecticut's ban on provision of payphone servicing by independent providers has been filed at the FCC.

A number of states such as Illinois, Iowa, Michigan, Wisconsin and Wyoming have increased their rate for local coin calls to $.35 and an increasing number of states are considering taking that action. The Company cannot predict when or if such increases will be enacted by those states.

The Company is also affected by state regulation of operator services, either directly with respect to operator services provided by the Company or indirectly through the impact upon the operator services providers utilized by the Company. Typically, state regulatory bodies have adopted intrastate provisions that are similar or identical to the regulations adopted by the FCC pursuant to the Telephone Operator Consumer Services Improvement Act of 1990 ("TOCSIA"). These regulations address "branding", "posting" and "unblocking"

requirements for public public pay telephones, to which a significant number of states have also added rate regulation in the form of rate "ceilings", reporting requirements, and restrictions on the handling of certain call categories (i.e., "0-"/"0+" intraLATA). The Company, or its designated carrier(s), have obtained the required intrastate operator service authorizations, including, where applicable, certificates of public convenience and necessity and approval or acceptance of tariffs in all jurisdictions in which the Company provides service. As with the future regulation of public pay telephone and inmate services, the scope and application of state regulatory requirements to operator services provided in a public pay telephone context remain uncertain, pending implementation of the new Telecom Act by the FCC.

The Company is certificated as an operator service provider/interexchange carrier, or has the right to provide operator and interexchange services under its PTC Services brand in the following states: California, Colorado, Florida, Georgia, Illinois, Kansas, Louisiana, Maryland, Michigan, Missouri, Nebraska, New Jersey, New York, Pennsylvania, Rhode Island, South Carolina, Texas, Utah, Virginia and Washington.

Federal Regulation

Regulation of the public pay telephone and inmate telephone businesses at the federal level has traditionally not been as detailed or comprehensive as the state regulatory regimes described in the preceding section. The FCC, since first authorizing the registration and interconnection of "instrument implemented" public pay telephones in 1984, has primarily addressed issues of basic interconnection to the Public Switched Network for the provision of interstate telecommunications services from payphones, implementation of the provisions of TOCSIA involving "branding", "posting", "rate quoting", and "unblocking" access code dialing to all operator services providers from public pay telephones, establishment of "dial-around" compensation for interstate carrier access code calls from public pay telephones and the handling of general consumer complaints with regard to public pay telephone services.

The Company believes that the passage of the Telecom Act marks a significant change in the form and scope of prospective federal regulation for public pay telephone service and hence for providers of the service, including the Company. The Telecom Act defines "payphone service" to mean "the provision of public or semipublic pay telephones, the provision of inmate telephone service in correctional institutions, and any ancillary service." Under Section 276 of the Telecom Act, the FCC is charged with implementing rules in nine months that will: (i) establish a comprehensive compensation system to ensure that public pay telephone providers are fairly compensated on all intrastate and interstate calls made from their public pay telephones (excluding only 911 calls and telecommunications relay service calls for hearing disabled individuals); (ii) discontinue traditional interstate and intrastate payphone subsidies for LEC payphones from the regulated rate base operation of the LECs; (iii) prescribe a set of safeguards for RBOC payphone service to eliminate future discrimination or subsidies in favor of RBOC payphone services; (iv) provide for the RBOC's ability to select and contract with interLATA carriers for RBOC payphones, subject to contractual rights negotiated and vested with the location provider and to a potential FCC finding that this interLATA selection authority for the RBOCs is not in the public interest; and, (v) provide for all payphone service providers, subject to contractual rights negotiated and vested with the Location Owner, to have authority to select the intraLATA service provider of choice. In addition to these core provisions, the Telecom Act also provides that: (i) the FCC will determine whether "public interest" payphones should be maintained and, if so, how they should be supported "fairly and equitably"; (ii) prior contracts between location providers and payphone service providers, or

interLATA or intraLATA carriers, are "grandfathered"; and, (iii) any state requirements inconsistent with FCC regulations adopted under Section 276 will be "preempted" by the FCC's rules.

