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August 18, 1997

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
Room 110, Easley Building
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

BY HAND DELIVERY

971064-TX

Dear Ms. Bayo:

Enclosed for filing on behalf of ACSI Local Switched Services, Inc. are an original and six copies of the Application for Authority to Provide Alternative Local Telecommunications Service Statewide together with attachments thereto, and a check in the amount of \$250.00 for the filing fee.

Please indicate receipt of this document by stamping the enclosed the extra copy of this letter.

Your attention to this filing is appreciated.

Sincerely,

Norman H. Horton, Jr.
Norman H. Horton, Jr.

NHH/amb
Enclosures

cc: James C. Falvey, Esq.

RECEIVED & FILED

KJ
DIVISION OF RECORDS

DOCUMENT NUMBER - DATE

08297 AUG 18 97

FPSC-RECORDS/REPORTING

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

(X) Original authority (new company)

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

() Approval of assignment of existing certificate (to a noncertificated company)
Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

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

2. Name of applicant:

ACSI Local Switched Services, Inc.

3. A. National mailing address including street name, number, post office box, city, state, zip code, and phone number.

131 National Business Parkway, Suite 100
Annapolis Junction, MD 20701
301-617-4200

B. Florida mailing address including street name, number, post office box, city, state, zip code, and phone number.

American Communication Services of Tampa, Inc.
400 N. Tampa Street, Suite 900
Tampa, FL 33602
813-277-0700

- C. Physical address of alternative local exchange service in Florida including street name, number, post office box, city, zip code and phone number.

American Communication Services of Tampa, Inc.
400 N. Tampa Street, Suite 900
Tampa, FL 33602
813-277-0700

4. Structure of organization:

<input type="checkbox"/> Individual	<input type="checkbox"/> Corporation
<input checked="" type="checkbox"/> Foreign Corporation	<input type="checkbox"/> Foreign Partnership
<input type="checkbox"/> General Partnership	<input type="checkbox"/> Limited Partnership
<input type="checkbox"/> Joint Venture	<input type="checkbox"/> Other, Please explain _____

Copy of Articles and Amendment attached.

5. If incorporated, please provide proof from the Florida Secretary of State that the application has authority to operate in Florida. (Exhibit "A").

Corporate charter number: F97000003567

6. Name under which the applicant will do business (d/b/a):

N/A

7. If applicable, please provide proof of fictitious name (d/b/a) registration.

Fictitious name registration number: N/A

8. If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.

N/A

9. State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

No

10. Please provide the name, title, address, telephone number, Internet address, facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application.

Application: Norman H. Horton, Jr.
Messer, Caparello & Self, P.A.
215 S. Monroe St., Suite 701
P.O. Box 1876
Tallahassee, FL 32302-1876
(904)222-0720
Internet Address: nhorton@lawfla.com

Ongoing: James Falvey, Esq.
American Communication Services, Inc.
131 National Business Parkway, Suite 100
Annapolis Junction, MD 20701
301-617-4200
Internet Address: jlm_falvey@corp.acsl.net

11. Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.

See Attached List (Exhibit "B").

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

No

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

No.

14. Please indicate how a customer can file a service complaint with your company.

ACSI Local Switched Services, Inc. ("ACSI") will provide switched local exchange service to primarily business customers in the Jackson, Mississippi area. Unlike traditional monopoly franchise providers of local exchange service, ACSI does not have captive customers. In the new competitive environment, every ACSI customer can lodge the ultimate complaint by taking its business elsewhere. Accordingly, ACSI believes that the competitive market will ensure that all customers are treated fairly. ACSI expects that the quality of service and customer responsiveness of both new entrants and incumbents will be significantly better than before the introduction of competition.

ACSI prides itself on its customer service and responsiveness. ACSI has a proven track record of satisfying and retaining customers that have purchased its dedicated services. ACSI brings its customer provisioning, customer service and satisfaction, and network management teams under one management umbrella. Smaller size and focused management means ACSI can pay more individual attention to customers' unique telecommunications needs.

15. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

ACSI Local Switched Services, Inc. is wholly-owned by American Communications Services, Inc. ("ACSI") a company listed on the Nasdaq exchange ACSI-LSS and has available to it the financial, managerial, and technical resources of ACSI. The officers and directors of ACSI Local Switched Services have extensive backgrounds in management and communications. More detailed information is included in the attached copies extracted from a March 12, 1997 prospectus.

- A. Financial capability. See Exhibit "C".

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements, including:

1. the balance sheet
2. income statement
3. statement of retained earnings for the most recent 3 years.

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should affirm that the financial statements are true and correct.

B. Managerial capability. See Exhibit "D".

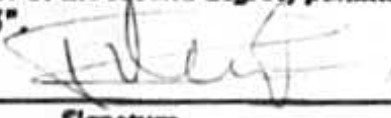
C. Technical capability. See Exhibit "E".

AFFIDAVIT

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

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

Official:


Signature

8/14/97

Date

Title:

Secretary

301-617-4200

Telephone Number

Address:

ACSI
131 National Business Pkwy., #100
Annapolis Junction, MD 20701

H:\USERS\ANN\ACSI7166\ACSIAPP

EXHIBIT "A"

State of Florida



Department of State

I certify from the records of this office that ACSI LOCAL SWITCHED SERVICES, INC., is a corporation organized under the laws of Maryland, authorized to transact business in the State of Florida, qualified on July 7, 1997.

The document number of this corporation is F97000003567.

I further certify that said corporation has paid all fees and penalties due this office through December 31, 1997, and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capitol, this the
Fifteenth day of July, 1997



CR2EO22 (2-95)

Sandra B. Northam
Secretary of State

ACSI Local Switched Services, Inc.

The nature of the business of ACSI Local Switched Services, Inc. is to engage in any one or more businesses or transactions, or to acquire all or any portion of any entity engaged in any one or more businesses or transactions which the Board of Directors may from time to time authorize or approve, whether or not related to the business described in the Articles of Incorporation or to any other business at the time or theretofore engaged in by the Corporation, and not in limitation of the general powers of corporations under the General Laws of the State of Maryland.

Directors:

Christopher L. Rafferty
Jack E. Reich
Olivier L. Trouveroy

Officers:

Anthony J. Pompliano	Chairman
Riley M. Murphy	Secretary
David L. Piazza	Chief Financial Officer
Jack E. Reich	President & Chief Executive Officer
George M. Tronsrue, III	Chief Operating Officer

Address of each Director and Officer:

131 National Business Parkway, #100
Annapolis Junction, MD 20701
Phone: 301-617-4200

EXHIBIT "B"

Dedicated and Switched Certifications Summary Status Chart

	<u>CAP/Dedicated</u>	<u>Switched</u>
<u>Alabama</u>	Granted: 2/21/96	Granted: 6/13/96
<u>Arizona</u> Joint CAP/Switched ¹	Granted: 2/19/97	Granted: 2/19/97
<u>Arkansas</u>	Granted: 9/25/95	Granted: 11/14/96
<u>Colorado</u>	Granted: 10/30/96	Granted: 10/30/96
<u>D.C.</u>	Granted: 4/22/97	Granted: 4/22/97
<u>Florida</u> Joint CAP/Switched	Granted: 9/3/96	Granted: 9/3/96
<u>Georgia</u>	Granted: 12/5/95	Granted: 6/17/96
<u>Kansas</u>	Filed: 1/24/97 Hearing: Not set Expected: Not set	Granted: 2/19/97 ²
<u>Kentucky</u> Louisville	Granted: 9/20/95	Authorized ³
Lexington	Granted: 12/21/95	
<u>Louisiana</u>	Granted: 3/27/97	Granted: 3/27/97

¹ Arizona did not require formal certification from CAPs until 1996. ACSI has been granted CAP authority under Arizona's new rules.

² Certification is conditional upon filing an effective tariff.

³ Certification is not required. ACSI has filed final tariffs. A recent order confirmed that switched certification is not required for carriers certificated to provide dedicated service, as long as tariffs are filed.

	<u>CAP/Dedicated</u>	<u>Switched</u>
<u>Maryland</u> Joint CAP/Switched	Granted: 6/19/96	Granted: 6/19/96
<u>Mississippi</u>	Granted: 10/10/96	Granted: 2/19/96
<u>Missouri</u>	Granted: 3/19/97	Granted: 3/19/97
<u>Nevada</u>	Granted: 4/1/96	Granted: 7/31/96
<u>New Mexico</u>	Granted: 2/12/96	Granted: 4/15/97*
<u>North Carolina</u>	To be filed Hearing: Not set Expected: Not set	To be filed Hearing: Not set Expected: Not set
<u>Oklahoma</u>	Granted: 3/25/97	Granted: 3/25/97
<u>South Carolina</u> Columbia/Charleston/Greenville	Granted: 8/31/95	Granted: 8/20/96
Spartanburg	Granted: 9/19/96	To be filed Hearing: Not set Expected: 5/97
<u>Tennessee</u>	Granted: 10/11/95	Granted: 10/11/95
<u>Texas</u> Irving/Amarillo	Granted: 2/12/96	Granted: 6/5/96
El Paso/Ft. Worth		Granted: 7/10/96
(Dallas: to be requested)		
<u>Virginia</u> Joint CAP/Switched	Granted: 10/18/96	Granted: 10/18/96

* ACSI was granted temporary authority by the New Mexico State

EXHIBIT "C"

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
American Communications Services, Inc.:

We have audited the accompanying consolidated balance sheets of American Communications Services, Inc. and subsidiaries as of June 30, 1995 and 1996 and December 31, 1996, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended June 30, 1995 and 1996 and the six months ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Communications Services, Inc. and subsidiaries as of June 30, 1995 and 1996 and December 31, 1996, and the results of their operations and their cash flows for the years ended June 30, 1995 and 1996 and for the six months ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ KPMG PEAT MARWICK LLP

KPMG Peat Marwick LLP

Washington, D.C.
February 14, 1997

AMERICAN COMMUNICATIONS SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
June 30, 1995 and 1996 and December 31, 1996

