PENNINGTON, MOORE, WILKINSON & DUNBAR, P.A.

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2ND FLOOR
TALLAHASSEE, FLORIDA 32301

(850) 222-3533
FAX (850) 222-2126
E-Mail Pmlaw@Supernet.net

REPLY TO
P.O. BOX 10095
TALLAHASSEE, FL 32302-2095

971674-TX

December 31, 1997

VIA HAND DELIVERY

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0870

Re: ALEC Application for Knology of Panama City, Inc.

Dear Ms. Bayo:

Please find enclosed the original and five copies of the ALEC application which we are filing on behalf of Knology of Panama City, Inc. Additionally, we have enclosed a check in the amount of $250.00 for the filing fee. You will note that the enclosed package includes consolidated financial statements as of December 31, 1994, 1995, and 1996 for CyberNet Holding, Inc. and Subsidiaries (Successor Company) and Montgomery Cablevision & Entertainment, Inc. (Predecessor Company). As of June 1, 1997 CyberNet Holding, Inc. changed its name to Knology Holding, Inc. Knology of Panama City, Inc. is a wholly owned subsidiary of Knology Holding, Inc.

If you have any questions, please do not hesitate to contact my office. Thank you for your attention to this matter.

Very truly yours,

Barbara D. Auger

Enclosures: Application w/five copies and filing fee check

cc: Felix Boccucci w/out enclosures

DOCUMENT NUMBER-DATE
13319 DEC 31 97
FPSC-RECORDS/REPORTING

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*NOT A MEMBER OF THE FLORIDA BAR

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KNOLOGY
The Media Company

KNOLOGY HOLDINGS, INC.
P.O. BOX 510
WEST POINT, GA 31833
(706) 645-8553

First National Bank

0002867

DATE

CHECK NO.
0002867

TWO HUNDRED FIFTY AND NO/100 Dollars

AMOUNT
*********$250.00

PAY TO THE ORDER OF
FLORIDA PUBLIC SERVICE
COMMISSION

[redacted]

APPLICATION FORM

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:

   Knology of Panama City, Inc.

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

   Knology

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

   Fictitious name registration number: Not Applicable

13319 DEC 31

APPLICATION FORM

8. 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.

None of the officers, directors, or ten largest stockholders have previously been adjudged bankrupted, mentally incompetent or found guilty of a felony or of any crime. Also there are currently no actions from which these situations could occur.

9. If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter number: S80206

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

Bruce Schoonover, Jr.- Director of Business Development

503 West 8th Street, West Point, Georgia 31833

Telephone: 706-645-3966 Facsimile 706-645-3921

E Mail Address: bschoono@knology.com

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

Georgia and Alabama

APPLICATION FORM

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   (x) Original authority (new company)

   ( ) Approval of transfer (to another certificated company)
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   Knology

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

   Fictitious name registration number: Not Applicable

13319 DEC 31 97

APPLICATION FORM

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

P.O. Box 510

West Point, Georgia 31833

706-645-3966

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

13200 Panama City Beach Parkway

Panama City Beach, Flordia 32407

850-235-1113

6. Structure of organization: √ Check appropriate box(s)

( ) Individual
( ) Foreign Corporation
( ) General Partnership
( ) Joint Venture
(X) Corporation
( ) Foreign Partnership
( ) Limited Partnership
( ) Other, Please explain______

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

Not Applicable; Applicant's structure is a corporation

APPLICATION FORM

8. 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.

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Georgia and Alabama

APPLICATION FORM

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.

    If needed, a customer can file a service complaint; 1. in person, at the address listed in response to item 5B on this application 2. on th telephone at the phone number listed in response to item 5B on this application 3. or, in writing at the address listed in response to item 5B on this application

15. Please complete and file a price list in accordance with Commission Rule 25-24.825.(Rule attached) See attachment one

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

    A. Financial capability.

    Regarding the showing of finâncial capability, the following applies:

    The application <u>should contain</u> the applicant's financial statements for the most recent 3 years, including:

APPLICATION FORM

1. the balance sheet

2. income statement

3. statement of retained earnings.

Further, a written explanation, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

<u>**NOTE:** This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.</u>

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 <u>should attest that the financial statements are true and correct.</u>

B. Managerial capability.

C. Technical capability.

(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency service. If the nature of the emergency 911 service access and funding mechanism is not equivalent to that provided by the local exchange companies in the areas to be served, described in detail the difference.)

APPLICATION FORM

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: ______ FOR ______ 12/23/93
Signature Date

Title: Vice President-Business Development (706) 645-8567
Telephone Number

______

Address: 1239 O.G. Skinner Drive

West Point, Georgia 31833

______

______

FORM PSC/CMU 8 (11/95)
Required by Chapter 364.337 F.S.