The Company has supported the introduction and passage of this payphone section of the Telecom Act, and anticipates that the framework established by this legislation will address many of the fundamental regulatory/competitive problems that have plagued the public communications industry from its inception. While the Company believes that the Telecom Act could lead to enhanced financial performance by the Company, there can be no certainty of such an impact occurring, and the magnitude or timing of such impact, if any, remains subject to significant conjecture pending adoption of the FCC rules mandated by the Telecom Act.

In addition, while the Company believes the enactment and implementation of the payphone provisions of the Telecom Act will result in an overall improvement to the competitive environment in which the Company operates, the Company also recognizes the potential for increased competitive pressures from the RBOCs or other LECs which may be more aggressive in the largely deregulated mode provided for under the Telecom Act. The specific provisions of the FCC's rules addressing the selection of a long distance carrier for the RBOC payphones, the adequacy of the transfer valuation assigned to the RBOC payphone operations upon their removal from regulated rate base accounts and whether the precise "non-structural" safeguards applicable to the RBOCs and LECs are effective in eliminating cross subsidies and discrimination, will all significantly impact the level and scope of competition faced by the Company in the public pay telephone market in the future.

Along with the FCC proceedings to implement the provisions of the Telecom Act, there remain pending several other FCC matters that potentially affect the Company and its operations.

On April 9, 1992, the FCC proposed a new access plan for operator assisted interstate calls dialed on a "0+" basis. Currently "0+" calls are sent directly from the payphone through the LEC network to the operator service provider selected by the host location. Under the proposed access plan, known as "Billed Party Preference" ("BPP"), "0+" calls would be sent instead to the operator service provider chosen by the party paying for the call. The BPP environment allows a telephone user making a 0+ call to bill a call to the user's pre-established carrier at the user's home or office, thereby bypassing the opportunity for the pre-subscribed carrier at the public pay telephone

to handle and receive revenues from the call and for the Company to earn a commission on the call.

The FCC has tentatively concluded that a nationwide BPP system for interstate operator assisted calls is in the public interest. However, substantial opposition to the BPP proposal has developed and the FCC has taken no action to date. If this system were to be enacted, the Company could experience a reduction in revenues it now receives on these calls and would, accordingly, be unable to pay commissions to location owners for the traffic. The FCC has requested and received public comment on the basic BPP proposal and on the issue of what compensation mechanisms for payphone providers would be necessary in a BPP environment. The proposal remains under consideration by the FCC, and the outcome is uncertain and could be influenced by implementation of the Telecom Act. Specifically, the Telecom Act may require that the Company receive compensation for any completed call routed through BPP.

In addition, the American Public Communications Council ("APCC"), of

which the Company is a member, along with other telecommunications companies and trade associations, has filed with the FCC for implementation of a "rate ceiling" on interstate "0+" calls from public pay telephones as an alternative to the BPP proposal. Because the Company utilizes AT&T as its primary interstate carrier from the Company's public pay telephone base nationwide, implementation of a "rate ceiling" regulatory regime by the FCC does not appear to represent a serious financial risk to the Company. However, as with the underlying BPP proposal, the "rate ceiling" alternative is pending before the FCC, and the outcome remains uncertain, and could be influenced by implementation of the Telecom Act.

The FCC also has proceedings underway, or to be initiated, addressing the expansion of "per call" compensation to all interexchange carriers, an increase in the amount of compensation overall and inclusion of 1-800 subscriber calls (i.e., 1-800 FLOWERS/1-800 LLBEAN) in the compensation system. It is anticipated that these later issues will be finally resolved within the context of the FCC's proceedings to implement the Telecom Act, although the Company cannot determine the timing of these events with any certainty or what such resolution may entail.