	June 30, 1995	June 30, 1996	December 31, 1996
Assets			
Current assets:			
Cash and cash equivalents (note 1)	\$ 20,350,791	\$134,115,981	\$ 78,618,544
Restricted cash (note 1)	752,000	2,342,152	2,342,152
Trade accounts receivable, net of allowance for doubtful accounts of \$8,600, \$189,500, and \$432,400 at June 30, 1995, June 30, 1996 and December 31, 1996, respectively	350,436	735,260	2,429,077
Other current assets	92,325	1,003,465	1,202,711
Total current assets	21,545,552	138,196,858	84,592,484
Networks, equipment and furniture, gross (note 2)	15,897,562	80,147,904	144,403,123
Less: accumulated depreciation and amortization	(330,272)	(5,408,698)	(18,320,372)
	15,567,290	76,739,266	136,082,751
Deferred financing fees, net of accumulated amortization of \$64,458, \$732,775 and \$1,070,670, at June 30, 1995, June 30, 1996 and December 31, 1996, respectively	292,113	8,354,183	8,380,283
Other assets	222,010	329,584	982,649
Total assets	\$ 37,626,965	\$223,599,891	\$240,038,167
Liabilities, Redeemable Stock, Options and Warrants, Minority Interest and Stockholders' Equity			
Current liabilities:			
Notes payable — current portion (note 4)	\$ 146,083	\$ 252,809	\$ 872,031
Accounts payable	3,843,167	21,317,346	33,587,407
Accrued financing fees	1,542,255	—	—
Accrued employee costs	856,509	774,262	2,057,187
Other accrued liabilities	1,269,484	886,692	2,074,945
Total current liabilities	7,637,498	25,251,109	38,591,570
Long term liabilities:			
Notes payable, less current portion (notes 4 and 6)	3,652,085	184,129,361	209,538,226
Dividends payable (note 3)	1,070,985	4,942,433	6,945,943
Total liabilities	12,360,568	212,302,783	255,075,740
Redeemable stock, options and warrants (notes 6, 9 and 11)	2,950,778	2,155,025	2,000,000
Minority interest (note 4)	194,402	160,270	—
Stockholders' equity (deficit) (notes 3, 4, 5 and 6):			
Preferred stock, \$1.00 par value, 186,664 shares designated as 9% Series A-1 Convertible Preferred Stock authorized, issued and outstanding at June 30, 1995, June 30, 1996 and December 31, 1996, respectively, convertible into 7,466,560 shares of common stock (notes 3 and 4)	186,664	186,664	186,664
Preferred stock, \$1.00 par value, 277,500 shares authorized and designated as 9% Series B Convertible Preferred Stock, 227,500, 277,500 and 277,500 shares issued and outstanding at June 30, 1995, June 30, 1996 and December 31, 1996, respectively, convertible into 9,910,718 shares of common stock (notes 3 and 5)	227,500	277,500	277,500
Common stock, \$0.01 par value, 75,000,000 shares authorized, 5,744,782, 6,645,691 and 6,784,996 shares issued and outstanding at June 30, 1995, June 30, 1996 and December 31, 1996, respectively (note 5)	56,827	65,837	67,850
Additional paid in capital	42,411,448	55,975,078	54,870,194
Accumulated deficit	(20,741,222)	(47,524,260)	(82,430,780)
Total stockholders' equity (deficit)	22,141,217	8,981,813	(27,037,572)
Commitments and contingencies (notes 1, 4, 6, 7, 8, and 9)			
Total liabilities, redeemable stock, options and warrants, minority interest and stockholders' equity (deficit)	\$ 37,626,965	\$223,599,891	\$240,038,167

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended		For the Six
	June 30, 1995	June 30, 1996	Months Ended December 31, 1996
Revenues (note 1)	\$ 388,887	\$ 3,415,137	\$ 6,990,452
Operating expenses:			
Network development and operations	3,282,183	5,264,570	8,703,057
Selling, general and administrative	4,597,615	13,463,775	20,269,991
Noncash stock compensation (note 6)	6,419,412	2,735,845	549,645
Depreciation and amortization	497,811	3,078,426	4,911,674
Total operating expenses	14,797,021	24,542,616	34,434,367
Non-operating income (expenses):			
Interest and other income	217,525	4,409,733	2,757,461
Interest and other expense (note 4)	(170,095)	(10,476,904)	(10,390,330)
Debt conversion expense (note 4)	(385,000)	—	—
Loss before minority interest	(14,745,704)	(27,194,650)	(35,076,784)
Minority interest	48,055	412,606	160,270
Net loss	(14,697,649)	(26,782,044)	(34,916,514)
Preferred stock dividends and accretion (note 3) ..	(1,070,985)	(3,871,328)	(2,003,630)
Net loss to common stockholders	<u>\$ (15,768,634)</u>	<u>\$ (30,653,372)</u>	<u>\$ (36,920,144)</u>
Net loss per common share	<u>\$ (3.30)</u>	<u>\$ (4.96)</u>	<u>\$ (5.48)</u>
Average number of common shares outstanding	<u>4,771,689</u>	<u>6,185,459</u>	<u>6,733,759</u>

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended June 30, 1995 and 1996 and the Six Months Ended December 31, 1996

	Preferred Stock		Series A 1 Preferred Stock		Series B Preferred Stock		Common Stock		Additional paid-in capital	Notes receivable on sale of common stock	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balances at June 30, 1994	1,700	\$ 1,700,000	—	\$ —	—	\$ —	2,755,005	\$ —	\$ 1,080,566	\$ (2,750)	\$ (6,043,573)	\$ (3,265,757)
Preferred Stock exchange (note 12)	(1,700)	(1,700,000)	—	—	—	—	548,387	—	1,700,000	—	—	—
Set par value for common stock (note 5)	—	—	—	—	—	—	—	33,033	(33,033)	—	—	—
Acquisition of Piedmont Teleport, Inc. (note 13)	—	—	—	—	—	—	62,000	—	—	—	—	—
Write-off of note receivable for common stock	—	—	—	—	—	—	—	—	(2,750)	2,750	—	—
Series A Preferred private placement, net of related costs (note 3)	—	—	186,664	186,664	—	—	—	—	15,009,461	—	—	15,196,125
Series B Preferred private placement, net of related costs (note 3)	—	—	—	—	227,500	227,500	—	—	20,434,000	—	—	20,661,500
Issuance of put right obligations (notes 6 and 9)	—	—	—	—	—	—	—	—	(53,303)	—	—	(53,303)
Cancellation of put right obligation (note 9)	—	—	—	—	—	—	—	—	487,500	—	—	487,500
Warrant and stock option exercises and stock grant (note 6)	—	—	—	—	—	—	2,379,390	23,794	349,030	—	—	372,824
Establish limitation on common stock put right obligation (note 6)	—	—	—	—	—	—	—	—	4,510,962	—	—	4,510,962
Series A Preferred Stock dividends accrued (note 3)	—	—	—	—	—	—	—	—	(1,070,985)	—	—	(1,070,985)
Net loss	—	—	—	—	—	—	—	—	—	—	(14,697,649)	(14,697,649)
Balances at June 30, 1995	—	\$ —	186,664	\$ 186,664	227,500	\$ 227,500	5,744,782	\$ 56,827	\$ 42,411,448	\$ —	\$ (20,741,222)	\$ 22,141,217
Issuance of Series B-4 Preferred Stock (note 3)	—	—	—	—	50,000	50,000	—	—	4,950,000	—	—	5,000,000
Issuance of detachable warrants (notes 4 and 6)	—	—	—	—	—	—	—	—	8,684,000	—	—	8,684,000
Warrants and stock options exercised (note 6)	—	—	—	—	—	—	900,909	9,010	289,360	—	—	298,370
Series A and B Preferred Stock dividends accrued (note 3)	—	—	—	—	—	—	—	—	(3,871,328)	—	—	(3,871,328)
Cancellation of and adjustments to put right obligations (note 6)	—	—	—	—	—	—	—	—	775,753	—	—	775,753
Stock compensation expense	—	—	—	—	—	—	—	—	2,735,845	—	—	2,735,845
Net loss	—	—	—	—	—	—	—	—	—	—	(26,782,044)	(26,782,044)
Balances at June 30, 1996	—	\$ —	186,664	\$ 186,664	277,500	\$ 277,500	6,645,691	\$ 65,837	\$ 55,975,078	\$ —	\$ (47,523,266)	\$ 8,981,813
Warrants and stock options exercised (note 6)	—	—	—	—	—	—	139,305	1,393	175,945	—	—	177,338
Series A and B Preferred Stock dividends accrued (note 3)	—	—	—	—	—	—	—	—	(2,003,630)	—	—	(2,003,630)
Accretion of consulting agreement credit to exercise price of warrants (note 9)	—	—	—	—	—	—	—	—	18,750	—	—	18,750
Cancellation of and adjustments to put right obligations (note 6)	—	—	—	—	—	—	—	620	154,405	—	—	155,025
Stock compensation expense	—	—	—	—	—	—	—	—	549,646	—	—	549,646
Net loss	—	—	—	—	—	—	—	—	—	—	(34,916,514)	(34,916,514)
Balances at December 31, 1996	—	\$ —	186,664	\$ 186,664	277,500	\$ 277,500	6,784,996	\$ 67,850	\$ 54,870,194	\$ —	\$ (82,439,780)	\$ (27,037,572)

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended		For the Six Months Ended
	June 30, 1995	June 30, 1996	December 31, 1996
Cash flows from operating activities:			
Net loss	\$(14,697,649)	\$(26,782,044)	\$(34,916,514)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	497,811	5,078,426	4,911,674
Interest deferral and accretion	—	10,447,687	10,041,189
Amortization of deferred financing fees	523,900	668,317	534,671
Provision for doubtful accounts	8,570	180,940	242,915
Loss from impairment of assets	—	—	318,737
Loss attributed to minority interest	(48,055)	(412,606)	(160,270)
Noncash compensation, consultants and other expenses	6,419,412	2,735,845	549,645
Accretion of consulting agreement credit to exercise price of warrants	—	—	18,750
Noncash debt conversion expense	385,000	—	—
Changes in operating assets and liabilities:			
Trade accounts receivable	(359,007)	(565,764)	(1,936,732)
Restricted cash related to operating activities	200,000	—	—
Other current assets	(92,325)	(911,140)	(199,246)
Other assets	(26,545)	(107,574)	(653,065)
Accounts payable	3,170,885	17,474,179	12,270,061
Accrued financing fees	1,542,255	(1,542,255)	—
Accrued employee costs	719,353	(62,247)	1,282,925
Other accrued liabilities	1,055,673	(382,792)	1,188,253
Net cash (used in) provided by operating activities	(900,742)	3,818,972	(6,707,007)
Cash flows from investing activities:			
Purchase of net assets of Piedmont Teleport, Inc.	(19,135)	—	—
Purchase of equipment and furniture	(306,454)	(2,966,987)	(1,827,119)
Restricted cash related to network activities	(752,000)	(1,590,152)	—
Network development costs	(14,996,303)	(57,889,227)	(62,746,777)
Net cash used in investing activities	(16,073,892)	(62,446,366)	(64,573,896)
Cash flows from financing activities:			
Issuance of notes payable	3,510,349	166,888,210	16,329,923
Payment of deferred financing fees	(510,175)	(8,710,387)	(380,771)
Warrant and stock option exercises	372,824	298,370	177,338
Issuances of Series A Preferred Stock, net of offering costs and conversion of bridge financing	10,962,046	—	—
Issuances of Series B Preferred Stock, net of offering costs	20,661,500	5,000,000	—
Issuance of warrants with 2005 Notes	—	8,684,000	—
Issuance of notes payable — stockholders	250,000	—	—
Proceeds from sale of minority interest in subsidiaries	242,457	378,474	—
Payment of equipment financing	—	—	(343,024)
Payments of notes payable — stockholders	(481,692)	(146,083)	—
Payments of bridge notes	(1,000,000)	—	—
Payments of secured note	(75,000)	—	—
Payments of secured convertible notes	(77,281)	—	—
Net cash provided by financing activities	34,055,028	172,392,584	15,785,466
Net (decrease) increase in cash and cash equivalents	17,080,394	113,765,190	(55,497,437)
Cash and cash equivalents, beginning of year	\$ 3,270,397	\$ 20,350,791	\$ 34,115,981
Cash and cash equivalents, end of year	\$ 20,350,791	\$ 134,115,981	\$ 78,618,544
Supplemental disclosure of cash flow information — interest paid on all debt obligations	\$ 219,554	\$ 29,217	\$ 14,470
Supplemental disclosure of noncash investing and financing activities			
Equipment financing	\$ —	\$ 343,024	\$ —
Dividends declared in connection with Series A Preferred Stock	\$ 1,070,985	\$ 3,871,328	\$ 2,003,630
Bridge financing, secured convertible notes, and notes payable — stockholders converted to equity in connection with private placements	\$ 4,080,079	\$ —	\$ —
Cancellation of and adjustments to put right obligations	\$ (487,500)	\$ (775,753)	\$ (155,025)
Write off of note receivable from sale of common stock	\$ 2,750	\$ —	\$ —
Preferred stock exchange	\$ 1,700,000	\$ —	\$ —
Purchase of Piedmont Teleport, Inc. for common stock and related put right obligation	\$ 192,303	\$ —	\$ —
Negotiation of right-of-way agreement for option discount	\$ 201,000	\$ —	\$ —

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1995 and 1996 and December 31, 1996

(1) Basis of Presentation and Related Matters

Fiscal Year

Effective December 31, 1996, the Company changed its fiscal year from a twelve month period ending June 30 to a twelve-month period ending December 31. The consolidated statements of operations, stockholders' equity (deficit) and cash flows are presented for the twelve month period ended June 30, 1995, the twelve month period ended June 30, 1996 and the six month period ended December 31, 1996.