25-24.825 Price List.

(1) Prior to providing service, each company subject to these rules shall file and maintain with the Commission a current price list which clearly sets forth the following information for basic local telecommunications services, as defined in s. 364.02(2), F. S. If basic local telecommunications service is offered on a package basis, the following information must be provided for the package:

(a) current prices,

(b) customer connection charges,

(c) billing and payment arrangements, and

(d) levels of service quality which the company holds itself out to provide for each service.

(2) At the company's option, price list information in paragraph (1) above and other information concerning the terms and conditions of service may be filed for services other than basic local telecommunication services.

(3) A price list revision must be physically received by the Commission's Division of Communications at least one day prior to its effective date.

(4) Price lists must be on 8 ½ by 11 inch paper in loose-leaf form and must utilize an ongoing page identification system which will allow for the identification of inserted and removed pages. The color of paper on which price lists are filed must be amenable to being clearly photocopied on standard photocopy equipment.

(5) Complete information concerning a company's service offerings, rates and charges, conditions of service, service quality, terms and conditions, service area, and subscribership information identified by local exchange company exchange must be made available to Commission staff upon request.

Specific Authority: 350.127(2)
Law Implemented: 364.04, 364.337(5), F.S.
History: New 12/26/95.

Attachment to ALEC Application For KNOLOGY of Panama City, Inc.

Managerial Capability

William E. Morrow has been President, Chief Executive Officer and Director of the Company since February 1997. Prior to joining the Company, from August 1996 to February 1997, Mr. Morrow served as Senior Vice President and General Manager of Network Alliances for UtiliCom Networks. Prior to that time, Mr. Morrow served in various capacities at Central and South West Corp. from March 1985 to August 1996, including Marketing, Area Management, Governmental/ Regulatory Lobbyist, Ventures/ Business Development and Founder and Managing Director of CSW Communications ("CSW") from December 1993 to August 1996. While at CSW Communications, Mr. Morrow oversaw the company's energy management services over a 750 MHz two-way broadband network, the construction, maintenance, operation and marketing of long-haul fiber capacity, and the design, construction, operation and marketing of competitive access services.

James K. McCormick joined KNOLOGY Holdings, Inc. as Chief Financial Officer and Secretary in September 1997. Prior to joining the Company, from November 1992 to September 1997, Mr. McCormick was Treasurer and Corporate Controller of United Dairy Farmers, Inc. ("UDF"), a retailer/ manufacturer operating in seven Midwestern states. While at UDF, Mr. McCormick managed the employment practices, inventory management, cash management, capital allocation, accounting and financial reporting functions. Mr. McCormick also served as Director of Finance at American Sign and Marketing Services, Inc. from June 1991 until November 1992. Prior to that time, Mr. McCormick served in various capacities at Andersen Worldwide. From February 1989 until January 1991, he served as consulting manager in the Strategic Services Division of Andersen Consulting's Melbourne, Australia office and from October 1984 to January 1989, he served as Senior Auditor, Emerging Business Division at Arthur Andersen LLP.

Marcus R. Luke, Ph.D. has served as Chief Technology Officer of the Company since August 1997. Prior thereto, he served as Vice President of Network Construction of the Company, since November 1995, and Director of Engineering of Cybernet Holding, L.L.C., from May 1995 until November 1995. Prior to joining the Company, Dr. Luke served as Southeast Division Construction Manager for TCI from July 1993 to May 1995. From July 1987 to June 1993, he served as Area Technical Manager for TCI's southeast area, which included Montgomery. Dr. Luke worked for Storer Communications Inc. from 1985 to 1987 as Vice President of Engineering. Prior to 1985, he spent 12 years in various engineering and management positions with Storer Communications Inc.

Felix L. Boccucci, Jr. has served as the Vice President of Business Development of the Company since August 1997 and served as Chief Financial Officer, Treasurer and Secretary of the Company from November 1995 through August 1997. From October

1994 until December 1995, Mr. Boccucci served as Vice President Finance Broadband of ITC Holding. Prior to such time, Mr. Boccucci worked for GTE Corporation ("GTE"), a telecommunications company, which merged with Contel Corporation ("Contel") in March 1991. From May 1993 to October 1994, he served as a Senior Financial Analyst for GTE. From 1991 to 1993, Mr. Boccucci served as Financial Director for GTE's Central Area Telephone Operations. From 1987 to 1991, he was the controller in charge of Contel's Eastern Region Telephone Operations comprising 13 companies in twelve states.

