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James Matthews, Executive Secretary
Arizona Corporation Commission
Utilities Division
1200 West Washington Street
Phoenix, Arizona 85007 U-2584-91-016

Re: Notification of EXCEL Communications, Inc. and Telco Communications Group, Inc. Agreement and Plan of Merger, and Related Transactions

Dear Mr. Matthews:

On behalf of EXCEL Communications, Inc. ("EXCEL") and Telco Communications Group, Inc. ("Telco") (together the "Parties"), this letter is to advise the Commission of a proposed transaction whereby EXCEL and Telco will merge with two separate subsidiaries of a new holding company and EXCEL and Telco will survive as wholly-owned subsidiaries of the new holding company (the "Combination"). Please place this letter in the appropriate files for the companies that are registered to provide service in Arizona.

Upon review of the Arizona statutes and Commission rules, it is the understanding of the Parties that prior Commission approval is not required for the Combination and related transactions described herein. In the event the Commission determines that approval of the Combination and related transactions is required, however, this letter should serve as a request for such expedited approval.

EXCEL Communications, Inc. is a Delaware holding company publicly traded on the New York Stock Exchange ("NYSE") under the stock symbol ECI. EXCEL is the parent company of EXCEL Telephone, Inc., which is the parent company of EXCEL Telecommunications, Inc., the fifth largest long distance company in the United States in terms of presubscribed lines. EXCEL, through its operating subsidiaries, offers its subscribers a variety of communications products and services under the EXCEL branded name, which include residential service, commercial service, paging service and calling cards. Excel Telecommunications, Inc., provides resold interexchange services throughout the state of Arizona.

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In addition to the services provided to Arizona subscribers, EXCEL's operating subsidiaries are authorized by the various state public utility commissions to provide resold interexchange telecommunications services nationwide, either pursuant to certification, registration or tariff requirements, or on an unregulated basis. Additionally, EXCEL's operating subsidiaries currently are authorized to provide competitive local exchange services in approximately 30 states and have applications pending for competitive local exchange authority in the remaining 20 states.

Telco Communications Group, Inc. is a Virginia corporation publicly traded on the NASDAQ stock market under the stock symbol TCGX. Telco is one of the nation's 10 largest long distance companies. Telco subsidiaries, Long Distance Wholesale Club and Dial & Save of Arizona, Inc., d/b/a Dial & Save, provide intrastate interexchange telecommunication services throughout the State of Arizona.[1/]

Telco, through its subsidiaries, is a rapidly growing, switch-based provider of long distance telecommunications products and services, targeting residential, commercial and carrier customers and is authorized by the various state public utility commissions to provide telecommunications services nationwide, either pursuant to certification, registration or tariff requirements, or on an unregulated basis. Additionally, Telco's operating subsidiaries currently are authorized to provide competitive local exchange services in approximately 21 states and are seeking to obtain authority to provide competitive local exchange services in the remaining states.

Description of the Combination and Related Transactions

The Boards of Directors of both EXCEL and Telco have determined that it would be in the best interest of EXCEL and Telco, respectively and of their respective shareholders, to merge the two entities into subsidiaries of a new holding company. Accordingly, EXCEL and Telco have entered into an Agreement and Plan of Merger dated as of June 5, 1997 (the "Agreement"). The Agreement was unanimously approved by the Board of Directors of each company.

Upon consummation of the Combination and related transactions described herein, the Parties expect that for the foreseeable future EXCEL and Telco will continue operating their operating subsidiaries under their current names and no certificate holder name will change.

[1/] On April 30, 1997, Telco filed an application with the Commission for approval of an internal reorganization in which Dial & Save of Arizona, Inc. d/b/a Dial & Save would be merged into and its certificate assigned to Telco Holdings, Inc. d/b/a Dial & Save. Accordingly, once the reorganization is consummated the services previously provided by Dial & Save of Arizona, Inc. d/b/a Dial & Save will be provided by Telco Holdings, Inc. d/b/a Dial & Save. *See* Application for Approval in Docket No. U-3188-96-302.

Moreover, the operating subsidiaries (including the operating subsidiaries of both EXCEL and Telco which operate within Arizona) will continue to provide high quality, affordable telecommunications services to the public. As such, this Combination will not in any way disrupt service nor cause inconvenience or confusion to the customers of any EXCEL or Telco company. Indeed, the Combination will be virtually seamless to the customers in terms of the services they receive.