The Unaudited Condensed Consolidated Statement of Operations information for the six months ended December 31, 1995 is as follows:

Revenues	\$ 988,877
Operating expenses	7,966,463
Non-operating expenses	<u>2,057,410</u>
Loss before minority interest	(9,034,996)
Minority interest	<u>155,861</u>
Net loss	(8,879,135)
Preferred stock dividends and accretion	<u>(1,854,495)</u>
Net loss to common stockholders	<u>(10,733,630)</u>
Net loss per common share	(1.82)
Average number of common shares outstanding	<u>5,900,606</u>

Organization

The consolidated financial statements include the accounts of American Communications Services, Inc. and its majority-owned subsidiaries (ACSI or the Company). As discussed in note 4 to the consolidated financial statements, all of the Company's subsidiaries are wholly owned with the exception of the Louisville, Fort Worth, El Paso, Greenville, and Columbia subsidiaries, in which the Company has a 92.75% controlling ownership interest. All material intercompany accounts and transactions have been eliminated in consolidation.

Business and Operating Environment

ACSI constructs and operates digital fiber optic networks and offers local telecommunications services to long distance companies and business and government end users in selected target markets, principally in the southern United States. The Company provides nonswitched dedicated services, including special access, switched transport and private line services. In addition to these dedicated services, the Company is developing and has begun offering high speed data services to business, government and other communications carriers, including Internet service providers. The Company has also begun offering, on a limited basis, enhanced voice messaging services and plans to begin offering local switched voice services in the future. The Company is a competitive local exchange carrier and is referred to as a competitive access provider with respect to provision of dedicated services.

To date, the Company has funded the construction of its networks and its operations with external financing. Prior to November 1995, the primary sources of funds were two Preferred Stock private offerings completed in October 1994 and June 1995 (see note 3), and a credit facility from AT&T

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(1) Basis of Presentation and Related Matters — (Continued)

Credit Corporation (see note 4). During the fiscal year ended June 30, 1996, the Company raised additional funds through an additional sale of Preferred Stock (see note 3), two private offerings of Senior Notes, one of which included detachable warrants and further borrowings under the AT&T Credit Corporation Credit Facility (see note 4).

The Company has never been profitable, has never generated positive cash flow from consolidated operations and, since its inception has incurred significant net operating losses and negative cash flow. In accordance with the terms of its debt facilities the Company has also deferred payment of most of its interest charges. The Company's continued development, construction, expansion, operation and potential acquisition of local networks, as well as the further development of new services, including local switched voices and high-speed data services, will require substantial capital expenditures. The Company's ability to fund these expenditures is dependent upon the Company's raising substantial financing. To meet its remaining capital requirements and to fund operations and cash flow deficiencies, ACSI will be required to sell additional equity securities, increase its existing credit facility, acquire additional credit facilities or sell additional debt securities, certain of which would require the consent of the Company's debtholders. Before incurring additional indebtedness, the Company may be required to seek additional equity financing to maintain balance sheet and liquidity ratios under certain of its debt instruments. There can be no assurance that the Company will be able to obtain the additional financing necessary to satisfy its cash requirements or to successfully implement its growth strategy. Failure to raise sufficient capital could compel the Company to delay or abandon some or all of its plans or expenditures, which could have a material adverse effect on its business, results of operations and financial condition.

Cash Equivalents and Restricted Cash

Pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company's short and long-term debt securities and marketable equity securities are accounted for at market value. The fair market value of short and long term investments is determined based on quoted market prices for those investments. The Company's marketable securities have been classified as available for sale and are recorded at current market value with an offsetting adjustment to stockholders' equity (deficit).

The Company's investments consist of commercial paper, U.S. Government Securities and money market instruments, all with original maturities of 90 days or less. The fair market value of such securities approximates amortized cost. At June 30, 1995 and 1996 and December 31, 1996, cash equivalents consists of government securities and overnight investments.

The Company has provided performance bonds and letters of credit in various cities in connection with its operations, resulting in a restriction of cash amounting to \$752,000, \$2,342,000 and \$2,342,000 at June 30, 1995, June 30, 1996 and December 31, 1996, respectively. The face amount of all bonds and letters of credits was approximately \$6,200,000 as of December 31, 1996.

Networks, Equipment and Furniture

Networks, equipment and furniture are stated at cost less accumulated depreciation and amortization. Costs capitalized during the network development stage include expenses associated with network engineering, design and construction, negotiation of rights of way, obtaining legal and regulatory authorizations and the amount of interest costs associated with the network development.

AMERICAN COMMUNICATIONS SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(1) Basis of Presentation and Related Matters — (Continued)

Provision for depreciation of networks, equipment and furniture is computed using the straight-line method over the estimated useful lives of the assets beginning in the month a network is substantially complete and available for use and equipment and furniture are acquired.

The estimated useful lives of the Company's principal classes of assets are as follows:

Networks:	
Fiber optic cables and installation costs	20 years
Telecommunications equipment	3-7 years
Interconnection and collocation costs	3-10 years
Leasehold improvements	Life of lease
Furniture and fixtures	5 years
Capitalized network development costs	3-20 years

The Company adopted the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" on January 1, 1996. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

Deferred Financing Fees

Deferred financing fees include commitment fees and other costs related to certain debt financing transactions and are being amortized using the effective interest method over the initial term of the related debt.

Revenue Recognition

Revenue is recognized as services are provided. Billings to customers for services in advance of providing such services are deferred and recognized as revenue when earned. The Company also enters into managed services agreements with certain customers. Under such agreements the Company provides use of Company owned equipment, collocation and network access services. Revenue is recognized on a monthly basis as these services are provided to the customer.

Earnings (Loss) Per Common Share

The computation of earnings (loss) per common share is based upon the weighted average number of common shares outstanding. The effect of including common stock options and warrants as common stock equivalents would be anti-dilutive and is excluded from the calculation of loss per common share.

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(1) Basis of Presentation and Related Matters — (Continued)

Income Taxes

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and loss carryforwards and tax credit carryforwards for which income tax benefits are expected to be realized in future years. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that all, or some portion, of such deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Reclassifications

Certain reclassifications have been made to the June 30, 1995 and 1996 consolidated financial statements to conform to the December 31, 1996 presentation. Such reclassifications had no effect on net loss or total stockholders' equity (deficit).

Stock Option Plan

Prior to July 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees"; and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On July 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock Based Compensation"; which permits entities to recognize as expense over the vesting period the fair value of all stock based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosure for employee stock option grants as if the fair-value based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Concentration of Credit Risk

The Company receives a significant portion of its revenues from a small number of major customers, particularly the long distance telecommunications companies that service the Company's markets. For the years ended June 30, 1995 and June 30, 1996 and the six months ended December 31, 1996 approximately 85%, 60% and 40% of the Company's revenues were attributable to services provided to three, four and four of the largest long distance telecommunications companies, respectively. The loss of any one of these customers could have an adverse material impact on the Company's revenues.

The Company provides managed services to certain Internet service providers. Such companies operate in a highly competitive and uncertain environment. Approximately 19% of the Company's

AMERICAN COMMUNICATIONS SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(1) Basis of Presentation and Related Matters — (Continued)

revenues for the six months ended December 31, 1996 were attributed to these companies. At December 31, 1996, the Company had trade accounts receivable of \$923,000 from Internet service providers. The Company also has approximately \$4.5 million in equipment dedicated to providing service to these companies. The Company believes that, if necessary, this equipment could be redeployed throughout the Company's data network.

(2) Networks, Equipment and Furniture

Networks, equipment and furniture consists of the following:

	<u>June 30, 1995</u>	<u>June 30, 1996</u>	<u>December 31, 1996</u>
Networks and telecommunications equipment	\$15,570,450	\$76,853,865	\$139,129,495
Furniture and fixtures	188,534	1,982,910	3,334,147
Computer software	56,485	948,848	1,558,384
Leasehold improvements	<u>82,093</u>	<u>362,341</u>	<u>381,097</u>
	15,897,562	80,147,964	144,403,123
Less — accumulated depreciation and amortization	<u>330,272</u>	<u>3,408,698</u>	<u>8,320,372</u>
Total, net of accumulated depreciation and amortization	<u>\$15,567,290</u>	<u>\$76,739,266</u>	<u>\$136,082,751</u>

For the years ended June 30, 1995 and 1996, the Company capitalized interest of approximately \$536,000 and \$3,051,000, respectively. For the six months ended December 31, 1996, the Company capitalized interest of approximately \$2,268,000.

(3) Private Placements

In October 1994, the Company completed a private placement of its 9% Series A Convertible Preferred Stock, \$1.00 par value (the "Series A Preferred Stock"). There were 138,889 shares issued for cash at \$90 per share resulting in proceeds of \$10,962,046, net of placement agent commissions and related placement fees and costs.

In addition, bridge financing was converted and several other obligations were retired with proceeds of the offering. See note 4 to the consolidated financial statements. Further, as discussed in note 6 to the consolidated financial statements, certain parties obtained warrants to purchase shares of the Company's common stock. In June 1995, the Series A Preferred Stock was exchanged for an identical number of 9% Series A-1 Convertible Preferred Stock, \$1.00 par value. (the "Series A-1 Preferred Stock").

In June 1995, the Company completed a private placement of its 9% Series B-1 Convertible Preferred Stock (the "Series B-1 Preferred"), 9% Series B-2 Convertible Preferred Stock (the "Series B-2 Preferred") and 9% Series B-3 Convertible Preferred Stock (the "Series B-3 Preferred"), each having a par value of \$1.00 per share. There were 227,500 shares issued for cash at \$100 per share with proceeds of \$20,661,500, net of placement agent commissions and related placement fees and costs. In November 1995, 50,000 shares of 9% Series B-4 Convertible Preferred Stock (the "Series B-4 Preferred") were issued for cash of \$100 per share resulting in proceeds of \$5,000,000. The Series B-1 Preferred, the Series B-2 Preferred, the Series B-3 Preferred and the Series B-4 Preferred

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(3) Private Placements — (Continued)

are hereafter collectively referred to as the "Series B Preferred Stock." The Series A-1 Preferred Stock and the Series B Preferred Stock are hereafter collectively referred to as the "Preferred Stock." Further, as discussed in note 6 to the consolidated financial statements, certain parties obtained warrants to purchase shares of the Company's common stock.

The Company's Preferred Stock and common stock vote as a single class (except with respect to the election of directors and certain other transactions and matters) with the common stock entitled to one vote per share and the Preferred Stock entitled to one vote for each share of common stock into which it is convertible. At December 31, 1996, the outstanding Series A-1 Preferred Stock was convertible into 7,466,560 shares of common stock and the outstanding Series B Preferred Stock was convertible into 9,910,704 shares of common stock.

Pursuant to the Company's certificate of incorporation, the board of directors is currently comprised of seven directors. The holders of common stock are entitled to elect four directors and the holders of the Preferred Stock are entitled to elect three directors. In addition, certain transactions and matters require the consent of the holders of at least 75% of the shares of Preferred Stock voting as a separate class.

Certain holders of the Company's Preferred Stock and common stock have entered into a Voting Rights Agreement pursuant to which such stockholders have agreed to vote their shares of Preferred Stock and common stock for the election of directors designated by the majority Preferred stockholders.