EMPLOYEES

As of December 31, 1995, the Company had approximately 444 employees, approximately 103 of whom were executive, administrative, accounting, sales or clerical personnel and approximately 341 of whom were installers, maintenance and repair personnel and coin collectors.

ITEM 2. PROPERTIES

The Company's headquarters facility, consisting of a 68,000 square-foot building located at 2300 N.W. 89th Place, Miami, Florida, was purchased for $3.5 million. The facility was subject to a mortgage held by NationsBank in the amount of $2.5 million and bearing interest at the rate of 7.38% per annum, amortizing over 15 years and due in March 1998. The mortgage balance was paid by the Company in 1995.

The Company maintains 21 service facilities which are linked to the Company's headquarters by computer. The Company considers its current facilities adequate for its business purposes.

ITEM 3. LEGAL PROCEEDINGS

In 1993, the Company filed a law suit in the United States District Court for the Southern District of

Florida against BellSouth Telecommunications, Inc., a unit of BellSouth Corp. that does business as Southern Bell Telephone and Telegraph ("BellSouth"), alleging, among other things, violations of the federal and state antitrust laws based upon alleged monopolization and misrepresentations in connection with BellSouth's operation of its public pay telephone business in Florida. The suit seeks unspecified damages and other relief. In September 1995, the Court entered partial summary judgment against the Company on its federal and state antitrust claims but allowed the Company's common law fraud and misrepresentation claims to remain pending. In March 1996, the Court granted the parties' request for a brief stay of the action to facilitate settlement negotiations. Based upon the current status of the case, the Company is unable to predict the outcome of these negotiations or the litigation.

In 1994, a class action complaint was filed in the United States

District Court, for the Southern District of Florida, by Albert Hirschensohn, et.al., naming the Company, Jeffrey Hanft, Chairman, and Richard Militello, Chief Operating Officer, as defendants. The complaint was later amended to include Robert D. Rubin, the then President. The amended complaint alleged violations of certain federal securities laws through the issuance of "false and misleading" statements in connection with the proposed merger (subsequently terminated) with IDB Communications Group, Inc. and the Company's 1994 results. The amended complaint sought the recovery of unspecified compensatory damages on behalf of the class. In July 1995, the parties agreed to settle this action in its entirety through the establishment of a settlement fund (of which the Company's portion was $925,000). In January 1996, the settlement was approved by the Court and the case was dismissed.

In December 1995, Cellular World, Inc. filed a complaint in Dade County Circuit Court against the Company and its subsidiary, PTC Cellular, Inc., alleging wrongful interference with Cellular World's advantageous business relationship with Alamo Rent-A-Car and infringement upon Cellular World's proprietary cellular car phone rental system equipment. Cellular World is seeking damages alleged to exceed $10 million. The Company believes the complaint is without merit and intends to vigorously contest and defend the action. Based upon the preliminary status of the litigation, the Company is unable to predict the final outcome of the litigation.

The Company is also subject to various ordinary and routine legal proceedings arising out of the conduct of its business. The Company does not believe that the ultimate disposition of these proceedings will have a material adverse effect on its financial position.

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

During the fourth quarter of the fiscal year ended December 31, 1995, the Company did not submit any matter to a vote of security holders.

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PART II

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

Price Range of Common Stock

The Common Stock of the Company is traded on the National Market System of NASDAQ under the symbol PTEL. The following table sets forth the high and low closing sales prices per share of Common Stock as reported on the National Market System of NASDAQ for the periods indicated. Quotations represent prices between dealers and do not reflect mark-ups, mark-downs or commissions.

	High	Low
Year ended December 31, 1995:		
First Quarter.....	$5.38	$4.00
Second Quarter.....	5.13	3.88
Third Quarter.....	5.06	3.50
Fourth Quarter.....	4.00	2.13

	High	Low
Year ended December 31, 1994:		
First Quarter.....	$11.25	$8.25
Second Quarter.....	15.25	4.75