As part of the proposed transaction, a new holding company, New RES, Inc., has been created as a subsidiary of EXCEL.[2] New RES, Inc. has two merger subsidiaries, E-Sub, Inc. and T-Sub, Inc. EXCEL and Telco will merge with E-Sub, Inc. and T-Sub, Inc. respectively, leaving EXCEL and Telco as surviving subsidiaries of New RES, Inc.[3]

Under the terms of the Agreement, all shareholders of EXCEL will receive one share of common stock of New RES, Inc. for each share of EXCEL common stock.[4] All shareholders of Telco will receive 0.7595 shares of common stock of New RES, Inc. and $15.00 in cash for each share of Telco common stock.[5] Ultimately, EXCEL shareholders will hold approximately 80 percent and Telco shareholders will hold approximately 20 percent of New RES, Inc.'s common stock.

2/ The authorized capital stock of New RES, Inc. consists of 200,000,000 shares of Common Stock, par value $0.001 per share, of which 1,000 shares are validly issued and outstanding. All of the issued and outstanding capital stock presently is held by EXCEL. Prior to completion of these transactions, the Certificate of Incorporation of New RES, Inc. will be amended to authorize 10 million shares of preferred stock, par value .001 per share.

3/ At or prior to the completion of these transactions, the corporate name of the newly formed holding company, New RES, Inc., will become "EXCEL Communications, Inc.," and EXCEL, which currently is known as EXCEL Communications, Inc. (and which will be a subsidiary of New RES, Inc.) will change its name.

4/ Currently, the authorized capital stock of EXCEL consists of (i) 10,000,000 shares of Preferred Stock, par value $0.001 per share, none of which are outstanding and none of which are reserved for issuance and (ii) 500,000,000 shares of Common Stock, of which, as of May 31, 1997, 108,159,959 shares were issued and outstanding, 1,429,379 shares were held in the treasury of EXCEL and 4,402,540 shares were issuable upon the exercise of outstanding options.

5/ Currently, the authorized capital stock of Telco consists of (i) 15,000,000 shares of preferred stock, no par value, none of which are outstanding and none of which are reserved for issuance and (ii) 150,000,000 shares of Common Stock, of which as of May 31, 1997, 33,130,942 shares were issued and outstanding and 3,608,933 were issuable upon the exercise of outstanding options.

An estimated $500 million - $600 million will be utilized to fund the cash portion of the Combination and additional borrowings will be available to refinance the existing indebtedness of Telco. Cash consideration for Telco shareholders will be paid by New RES, Inc. out of a $1 billion committed credit facility from an affiliate of Lehman Brothers.

The Parties expect to consummate the Combination by September 15, 1997, subject to approval by the shareholders of each company, Hart-Scott-Rodino clearance, the approval of the Federal Communications Commission and various state authorities and other customary conditions. The principal shareholders of each company, who in the aggregate hold a majority of the outstanding common stock of each company, have agreed to vote in favor of the Combination.

Upon completion of the Combination, the combined company's Board of Directors will comprise six persons. Henry G. Luken III, Chairman of the Board of Telco, and Donald A. Burns, Vice Chairman of the Board, President and Chief Executive Officer of Telco, will join the four current directors of EXCEL, to form New RES, Inc's Board. Kenny A. Troutt, who currently is Chairman and CEO of EXCEL, will serve in the same positions for the combined company. John J. McLaine, who currently is Chief Operating Officer and President of EXCEL, will serve in the same positions for the combined company.

Public Interest Considerations

Consummation of the proposed Combination will serve the public interest by bringing together the operating and management strengths of both EXCEL and Telco. In addition to realizing opportunities in EXCEL's and Telco's core long distance business, EXCEL's access to the Telco leased network will also better position the combined company as it continues with its plans to enter the local telephone market and ultimately provide a bundled package of local, long distance and wireless services. Immediate opportunities will be created for significant savings in operating costs and capital expenditures due to Telco's existing leased network infrastructure.

The proposed Combination will also exploit the cultural and synergistic fit of the management teams of EXCEL and Telco. Combining EXCEL's network marketing organization with Telco's highly successful Dial Around marketing platform, each of which targets different segments of the residential market, along with Telco's commercial sales force, gives the new company a leadership position in alternative channels of distribution for telecommunications products and services, a diversified revenue base, and significant synergies in marketing, network performance, and operations. Significant cost savings will be realized related primarily to information systems development costs and billing expenses. Accordingly, the proposed Combination will benefit customers through improved services and lower rates, thereby promoting competition in the State of Arizona.

Conclusion

Upon review of the Arizona statutes and Commission rules, it is the understanding of the Parties that prior Commission approval is not required for the Combination and the related transactions described above. Absent receipt of written notification to the contrary within thirty (30) days, we will proceed on our understanding that no approval or other formal action with respect to the proposed Combination and related transactions is required by the Commission. This letter is forwarded to the Commission for informational purposes, to be included in the appropriate files.

Please contact the undersigned with any questions or comments regarding this transaction.

Respectfully submitted,

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