In connection with its Series A-1 and Series B Preferred Stock, the Company has recorded approximately \$1,071,000, \$4,942,000 and \$6,946,000 as of June 30, 1995, June 30, 1996 and December 31, 1996, respectively, as a reduction in additional paid-in capital, for the payment of anticipated dividends. The Company's certificate of incorporation requires the Company to accrue dividends, on a quarterly basis, at an annual rate of 9% of the face value of the Series A-1 and B Preferred Stock.

Although the Board of Directors of the Company has not taken any formal action as of December 31, 1996, as a condition of the aforementioned provisions of the certificate of incorporation, the dividends have been deemed declared and properly reflected in the accompanying consolidated financial statements. Pursuant to the Company's certificate of incorporation, dividends accrued shall be paid cumulatively, beginning January 1, 1998, or earlier upon conversion. Upon a voluntary conversion on or before December 31, 1997, the Company shall, in lieu of accrued and unpaid dividends, issue promissory notes to the holders of the Preferred Stock. The Company expects to issue promissory notes to the holders on January 1, 1998 for dividends accrued, if conversion has not occurred, subject to restrictions included in the Senior Discount Note Indentures. Conversion may occur at any time at the holder's option or automatically, upon a certain qualifying issuance of common stock. As of December 31, 1996, no conversions had occurred.

AMERICAN COMMUNICATIONS SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(4) Debt

Long-term debt consists of the following.

	<u>June 30, 1995</u>	<u>June 30, 1996</u>	<u>December 31, 1996</u>
Notes payable-stockholders at 10-15%, maturing September 15, 1995.....	\$ 146,083	—	—
AT&T Credit Corporation equipment and working capital financing facility	3,652,085	\$ 14,971,122	\$ 30,183,264
2006 Senior Discount notes, interest at 12%, maturing April 1, 2006	—	66,635,887	70,824,922
2005 Senior Discount notes, interest at 13% maturing November 1, 2005.....	—	102,432,137	109,402,071
Secured equipment note payable, interest of 9.98%, payable in 36 equal monthly installments of \$2,766, including interest commencing March 1, 1996	—	343,024	—
Total long-term debt	<u>3,798,168</u>	<u>184,382,170</u>	<u>210,410,257</u>
Less current portion	<u>146,083</u>	<u>252,809</u>	<u>872,031</u>
	<u>\$3,652,085</u>	<u>\$184,129,361</u>	<u>\$209,538,226</u>

Principal payments for each of the years from 1997 to 2001 and thereafter, are due as follows at December 31, 1996:

<u>Year ending December 31,</u>		
1997.....		\$ 872,031
1998.....		1,190,150
1999.....		2,124,721
2000.....		3,250,483
2001.....		4,618,260
Thereafter.....		<u>198,354,612</u>
		<u>\$210,410,257</u>

Notes Payable — Stockholders

At June 30, 1995, the Company had a total of \$146,083 in notes payable to stockholders which matured and were repaid on September 14, 1995.

AT&T Credit Corporation Equipment and Working Capital Financing Facility

In October 1994, the Company entered into the AT&T Credit Facility pursuant to which AT&T Credit Corporation has agreed to provide financing for the development and construction of fiber optic networks by certain of the Company's subsidiaries. In accordance with the terms of the facility, the Company is obligated to use at least 10% of the borrowed funds for purchases of equipment manufactured by AT&T or its affiliates. Pursuant to the AT&T Credit Facility, during fiscal 1995 the Company's subsidiaries in Louisville, Fort Worth, Greenville and Columbia entered into loan agreements with AT&T Credit Corporation providing for up to \$19.8 million in loans collateralized by the assets of such subsidiaries. As of June 30, 1995, an aggregate of approximately \$3.7 million had been borrowed under these agreements. Subsequent to June 30, 1995, the Company's

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(4) Debt — (Continued)

subsidiary in El Paso entered into a separate loan agreement with AT&T Credit Corporation pursuant to the AT&T Credit Facility providing for up to an aggregate of approximately \$5.5 million in loans collateralized by its assets. During the fiscal year ended June 30, 1996, the existing loan agreements were amended to increase the aggregate credit available under such agreements to \$31.2 million. As of June 30, 1996 and December 31, 1996, outstanding borrowings under the AT&T Credit Facility totaled approximately \$15 million and \$30 million, respectively, including accrued interest of approximately \$1.4 million and \$2.7 million, respectively. Interest rates currently applicable to the loans range from 11.93% to 14.47%.

The loans under the AT&T Credit Facility are collateralized by all of the assets of the respective borrowing subsidiary, including its installed fiber optic system and other equipment. The principal is payable in 28 consecutive quarterly installments, beginning with the ninth quarter after the date of the loan. The principal may be prepaid in certain circumstances, and must be prepaid along with a premium in other circumstances. Interest is due quarterly. At the borrowing subsidiary's option, the interest rate may be fixed or variable. The borrowing subsidiary has a one-time option to convert all variable rate loans to fixed rate loans. Upon certain events of default, additional interest ranging from 2% to 4% will become payable. Interest may generally be deferred so long as it would not cause the outstanding principal balance to exceed the commitment amounts for Capital Loans and for Equipment Loans (as defined in the loan documents). To date, the Company has elected to defer all interest due under the loans. In addition, the AT&T Credit Facility includes covenants, some of which impose certain restrictions on the Company and its restricted subsidiaries including restrictions on the declaration or payment of dividends, the conduct of certain activities, certain capital expenditures, the creation of additional liens or indebtedness, the disposition of assets, transactions with affiliates and extraordinary corporate transactions. The AT&T Credit Facility imposes restrictions on the ability of those subsidiaries of ACSI that incur indebtedness thereunder to transfer funds to ACSI in the form of dividends or other distributions. The AT&T Credit Facility also imposes restrictions on the ability of such subsidiaries to raise capital by incurring additional indebtedness. These restrictions could limit ACSI's ability to meet its obligations with respect to the 2005 and 2006 Senior Discount Notes.

Pursuant to the AT&T Credit Facility, AT&T Credit Corporation purchased 7.25% of the outstanding capital stock of each of the Company's operating subsidiaries for which it provided financing. The Company was required to pledge its interest in these subsidiaries to AT&T Credit Corporation as a condition to each loan. Under certain circumstances, this pledge agreement also restricts the Company's ability to pay dividends on its capital stock.

2005 Senior Discount Notes and 2006 Senior Discount Notes

On November 14, 1995, the Company completed an offering of 190,000 Units (the "Units") consisting of \$190,000,000 principal amount of 13% Senior Discount Notes due 2005 (the "2005 Notes") and warrants to purchase 2,432,000 shares of the Company's common stock at a price of \$7.15 per share (the "Warrants"). The 2005 Notes will accrete at a rate of 13% compounded semi-annually to an aggregate principal amount of \$190,000,000 by November 1, 2000. Thereafter, interest on the 2005 Notes will accrue at the annual rate of 13% and will be payable in cash semi-annually. The Company received net proceeds of approximately \$96,105,000 from the sale of the Units. The value ascribed to the Warrants was \$8,684,000.

On March 21, 1996, the Company completed an offering of \$120,000,000 of 12 3/4% Senior Discount Notes due 2006 (the "2006 Notes") resulting in net proceeds of approximately \$61,800,000. The

AMERICAN COMMUNICATIONS SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(4) Debt — (Continued)

2006 Notes will accrete at a rate of 12½% compounded semi-annually, to an aggregate principal amount of \$120,000,000 by April 1, 2001. Thereafter, interest on the 2006 Notes will accrue at the annual rate of 12½% and will be payable in cash semi-annually on April 1 and October 1, commencing on October 1, 2001. The 2006 Notes will mature on April 1, 2006.

The 2005 Notes and 2006 Notes (collectively the "Notes") are general, unsubordinated and unsecured obligations of the Company. The Company's subsidiaries have no obligation to pay amounts due on the Notes and do not guarantee the notes. Therefore, the Notes are effectively subordinated to all liabilities of ACSI's subsidiaries, including trade payables. Any rights of the Company and its creditors, including the holders of the Notes, to participate in the assets of any of the Company's subsidiaries upon any liquidation or reorganization of any such subsidiaries will be subject to the prior claims of that subsidiary's creditors.

The Notes are subject to certain covenants which, among other things, restrict the ability of ACSI and certain of its subsidiaries to incur additional indebtedness, pay dividends or make distributions.

Debt Conversion

On June 28, 1994, the Company issued a total of \$4,300,720 principal of its 15 percent convertible bridge notes due December 31, 1994, including \$1,300,720 issued to then existing stockholders. During 1995, the holders of \$3,300,720 of these convertible bridge notes converted the notes plus accrued interest thereon of \$35,754 into 37,073 shares of Series A Preferred Stock. The remaining \$1,000,000 principal amount was retired by cash payment from the proceeds of the Series A Preferred Stock private offering (see note 3). The Company recorded noncash debt conversion expense of \$231,000 associated with the related unamortized financing fees.

At June 30, 1994, the Company had outstanding loans from affiliates with an aggregate principal balance of \$606,640, which were notes secured by certain assets of the Company. These loans bore interest at 15% per annum and had a scheduled maturity date of December 31, 1994.

In October 1994, the holders of \$529,359 principal amount of these notes, plus accrued interest thereon of \$29,368, converted the notes into 7,924 shares of Series A Preferred Stock. The remaining principal on the secured convertible notes of \$77,281 was retired by a cash payment from the proceeds of the Series A Preferred Stock private placement offering (see note 3). The Company recorded noncash debt conversion expense of \$154,000 equal to the premium to induce conversion.

In August 1994, the Company borrowed \$250,000, at a rate of 15% per annum from an affiliate that was payable on demand. In October 1994, this note was converted into 2,778 shares of Series A Preferred Stock.

(5) Stockholders' Equity (Deficit)

Common Stock

In fiscal 1995, the Company established a par value of \$.01 for its issued and outstanding common stock.

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(5) Stockholders' Equity — (Continued)

Preferred Stock

Pursuant to the Series B Preferred Stock offerings, as described in note 3, four classes of Series B Preferred Stock have been designated and issued. The composition of the Series B Preferred Stock at December 31, 1996 is as follows:

Preferred Stock, \$1.00 par value, 100,000 shares designated as 9% Series B-1 Convertible Preferred Stock authorized, issued and outstanding	\$100,000
Preferred Stock, \$1.00 par value, 102,500 shares designated as 9% Series B-2 Convertible Preferred Stock authorized, issued and outstanding	102,500
Preferred Stock, \$1.00 par value, 25,000 shares designated as 9% Series B-3 Convertible Preferred Stock authorized, issued and outstanding	25,000
Preferred Stock, \$1.00 par value, 50,000 shares designated as 9% Series B-4 Convertible Preferred Stock authorized, issued and outstanding	50,000
Total	<u>\$277,500</u>

(6) Stock Options and Stock Purchase Warrants

The Company has a stock option plan which provides for the granting of options to officers, employees, directors and consultants of the Company to purchase shares of its common stock within prescribed periods.

In 1994, the Company entered into employment agreements with five executive officers. Pursuant to the agreements, as amended, such officers have been granted options to purchase an aggregate of 4,149,834 shares of common stock of the Company at exercise prices ranging from \$.875 to \$3.40 per share. The options vest at various dates as specified in the employment agreements with 4,069,834 of the options vesting on specific dates ranging from November 1, 1993 to November 4, 2001, and 80,000 of such options which vested upon the occurrence of certain specified performance milestones. When the employment of these individuals with the Company terminates, these individuals have the right to sell certain of their shares to the Company (the put right) for a price equal to fair market value. On June 26, 1995, the employment agreements were amended to limit the purchase price paid by the Company pursuant to the put right to a maximum of \$2,500,000, which amount is subject to further reductions based on the employees' sales of stock. During the year ended June 30, 1996, the limit was further reduced to \$2,000,000.

The Company has also issued 500,000 options to a supplier to purchase stock at 90% of the fair value at the date of exercise. Such options give the supplier the right to sell the stock acquired back to the Company at fair value under certain circumstances. None of the options have been exercised to date and they expire in December, 1997.

The Company applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, compensation cost has been recognized for its stock option plans based on the intrinsic value of the option at the date of grant. The compensation cost that has been charged against income was approximately \$6.4 million, \$2.7 million and \$550,000 for the years ended June 30, 1995 and June 30, 1996 and for the six months ended December 31, 1996, respectively. Had compensation cost for the Company's plan been determined based on the fair value at the grant dates consistent with the method of FASB Statement 123 for all options granted after June 30, 1995, and the intrinsic

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(6) Stock Options and Stock Purchase Warrants — (Continued)

value for all options granted prior to July 1, 1995, the Company's net loss and loss per share would have been reduced to the pro forma amounts indicated below:

		Year Ended June 30, 1996	Six Months Ended December 31, 1996
Net loss	As reported:	\$(26,782,044)	\$(34,916,514)
	Pro forma:	(27,533,636)	(36,828,677)
Loss per common share.....	As reported:	(4.96)	(5.48)
	Pro forma:	(5.08)	(5.77)

Pro forma net loss reflects compensation cost under SFAS No. 123 only for options granted for the year ended June 30, 1996 and for the six months ended December 31, 1996. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net loss amounts presented above because compensation cost is reflected over the vesting period and compensation cost under SFAS No. 123 for options granted prior to July 1, 1995 is not considered.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in the year ended June 30, 1996 and the six months ended December 31, 1996, respectively: dividend yield of 0% for both periods; expected volatility of 50% and 50%, risk-free interest rates of 5.97% and 6.4% and expected lives of 4.74 and 4.37 years.

A summary of the status of the Company's stock options as of June 30, 1995, June 30, 1996 and December 31, 1996 and changes during the period ending on those dates is presented below:

	Years Ended				Six Months Ended	
	June 30, 1995		June 30, 1996		December 31, 1996	
	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
Outstanding at beginning of year	859	\$2.22	5,042	\$1.72	6,095	\$2.21
Granted	4,283	1.64	1,228	4.30	1,433	9.45
Exercised	—	—	(105)	2.46	(48)	2.02
Forfeited	(100)	2.51	(70)	3.57	(23)	3.54
Outstanding at end of year	5,042	1.72	6,095	2.21	7,457	3.60
Options exercisable at year-end	2,387		3,461		4,140	
Weighted average fair value of options granted during the year		\$ 1.16		\$ 3.35		\$ 5.95

The following table summarizes information about fixed stock options at December 31, 1996:

Range Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/96	Weighted-Average Exercisable Price
\$0.875 to 2.25 ..	4,038,777	2.2 years	\$ 1.46	3,596,275	\$1.35
2.80 to 4.78 ...	1,672,974	3.4	3.31	496,058	3.21
6.00 to 9.375 ...	1,662,000	4.7	8.53	47,500	6.00
15.00	83,334	4.9	15.00	—	—
\$0.875 to 15.00..	7,457,085	3.1	3.60	4,139,833	1.64

AMERICAN COMMUNICATIONS SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(6) Stock Options and Stock Purchase Warrants — (Continued)

During fiscal years ended June 30, 1995 and 1996, in connection with the Series A 1 and Series B Preferred Stock private placements and related bridge note conversions, warrants for 4,367,078 shares of common stock were issued at prices ranging from \$.01 to \$3.10. In fiscal 1996, as part of the issuance of the 2005 Notes, detachable warrants to purchase 2,432,000 shares of the Company's common stock at a price of \$7.15 per share were issued. These warrants include certain anti-dilution provisions.

At December 31, 1996, unexercised warrants outstanding are as follows

	<u>Number</u>	<u>Price Per Share</u>
Series A and Series B Preferred Stock placements ...	1,474,836	\$0.01-3.10
2005 Senior Discount Notes offering	2,432,000	7.15
Other	<u>865,000</u>	<u>0.01-9.68</u>
Total	<u>4,771,836</u>	<u>\$0.01-9.68</u>

The gross proceeds that would be received by the Company on the exercise of all outstanding options and warrants is approximately \$53,400,000.

(7) Commitments and Contingencies

Certain Agreements

The Company has signed nonexclusive license agreements with various utility and inter exchange carrier companies, including an affiliate of one of the country's three largest long distance carriers, to install and maintain fiber cable systems for the Company's use for periods up to 15 years or more, upon exercising of extensions available to the parties. Under these agreements, the Company has use of these rights-of-way for its telecommunications systems, and may be entitled to certain payments for providing telecommunications service, subject to its satisfactory performance of certain agreed upon requirements.

Retirement Plan

On February 1, 1996, the Company began sponsoring the American Communications Services, Inc. 401(k) Plan (the "Plan"), a defined contribution plan. All individuals employed on February 1, 1996 were eligible to participate. Participation to all other employees is available after three months of full-time equivalent service. The Company contributions under the Plan are discretionary and may be as much as 6% of an employee's gross compensation subject to certain limits. Total expense under the Plan amounted to approximately \$30,000 and \$95,000 for the year ended June 30, 1996 and for the six months ended December 31, 1996, respectively.

Legal Proceedings

On July 24, 1996, the Company was named as a codefendant in a lawsuit arising from a personal injury sustained during the construction of one of its networks. At the time of the incident giving rise to the lawsuit, the plaintiff was an employee of a subcontractor hired by the Company's general contractor for the construction project. The lawsuit seeks recovery from the Company and the general contractor of at least \$25 million plus punitive damages. The Company, the general contractor, and the Company's insurance carrier have begun investigations into the facts surrounding the incident and intend to defend against this suit vigorously.

AMERICAN COMMUNICATIONS SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(7) Commitments and Contingencies — (Continued)

In addition, the Company is a party to certain litigation and regulatory proceedings arising in the ordinary course of business. In the opinion of management, based upon the advice of counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position.

(8) Leases

The Company is obligated under various noncancelable operating leases for office and node space as well as office furniture. The minimum future lease obligations under these noncancelable operating leases as of December 31, 1996 are approximately as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
1997.....	\$ 3,980,000
1998.....	4,320,000
1999.....	4,560,000
2000.....	4,051,000
2001.....	3,078,000
Thereafter.....	13,640,000
	<u>\$33,629,000</u>

Rent expense for the years ended June 30, 1995 and June 30, 1996 and for the six months ended December 31, 1996 was approximately \$200,000, \$1,166,000 and \$1,700,000, respectively.

(9) Related-Party Transactions

In October 1993, the Company executed a financial consulting and advisory agreement with a related party for a period of six months. In consideration, the related party received warrants to purchase 300,000 shares of ACSI common stock exercisable at \$.875 per share if a future equity financing was successfully completed. The related party had the right to resell the shares to ACSI for \$2.50 per share two years from the date of the agreement. At June 30, 1994, the Company provided an accrual of \$487,500 for this redemption privilege at the redemption price net of the exercise price. In June 1995, the Company's obligations to repurchase the shares were assumed by a stockholder of the Company. Accordingly, as of June 30, 1995, the \$487,500 share value has been transferred from redeemable stock, options, and warrants to additional paid-in capital.

On June 16, 1994, the Company entered into a financial consulting agreement for capital raising activities with an entity controlled by significant stockholders of the Company. Under this agreement, the Company paid \$153,750 for consulting services rendered through the date of the agreement relating to placement of the Convertible Bridge Notes. Additionally, the Company agreed to pay a \$7,500 monthly consulting fee for a two year period beginning on the closing date of the first private placement. During the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995, the Company paid \$22,500, \$90,000 and \$67,500 under this arrangement, respectively.

Effective July 1, 1994, the Company engaged SGC Advisory Services, Inc. ("SGC") as a financial and business consultant for three years. SGC is an affiliate of a former director of the Company. Pursuant to the agreement, the Company will compensate SGC as follows: (1) a monthly fee of \$5,000; and (2) options to purchase up to 50,000 shares of the Company's Common Stock which vest on July 1,

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(9) Related-Party Transactions — (Continued)

1997, and are exercisable on or before July 1, 1999. At the end of each month of the term of the agreement, SGC earns a credit against the exercise price of those options equal to 1/36th of the exercise price. The shares issued upon exercise of the options will be priced at \$2.25 per share and the shares issued will have piggy back registration rights.

(10) Income Taxes

Temporary differences and carryforwards that give rise to deferred tax assets and liabilities are as follows:

	<u>June 30, 1995</u>	<u>June 30, 1996</u>	<u>December 31, 1996</u>
Deferred tax assets:			
Capitalized start-up and other costs	\$ 4,163,941	\$ 3,733,898	\$ 3,972,981
Stock options — noncash compensation	2,768,488	3,848,128	4,085,146
Net operating loss carryforwards	1,149,755	12,181,162	31,310,726
Other accrued liabilities	454,391	496,634	964,786
Total gross deferred assets	<u>8,536,575</u>	<u>20,259,822</u>	<u>40,353,639</u>
Less: valuation allowance	<u>8,291,380</u>	<u>18,304,754</u>	<u>31,990,518</u>
Net deferred tax assets	245,195	1,955,068	8,343,121
Deferred tax liabilities — fixed assets depreciation and amortization	245,195	1,955,068	8,343,121
Net deferred tax assets (liabilities)	<u>—</u>	<u>—</u>	<u>—</u>

The valuation allowance for deferred tax assets as of July 1, 1994 was \$2,375,327. The net change in the total valuation allowance for the years ended June 30, 1995 and June 30, 1996 and for the six months ended December 31, 1996 was an increase of \$5,916,053, \$10,013,374 and \$13,685,764, respectively. The valuation allowances at June 30, 1996 and December 31, 1996 are a result of the uncertainty regarding the ultimate realization of the tax benefits related to the deferred tax assets. The utilization of the tax benefits associated with net operating losses of approximately \$80,000,000 at December 31, 1996 is dependent upon the Company's ability to generate future taxable income. The net operating loss carryforward period expires commencing in 2008 through the year 2012. Further, as a result of certain financing and capital transactions, an annual limitation on the future utilization of the net operating loss carryforward may have occurred.

No income tax provision has been provided for the years ended June 30, 1995 and June 30, 1996 and the six months ended December 31, 1996 as the aforementioned deferred tax assets have provided no tax benefit.

(11) Acquisition

On September 12, 1994 the Company executed a Stock Purchase Agreement with Piedmont Teleport, Inc. under which the Company acquired certain assets, liabilities, and certain right-of-way agreements for \$20,000 in cash and the issuance of 62,000 shares of the Company's common stock. The Company accounted for the acquisition as a purchase and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at September 12, 1994. The seller had the right to put these shares back to the Company on November 1, 1996 for a price of \$2.50 per share. Accordingly, this obligation was recorded as redeemable stock until November 1996 at which time it was reclassified to additional paid in capital.

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(12) Fair Value of Financial Instruments

The following notes summarize the major methods and assumptions used in estimating the fair value of financial instruments:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the relatively short period to maturity of these instruments.

Letters of Credit

The fair value of the Letters of credit is based on fees currently charged for similar agreements.

Short-Term and Long-Term Debt

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues if available or based on the present value of expected cash flows at rates currently available to the Company for borrowings with similar terms.

The carrying amounts and fair values of the Company's financial instruments at December 31, 1996 were:

	1996	
	Carrying Value	Fair Value
Cash and cash equivalents (including restricted cash)	80,960,696	80,960,696
Letters of credit	—	25,000
Long-term debt	210,410,259	208,583,264

(13) Subsequent Event

On January 17, 1997, the Company acquired 100% of the outstanding capital stock of Cybergate, Inc. in exchange for 1,030,000 shares of common stock plus up to an additional 150,000 shares if certain performance goals are achieved. Cybergate, a Florida based Internet services provider, delivers high-speed data communications services. The acquisition will be recorded using the purchase method of accounting.

Summary Consolidated Financial and Operating Data
(In thousands, except per share, network and statistical data)

	Fiscal Year Ended June 30,			Six Months Ended	Fiscal Period Ended	
	1995	1996		December 31,	December 31,(1)	
		Actual	Pro Forma(2)	1995 (unaudited)	Actual	Pro Forma(2)
Statement of Operations Data:						
Revenues	\$ 389	\$ 3,415	\$ 7,158	\$ 989	\$ 6,990	\$ 9,626
Operating expenses	14,797	24,543	29,027	7,966	34,434	37,548
Loss from operations	(14,408)	(21,128)	(21,889)	(6,977)	(27,444)	(27,922)
Interest and other income	218	4,410	4,410	777	2,757	2,775
Interest and other expense	(170)	(10,477)	(10,824)	(2,855)	(10,390)	(10,619)
Loss before minority interest	(14,746)	(27,195)	(28,303)	(9,035)	(35,077)	(35,768)
Minority interest(3)	48	413	413	156	160	160
Net loss	(14,698)	(26,782)	(27,890)	(8,879)	(34,917)	(35,608)
Net loss per common share	\$ (3.30)	\$ (4.96)	\$ (4.40)	\$ (1.82)	\$ (5.48)	\$ (4.84)
Weighted average shares outstanding	4,772	6,185	7,215	5,901	6,734	7,764
Other Data:						
EBITDA(4)	\$ (7,445)	\$ (14,901)	\$ (14,418)	\$ (4,855)	\$ (21,822)	\$ (21,620)
Depreciation and amortization	498	3,078	4,322	763	4,911	5,592
Capital expenditures	15,305	60,856	61,667	17,657	64,574	64,832

	December 31, 1996		
	Actual	Pro Forma(5)	Pro Forma as Adjusted(5)(6)
Balance Sheet Data:			
Cash and cash equivalents	\$ 78,618	\$ 75,178	\$ 133,257
Total assets	250,038	240,578	298,657
Long-term liabilities	216,484	217,583	210,637
Redeemable stock, options and warrants	2,000	2,000	2,000
Stockholders' equity	(27,038)	(18,283)	46,742

	December 31, 1995	March 31, 1996	June 30, 1996	September 30, 1996	December 31, 1996
Network and Selected Statistical Data(7):					
Total markets (in operation or under construction)	17	20	22	30	36
Networks in operation	9	10	15	19	21
Networks under construction	8	10	7	11	15
Route miles	136	200	586	543	697
Fiber miles	5,957	9,466	28,476	52,774	48,792
Buildings connected	100	133	216	532	595
VGE circuits in service	82,055	125,208	137,431	267,894	384,134
Employees	111	142	199	272	322

- (1) Subsequent to June 30, 1996, the Company changed its fiscal year-end from June 30 to December 31. All data for the fiscal period ended December 31, 1996 is for the six month period ended December 31, 1996.
- (2) Pro forma to give effect to the Cybergate Acquisition as if consummated at the beginning of the earliest period presented.
- (3) Minority interest represents a 7.25% ownership of AT&T Credit Corporation in the Company's subsidiaries that operate its networks in Louisville, Fort Worth, Greenville, Columbia and El Paso. See "Description of Certain Indebtedness."
- (4) EBITDA consists of net income (loss) before net interest, income taxes, depreciation and amortization, noncash stock compensation and, in fiscal year ended June 30, 1995, debt conversion expense of \$385,000. It is a measure commonly used in the telecommunications industry and is presented to assist in understanding the Company's operating results. However, it is not intended to represent cash flow or results of operations in accordance with Generally Accepted Accounting Principles. Noncash compensation expense associated with employee stock options was \$6.4 million and \$2.7 million in fiscal years ended June 30, 1995 and 1996, respectively, and \$1.2 million and \$550,000 in the six months ended December 31, 1995 and fiscal period ended December 31, 1996, respectively. See Note 6 of "Notes to Consolidated Financial Statements."
- (5) Pro forma to give effect to the Cybergate Acquisition as if consummated on December 31, 1996.
- (6) Adjusted to give effect to: (i) sale of the shares of Common Stock offered hereby (at an assumed offering price of \$8.75 per share, the closing price for the Common Stock on March 11, 1997) and application of the estimated net proceeds therefrom and (ii) conversion of the Preferred Stock.
- (7) Network and Selected Statistical Data are derived from ACSI's records.

CAPITALIZATION

The following table sets forth the total cash and cash equivalents and capitalization of the Company (i) as of December 31, 1996, (ii) after giving pro forma effect to the Cybergate Acquisition and (iii) as further adjusted to give effect to the Cybergate Acquisition, the sale of the 8,000,000 shares of Common Stock offered hereby and application of the estimated net proceeds therefrom (assuming a public offering price of \$8.75 per share, the closing price for the Common Stock on March 11, 1997), and the conversion of 464,164 shares of Preferred Stock into 17,377,264 shares of Common Stock. See "Use of Proceeds" and "Unaudited Pro Forma Condensed Consolidated Financial Data." This table should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere in this Prospectus.

	December 31, 1996		
	Actual	Pro Forma	Pro Forma as Adjusted
	(in thousands)		
Cash and cash equivalents	\$ 78,618	\$ 75,178	\$133,257
Long term debt			
12% Senior Discount Notes due 2006	\$ 70,825	\$ 70,825	\$ 70,825
13% Senior Discount Notes due 2005	109,402	109,402	109,402
Notes payable(1)	29,311	29,717	29,717
Other long-term liabilities	—	693	693
Dividends payable	6,946	6,946	— (5)
Total long-term debt	216,484	217,583	210,637
Redeemable stock, options & warrants	2,000	2,000	2,000
Minority interest	—	—	—
Stockholders' equity (deficit):			
9% Series A-1 convertible preferred stock, par value \$1.00 per share, 186,664 shares issued and outstanding; no shares, as adjusted(2)	187	187	—
9% Series B convertible preferred stock, par value \$1.00 per share, 277,500 shares issued and outstanding; no shares, as adjusted	278	278	—
Common Stock, par value \$0.01 per share, 75,000,000 shares authorized, 6,784,996 shares issued and outstanding at December 31, 1996; 7,814,996 shares pro forma; 33,192,260 shares pro forma, as adjusted(3) (4) ..	68	78	332
Additional paid-in capital	54,869	63,614	128,850
Accumulated deficit	(82,440)	(82,440)	(82,440)
Total stockholders' equity (deficit)	(27,038)	(18,283)	46,742
Total capitalization	\$191,446	\$201,300	\$259,379

- (1) Consists primarily of the AT&T Credit Facility totalling \$31.2 million, of which approximately \$30.2 million had been drawn as of December 31, 1996.
- (2) As of December 31, 1996, 1,500,000 shares of Preferred Stock, par value \$1.00 per share, were authorized, of which 186,664 shares were designated as 9% Series A-1 Convertible Preferred Stock, 100,000 shares were designated as 9% Series B-1 Convertible Preferred Stock, 102,500 shares were designated as 9% Series B-2 Convertible Preferred Stock, 25,000 shares were designated as 9% Series B-3 Convertible Preferred Stock and 50,000 shares were designated as 9% Series B-4 Convertible Preferred Stock.
- (3) Excludes 7,457,085 and 4,771,836 shares reserved for issuance upon exercise of options and warrants, respectively, outstanding at December 31, 1996, at a weighted average exercise price of \$4.37 and 500,000 shares issuable in connection with the Company's Employee Stock Purchase Plan.
- (4) The aggregate proceeds from the exercise of all warrants and options outstanding at December 31, 1996, would be approximately \$53.4 million.
- (5) Reflects payment of accrued dividends on the Preferred stock.

**UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL DATA**

The following Unaudited Pro Forma Condensed Consolidated Financial Data consist of Unaudited Pro Forma Condensed Consolidated Statements of Operations for the fiscal year ended June 30, 1996 and for the fiscal period ended December 31, 1996 and an Unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 1996 (collectively, the "Pro Forma Statements"). The Unaudited Pro Forma Condensed Consolidated Statements of Operations give effect to the Cybergate Acquisition as if it occurred on July 1, 1995 and the Unaudited Pro Forma Condensed Consolidated Balance Sheet gives effect to the Cybergate Acquisition as if it occurred on December 31, 1996.

Management believes that, on the basis set forth herein, the Pro Forma Statements reflect a reasonable estimate of the Cybergate Acquisition based on currently available information. The pro forma financial data are presented for informational purposes only and do not purport to represent what the Company's financial position or results of operations would have been had the Cybergate Acquisition in fact occurred on the dates assumed or that may result from future operations. The pro forma data should be read in conjunction with the Company's Consolidated Financial Statements and related notes thereto which are included elsewhere in this Prospectus.

	Fiscal Year Ended June 30, 1996			Fiscal Period Ended December 31, 1996(1)				
	The Company	Cybergate	Adjustments	The Company Pro Forma	The Company	Cybergate	Adjustments	The Company Pro Forma
	(in thousands, except per share data)							
Statement of Operations Data:								
Revenue	\$ 3,415	\$3,723		\$ 7,138	\$ 6,990	\$2,636		\$ 9,626
Operating expenses:								
Network development and operations	5,265	1,762	\$ —	7,027	8,703	1,136	\$ —	9,839
Selling, general and administrative	15,464	1,378	100 (2)	14,942	20,270	1,247	50 (2)	21,567
Noncash stock and compensation	2,736	—	—	2,736	550	—	—	550
Depreciation and amortization	3,078	372	872 (3)	4,322	4,911	245	456 (3)	5,592
Total operating expenses ..	<u>24,543</u>	<u>3,512</u>	<u>972</u>	<u>29,027</u>	<u>34,434</u>	<u>2,628</u>	<u>486</u>	<u>57,548</u>
Operating income (loss)	(21,128)	211	(972)	(21,889)	(27,444)	8	(486)	(27,922)
Non-operating income (expense)	(6,067)	(27)	(520) (4)	(6,414)	(7,633)	(53)	(160) (4)	(7,846)
Income (loss) before minority interest	(27,195)	184	(1,292)	(28,303)	(35,077)	(45)	(646)	(35,768)
Minority interest	413	—	—	413	160	—	—	160
Net income (loss)	(26,782)	184	(1,292)	(27,890)	(34,917)	(45)	(646)	(35,608)
Preferred stock dividends and accretion	(3,871)	—	—	(3,871)	(2,003)	—	—	(2,003)
Net income (loss) to common stockholders	<u>\$ (30,653)</u>	<u>\$ 184</u>	<u>\$ (1,292)</u>	<u>\$ (31,761)</u>	<u>\$ (36,920)</u>	<u>\$ (45)</u>	<u>\$ (646)</u>	<u>\$ (37,611)</u>
Net loss per common stockholder	<u>\$ (4.96)</u>			<u>\$ (4.40)</u>	<u>\$ (5.48)</u>			<u>\$ (4.84)</u>
Weighted average number of common shares outstanding ...	6,185		1,030 (5)	7,215	6,734		1,030 (5)	7,764

- (1) Subsequent to June 30, 1996, the Company changed its fiscal year-end from June 30 to December 31. Accordingly, data for the fiscal period ended December 31, 1996 is for the six months ended December 31, 1996.
- (2) Represents expense related to a consulting agreement entered into by the Company with a former shareholder of Cybergate.
- (3) Reflects amortization of goodwill over a 10 year period and accounting software over a three year period.
- (4) Reflects amortization of consent solicitation fees over the remaining terms of the Notes.
- (5) Excludes adjustment for shares of Common Stock issuable if Cybergate meets certain performance measures. Inclusion of such shares would be anti-dilutive.

**UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL DATA — (Continued)**

	December 31, 1996			The Company Pro Forma
	The Company	Cybergate	Adjustments (In thousands)	
Balance Sheet Data:				
Assets				
Current assets:				
Cash and cash equivalents	\$ 78,618	\$ 60	\$ (500) (1) (3,000) (2)	\$ 75,178
Restricted cash	2,342	—	—	2,342
Accounts receivable	2,429	127	—	2,556
Other current assets	1,203	51	—	1,254
Total current assets	84,592	238	(3,500)	81,330
Networks, furniture and equipment, net	136,083	2,317	100 (3)	138,500
Goodwill	—	—	8,385 (1)	8,385
Deferred financing fees	8,380	—	3,000 (2)	11,380
Other assets	983	—	—	983
Total assets	\$230,038	\$2,555	\$ 7,985	\$240,578
Liabilities, Redeemable Stock, Options and Warrants, Minority Interest and Stockholders' Equity (Deficit)				
Current liabilities:				
Accounts payable and accrued expenses	\$ 33,588	\$ 348	\$ —	\$ 33,936
Notes payable — current portion	872	—	—	872
Customer deposits and advanced billings	0	338	—	338
Other	4,132	—	—	4,132
Total current liabilities	38,592	686	—	39,278
Notes payable	209,538	306	100 (3)	209,944
Advances due to affiliates	—	551	—	551
Dividends payable	6,946	—	—	6,946
Other	0	142	—	142
Total liabilities	255,076	1,685	100	256,861
Redeemable stock, options, and warrants	2,000	347	(347) (1)	2,000
Minority interest	0	—	—	0
Stockholders' equity (deficit)	(27,038)	523	8,232 (1)	(18,283)
Total liabilities, redeemable stock, options and warrants, minority interest and stockholders' equity (deficit)	\$230,038	\$2,555	\$ 7,985	\$240,578

- (1) Records the Cybergate Acquisition for a purchase price of \$8,755,000 (1,050,000 shares of Common Stock at \$8.50 per share, the per share closing sales price of the Common Stock on January 17, 1997) plus estimated transaction expenses of \$500,000. Excludes 150,000 additional shares of Common Stock which may be issued in 50,000 share increments (or a percentage thereof) on March 1, 1998, 1999 and 2000 if Cybergate achieves certain performance measures. In determining the cost of the identifiable assets and liabilities acquired, it has been assumed that an independent appraisal will result in fair values equal to the recorded book values as of the date of the Cybergate Acquisition. In the opinion of management, due to the nature of the assets and liabilities acquired, the fair values will approximate the book values. The preliminary allocation of the purchase price results in goodwill of approximately \$8.4 million which will be amortized over 10 years.
- (2) Records the payment of \$3.0 million, including related transaction expenses for solicitation fees payable to holders of the Notes in order to obtain their consent to amend the Indentures. The amendments permit the Company to enter into certain acquisition transactions, including the Cybergate Acquisition.
- (3) Reflects the non-exclusive assignment to Cybergate of certain accounting software for \$100,000, payable over a three year period.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below as of and for the periods ended June 30, 1995 and 1996 and December 31, 1996 are derived from and qualified by reference to the audited Consolidated Financial Statements of the Company contained herein and the related notes thereto, and should be read in conjunction therewith and in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Prospectus. The Company's Consolidated Financial Statements as of and for the periods ended June 30, 1995 and June 30, 1996 and December 31, 1996 have been audited by KPMG Peat Marwick LLP, independent auditors. Subsequent to June 30, 1996, the Company has changed its fiscal year-end from June 30 to December 31. Accordingly, all data for the fiscal period ended December 31, 1996 is for the six months ended December 31, 1996. The consolidated financial data of the Company as of and for the six months ended December 31, 1995 have been derived from the unaudited Consolidated Financial Statements of the Company which, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments which the Company considers necessary for a fair presentation of the results of operations and the financial condition for those periods. The consolidated financial data for the fiscal period ended December 31, 1996 are not necessarily indicative of results for a twelve-month fiscal year.

	Fiscal Year Ended June 30,		Six Months Ended December 31, 1995	Fiscal Period Ended December 31, 1996
	1995	1996	(unaudited)	
(in thousands, except per share data)				
Statement of Operations Data:				
Revenues	\$ 389	\$ 3,415	\$ 989	\$ 6,990
Operating expenses	14,797	24,543	7,966	34,434
Income (loss) from operations	(14,408)	(21,128)	(6,977)	(27,444)
Interest and other income	218	4,410	777	2,757
Interest and other expense	(170)	(10,477)	(2,835)	(10,390)
Debt conversion expense	(385)	—	—	—
Net income (loss) before minority interest	(14,746)	(27,195)	(9,035)	(35,077)
Minority interest(1)	48	413	156	160
Net income (loss)	(14,698)	(26,782)	(8,879)	(34,917)
Preferred stock dividends and accretion	(1,071)	(3,871)	(1,854)	(2,003)
Net income (loss) to common stockholders	<u>\$(15,769)</u>	<u>\$(30,653)</u>	<u>\$(10,734)</u>	<u>\$(36,920)</u>
Net income (loss) per common share	<u>\$ (3.30)</u>	<u>\$ (4.96)</u>	<u>\$ (1.82)</u>	<u>\$ (5.48)</u>
Weighted average shares outstanding	4,772	6,185	5,901	6,734
Other Data:				
EBITDA(2)	\$ (7,443)	\$(14,901)	\$ (4,855)	\$(21,822)
Depreciation and amortization	498	3,078	763	4,911
Capital expenditures	15,303	60,856	17,657	64,574
Balance Sheet Data (end of period):				
Cash and cash equivalents	\$ 20,351	\$154,116	\$ 57,348	\$ 78,618
Total assets	37,627	223,600	147,935	230,038
Long-term liabilities	4,723	189,072	110,176	216,484
Redeemable stock, options and warrants	2,931	2,155	2,660	2,000
Stockholders' equity (deficit)	22,141	8,982	26,308	(27,038)

(1) Minority interest represents a 7.25% ownership of AT&T Credit Corporation in the Company's subsidiaries that operate its networks in Louisville, Fort Worth, Greenville, Columbia and El Paso. See "Description of Certain Indebtedness."

(2) EBITDA consists of net income (loss) before net interest, income taxes, depreciation and amortization and noncash stock compensation and, in fiscal year ended June 30, 1995, debt conversion expense of \$385,000. It is a measure commonly used in the telecommunications industry and is presented to assist in understanding the Company's operating results. However, it is not intended to represent cash flow or results of operations in accordance with Generally Accepted Accounting Principles. Noncash compensation expense associated with employee stock options was \$6.4 million and \$2.7 million in fiscal years ended June 30, 1995 and 1996, respectively, and \$1.2 million and \$550,000 in the six months ended December 31, 1995 and fiscal period ended December 31, 1996, respectively. See Note 6 of "Notes to Consolidated Financial Statements."

EXHIBITS "D & E"

MANAGEMENT

Executive Officers and Directors

The following table sets forth certain information as of the date of this Prospectus regarding the directors and executive officers of the Company.

<u>Name</u>	<u>Age</u>	<u>Position and Offices Held</u>
Anthony J. Pompliano	58	Executive Chairman of the Board of Directors
Jack E. Reich	46	President and Chief Executive Officer — Communications Services
George M. Tronsrue, III	40	President and Chief Operating Officer — Strategy and Technology Development
Riley M. Murphy	41	Executive Vice President — Legal and Regulatory Affairs, General Counsel and Secretary
David L. Piazza (1)	42	Chief Financial Officer
George M. Middlemas (2)	50	Director
Edwin M. Banks (3)	34	Director
Christopher L. Rafferty (2)	48	Director
Benjamin P. Giess	34	Director
Olivier L. Trouveroy (2) (3)	41	Director
Peter C. Bentz	31	Director

(1) Mr. Piazza's employment begins as of March 24, 1997.

(2) Member of Compensation Committee

(3) Member of Audit Committee

Anthony J. Pompliano, Executive Chairman of the Board of Directors, has more than 30 years of experience in the telecommunications industry. Mr. Pompliano was elected a director of the Company in November 1993. He was co-founder and President of Metropolitan Fiber Systems, the predecessor organization to MFS Communications, a publicly-traded CLEC that was acquired by WorldCom, Inc. in December 1996. Mr. Pompliano served as President, CEO and Vice Chairman of MFS Communications from April 1988 until March 1991. He joined ACSI in August 1993 after the expiration of his non-competition agreement with MFS Communications. Before his association with MFS Communications and its predecessor, he was Vice President — Operations and Sales for MCI Telecommunications International from 1981 to 1987, and prior thereto, was Vice President — National Operations for Western Union International, Inc. from 1960 to 1981.

Jack E. Reich, President and Chief Executive Officer — Communications Services, had 22 years of telecommunications industry and management experience before joining ACSI in December 1996. For two and one-half years prior to joining ACSI, Mr. Reich was employed by Ameritech, Inc. as President of its Custom Business Service Organization, where Mr. Reich was responsible for full business marketing to Ameritech's largest customers for telecommunications services, advanced data services, electronic commerce and managed services/outsource initiatives. Prior to that, he served as President of MCI's Multinational Accounts organization and also served as MCI's Vice President of Products Marketing. Mr. Reich has also held sales and marketing positions at AT&T and ROLM Corp. Mr. Reich has a B.S. degree from St. Louis University and an MBA from the University of Chicago.

George M. Tronsrue, III, President and Chief Operating Officer — Strategy and Technology Development, had 17 years of telecommunications industry and management experience before joining ACSI in February 1994. Mr. Tronsrue served the Company as Executive Vice President — Strategic Planning and Business Development from February 1994 until January 31, 1996. From

1993 until he joined ACSI in February 1994, Mr. Tronsrue was the Regional Vice President for the Central Region for Teleport Communications Group and the Vice President of Emerging Markets, responsible for start-up and profit and loss management of joint ventures with major cable television providers in eight major markets. From 1987 until 1992, he was a member of the initial management team at MFS, where he held senior positions in planning and market development, served as Vice President of Sales and the Vice President/General Manager for the initial start up of MFS' New York operations, and served as the Executive Vice President for MFS-Intelenet. Prior to joining MFS, he was a Director of Operations for MCI Telecommunications International. Mr. Tronsrue has a B.S. degree in Applied Sciences and Engineering from the United States Military Academy at West Point.

Riley M. Murphy, Executive Vice President — Legal and Regulatory Affairs and Secretary, had twelve years of experience in the private practice of telecommunications regulatory law for inter-exchange, cellular, paging and other competitive telecommunication services prior to joining the Company. Since February 1995, she has served as an officer and director of The Association for Local Telecommunications Services. Ms. Murphy joined ACSI on a full-time basis in April 1994 and was senior counsel to Locke Purnell Rain Harrell, a Dallas-based law firm through December 1994. From 1987 to 1992, Ms. Murphy was a partner of Wirpel and Murphy, a telecommunications law firm she co-founded, and from 1992 to 1993 she was a sole practitioner. She holds a B.A. degree from the University of Colorado and a J.D. from the Catholic University of America and is admitted to practice law in the District of Columbia and Louisiana.

David L. Piazza, Chief Financial Officer, will join the Company as of March 24, 1997. For ten years prior to joining the Company, Mr. Piazza was employed by MFS Communications in a variety of finance and senior management positions, most recently as the Senior Vice President and Chief Financial Officer of MFS Telecom, Inc., a subsidiary of MFS Communications. Prior to his employment with MFS Communications, Mr. Piazza was employed by AT&T for four years in its finance and support divisions. Mr. Piazza received his B.S. degree in Accountancy from the University of Illinois and holds a CPA.

George M. Middlemas, Director, was elected a director of the Company in December 1993. Mr. Middlemas is a general partner of Apex Management Partnership, which is the general partner of Apex Investment Fund I, L.P. and Apex Investment Fund II, L.P., both of which are venture capital funds, and affiliates of First Analysis Corporation, a principal stockholder of the Company. See "Principal Stockholders." From March 1991 to December 1991, Mr. Middlemas acted as an independent consultant providing fund raising and other advisory services. From 1985 until March 1991, Mr. Middlemas was a Senior Vice President and Principal of Inco Venture Capital Management, a venture capital firm. He also serves on the Board of Directors of PureCycle Corporation, Security Dynamics Technologies, Inc. and several privately held companies.

Edwin M. Banks, Director, was elected a director of the Company in October 1994. Since 1988, Mr. Banks has been employed by W. R. Huff Asset Management Co., L.L.C. and currently serves as a portfolio manager concentrating in the healthcare, communications, food and food services industries. From 1985 until he joined W. R. Huff Asset Management Co., L.L.C., Mr. Banks was employed by Merrill Lynch & Company. Mr. Banks received his B.A. degree from Rutgers College and his MBA degree from Rutgers University. Mr. Banks also serves as a director of Charter Medical Corporation, Del Monte Foods Company and ABCO Food Service.

Christopher L. Rafferty, Director, was elected a director of the Company in October 1994. Mr. Rafferty has been employed by WRH Partners, L.L.C., the general partner of Huff since June 1994. From January 1993 to February 1994, Mr. Rafferty was Vice President — Acquisitions for Windsor Pet Care, Inc., a venture capital-backed firm focusing on consolidating the pet care services industry. From October 1990 to January 1993, Mr. Rafferty was a consultant specializing in merchant banking, leveraged acquisitions and venture capital transactions. From June 1987 to the time he started his consulting business, Mr. Rafferty was a Managing Director of Chase Manhattan Capital Corporation, the merchant banking and private equity investment affiliate of Chase Manhattan Corporation.

Mr. Rafferty also serves as a director of Del Monte Foods Company. Mr. Rafferty received his undergraduate degree from Stanford University and his law degree from Georgetown University.

Benjamin P. Giess, Director, was elected a director of the Company in June 1995. Since 1992, Mr. Giess has been employed by ING and its predecessors and affiliates and currently serves as a Vice President responsible for originating, structuring and managing equity and debt investments. From 1991 to 1992, Mr. Giess worked in the Corporate Finance Group of ING Capital. From 1990 to 1991, Mr. Giess was employed by the Corporate Finance Group of General Electric Capital Corporation where he worked in the media and entertainment group. Prior to attending business school, from 1986 to 1988, Mr. Giess was the Credit Department Manager of the Boston Branch of ABN Amro North America, Inc. From 1984 to 1986, Mr. Giess was employed at the Shawmut Bank of Boston. Mr. Giess also serves as a director of Matthews Studio Equipment Group and CMI Holding Corp. Mr. Giess received his undergraduate degree from Dartmouth College and his MBA from the Wharton School of the University of Pennsylvania.

Olivier L. Trouveroy, Director, was elected a director of the Company in June 1995. Since 1992, Mr. Trouveroy has been employed by ING and its predecessors and affiliates and currently serves as a Managing Director responsible for originating, structuring and managing equity and debt investments. From 1990 to 1992, Mr. Trouveroy was a Managing Director in the Corporate Finance Group ("CFG") of General Electric Capital Corporation in charge of CFG's office in Paris, France. From 1984 to 1990, Mr. Trouveroy held various positions in the Mergers and Acquisitions department of Drexel Burnham Lambert in New York, most recently as a First Vice President. Mr. Trouveroy also serves as a director of AccessLine Technologies, Inc. and Cost Plus, Inc. Mr. Trouveroy holds B.S. and Masters degrees in Economics from the University of Louvain in Belgium, as well as an MBA from the University of Chicago.

Peter C. Bentz, Director, was elected a director of the Company in June 1995. Since 1992, Mr. Bentz has been employed by W. R. Huff Asset Management Co., L.L.C. as a research analyst specializing in telecommunications, media and healthcare. Mr. Bentz received his Bachelor of Science degree from Boston College in 1987 and his MBA from the Wharton School of the University of Pennsylvania in 1992.

As part of the December 1996 management reorganization, Richard A. Kozak, who had previously served as the Company's President and Chief Executive Officer, was named President and Chief Executive Officer — Corporate Services. Mr. Kozak was also appointed as ACSI's Acting Chief Financial Officer, replacing Harry D'Andrea who had resigned as ACSI's Chief Financial Officer in November 1996. Effective February 2, 1997, Mr. Kozak's employment was terminated, with each of Mr. Kozak and the Company claiming the termination was the result of the other party's breach of his employment agreement. The parties have settled their dispute relating to the cause of Mr. Kozak's termination. See "— Employment Agreements."

The Board is comprised of seven members, four of whom were elected by the holders of the Company's Common Stock and three of whom were elected by the holders of the Company's Preferred Stock. Following conversion of the Preferred Stock upon completion of this offering, the Board will be elected by the holders of the Company's Common Stock. All directors of the Company hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified.

Other Significant Employees

John R. Polchin, Director of Corporate Finance, joined the Company in May 1996. Prior to joining the Company, Mr. Polchin served as Corporate Controller for ISA Corporation, a development stage software company. From 1993 through 1995, Mr. Polchin was the Assistant Treasurer at PaineWebber, Inc. Prior thereto, Mr. Polchin held corporate finance positions within UNC Incorporated, a publicly-traded aviation company, and NationsBank. As Director — Corporate Finance, Mr. Polchin's responsibilities include treasury management, fund raising, strategic planning and

financial analysis. Mr. Polchin received his B.S. degree in Economics from the University of North Carolina.

Richard B. Robertson, Executive Vice President — Operations and Engineering, joined the Company in April 1996. Prior to joining the Company, Mr. Robertson was employed by BellSouth for 16 years where, since 1991, he directed marketing activities for its network interconnection business. In that role, Mr. Robertson was responsible for negotiating interconnection agreements with competitive local exchange companies, development and implementation of BellSouth's advanced intelligent network (AIN) services for the interconnection market and also formulating the company's plan for and entry into the customer premise equipment (CPE) market in the mid 1980s. In other assignments during his 28-year career in the telecommunications industry, Mr. Robertson's experience included outside plant, manufacturing, finance, purchasing and strategy development and R&D positions with Western Electric, Bellcore, and the U.S. Army. Robertson received a B.S. in Electrical Engineering from Virginia Tech and an MBA from the University of Virginia.

Douglas R. Hudson, Executive Vice President/General Manager — Network Services, has ten years of sales and marketing experience within the telecommunications industry. For seven years prior to joining ACSI in May 1994, Mr. Hudson had been with MFS Communications, having served as a director of field sales from September 1987 to September 1989, Vice President of Industry Sales and Marketing from September 1989 to July 1992 and as Vice President and General Manager in charge of MFS's Mid-Atlantic region from July 1992 until May 1994. Prior to joining MFS, Mr. Hudson was a regional sales manager for Microtel International, Inc., a national telecommunications company providing competitive long distance and private line services.

Dennis J. Ives, Senior Vice President — Network Development, joined the Company's predecessor in 1992 as Vice President — Operations. From 1990 to 1992, Mr. Ives was involved in the planning and implementation of other fiber optic networks and Broadband Systems in Illinois and Wisconsin at DigiNet Communications, Inc. Mr. Ives spent over 30 years with AT&T in various engineering and operations management positions and has 37 years of telecommunications industry and management experience.

Martin F. McDermott, Senior Vice President — Marketing, joined the Company in April 1996. From July 1995 until he joined the Company, Mr. McDermott served as chief operating officer for American Wireless Communications Corporation. Prior thereto, Mr. McDermott spent four years at WilTel Inc. following his service as Chief Operating Officer of the National Telecommunications Network, a coalition of long distance carriers. Mr. McDermott attended Georgetown University, is active in industry associations such as ACTA, NATA and Comptel and has 30 years of telecommunications industry experience.

Richard Kingston, Regional Vice President/General Manager — Western Region, joined the Company in 1994. Prior to joining ACSI, Mr. Kingston was with TCG where he had responsibility for the MCI account for the central region of the U.S. Mr. Kingston's other professional experience includes management of carrier accounts for MFS and a two year period during which he ran his own telecommunications marketing firm. In December, 1996, Kingston received the Chairman's award for the outstanding performance of his region. Prior to assuming his position as RVP, Kingston was Vice President of Carrier Sales.

Terry Kokinda, Regional Vice President — Central Region, joined the Company in 1993. Mr. Kokinda had more than 18 years of telecommunications experience before joining ACSI. Prior to joining the Company, Mr. Kokinda was a District Sales Manager for AT&T where he had management and administrative responsibility for a large account territory. Before joining AT&T, Mr. Kokinda was employed at ATTIS where he held the positions of Account Executive and Sales Manager, and was extensively involved with account teams, customers and vendors as well as the design and development of proposals and business solutions. Mr. Kokinda received his B.A. degree from Western Kentucky University.

Joseph Isaksen, Vice President/Controller, joined the Company in April 1996. Prior to joining the Company, Mr. Isaksen was employed by Concert Communications (Concert), a joint venture company between MCI Communications Corporation and British Telecommunications plc, for three years. Mr. Isaksen served as Director of Financial Services in London, England, for Concert's subsidiaries in 13 European and Asian countries. During the period 1987 through 1993, Mr. Isaksen spent most of his career at MCI Telecommunications in the Corporate Financial Reporting area. His background also includes experience as an accounting instructor and audit supervisor. Mr. Isaksen received a B.S. degree in accounting from the University of Maryland and holds a CPA.

LAW OFFICES
MESSER, CAPARELLO & SELF
A PROFESSIONAL ASSOCIATION

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August 18, 1997

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
Room 110, Easley Building
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

BY HAND DELIVERY

971064-TX

Dear Ms. Bayo:

Enclosed for filing on behalf of ACSI Local Switched Services, Inc. are an original and six copies of the Application for Authority to Provide Alternative Local Telecommunications Service Statewide together with attachments thereto, and a check in the amount of \$250.00 for the filing fee.

Please indicate receipt of this document by stamping the enclosed the extra copy of this letter.

Your attention to this filing is appreciated.

Sincerely,



Norman H. Horton, Jr.

LAW OFFICES
MESSER, CAPARELLO, METZ, MAIDA & SELF, P.A.
OPERATING ACCOUNT
215 S. Monroe St., Suite 701
Post Office Box 1876
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358983

PAY
TO THE
ORDER OF

JULY 23, 1997

FLORIDA PUBLIC SERVICE COMMISSION

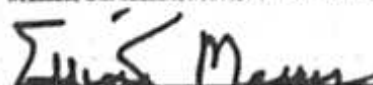
\$250.00

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BARNETT BANK
TALLAHASSEE OFFICE 029013
215 S. MONROE ST.
TALLAHASSEE, FL 32301

MESSER, CAPARELLO, METZ, MAIDA & SELF, P.A.


ASSISTANT TREASURER