Bret T. McCants has been Vice President of Construction and Maintenance Services since May 1997. Prior to joining the Company, Mr. McCants served as Director of Operations for CSW from January 1994 to April 1997. From January 1992 to January 1994, he served as Corporate Commercial Marketing Manager at Central Power & Light.

Taylor E. Nipper joined the Company as Director of Marketing in October 1995, and was Vice President of Operations from October 1996 through April 1997 and has been Vice President of Marketing since May 1997. Mr. Nipper has held a variety of marketing positions in the cable television industry since 1983. From October 1992 until July 1995, he served as Corporate 'Marketing and Sales Manager for Vision Cable Communications ("Vision Cable") and directly managed marketing and sales for fourteen cable markets serving over 500,000 customers and directed the company's launch of Primestar DBS service. From October 1990 until October 1992, Mr. Nipper served as Manager of Pay Per View and New Business Development for Vision Cable's 130,000 subscriber system in Pinellas, Florida. Mr. Nipper also was the Vice President Sales for First Southern Cable Group, an independent cable marketing company, from April 1985 to October 1990.

Attachment to ALEC Application
For KNOLOGY of Panama City, Inc.

Technical Capability

The Company's Interactive Broadband Networks are high capacity, two way interactive, hybrid fiber-coaxial networks with a 750 MHz signal (designed to allow upgrades to 1,000 MHz). Each network includes hub sites with a minimum of four fiber pairs running from each hub to nodes, each of which serves an average of 500 homes. This design incorporates redundant fibers running between hubs for restoration and security purposes, forming a SONET ring. By comparison, most traditional cable television systems are 450 MHz to 550 MHz and do not have significant redundancy protection. The Company provides power to its system from the hub sites each of which is equipped with a generator and uninterruptible power source ("UPS") to allow service to continue in case of power outage. For each of the Broadband Services to be offered, the Company has added electronic equipment at various hub sites and cards in various electronic housings along the network.

Local telephone service is offered over the Company's Interactive Broadband Networks in much the same way local phone companies provide service, since the network structure includes a return path suitable for voice transmission. To provide local telephone service, the Company provides switching services and installs a network interface box outside the customer's home, and may, depending on the location of telephone and cable boxes or "jack" inside the home, add inside wiring as well. The Company can offer multiple lines of telephone service using its Interactive Broadband Networks. The Company's networks are interconnected with those of other local phone companies through a nine-state interconnection agreement with BellSouth

Rate Sheet

Local Tariff Rate Sheet

For Panama City, Florida

The following local rates are in effect as of XXXX, 1997

Item	Tariff Reference	KNOLOGY of Panama City
Connection, New Service, Residential	5.3.A.1	$ 10.00
Connection, New Service, Business	5.3.A.1	$ 10.00
Connection, Additional Line, Residential	5.3.A.1	$ 10.00
Connection, Additional Line, Business	5.3.A.1	$ 10.00
Service Move or Change, Residential	5.3.A.2	$ 8.00
Service Move or Change, Business	5.3.A.2	$ 10.00
Premise Visit Charge	5.5.2.A	$ 45.00
Returned Check Charge	5.6.2	$ 20.00
Service Restoration, Residential	5.7.2	$ 20.00
Service Restoration, Business	5.7.2	$ 50.00
1-Party Service, Residential	6.1.2	$ 8.40
Residential SLC	na	
1-Party Service, Business	6.1.2	$ 22.65
Business SLC	na	
Busy Line Verification	6.2.2.C.1	$ 0.35
Emergency Interrupt	6.2.2.C.2	$ 0.40
Additional Alpha Listing, Residential	7.1.7.A	$ 0.95
Additional Alpha Listing, Business	7.1.7.A	$ 1.20
Foreign Directory Listing, Residential	7.1.7.A	$ 1.20
Foreign Directory Listing, Business	7.1.7.A	$ 1.2[illegible]
Non Listed telephone Number, Residential	7.1.7.A	$ 0.80
Non-Listed telephone Number, Business	7.1.7.A	$ 0.80
Non-Published Number, Residential	7.1.7.A	$ 1.75
Non-Published Number, Business	7.1.7.A	$ 1.75
Rotary Service - Residential		
Rotary Service - Business		
The following features are treated as a group		
Anonymous Call Rejection	8.9.1.B.1	
Automatic Call Back	8.9.1.B.2	
Automatic Recall	8.9.1.B.3	
Call Forwarding	8.1.1.[illegible].1	
Distinctive Ringing	8.9.1.B.8	
Remote Call Forwarding	8.1.2.A.3	
Selective Call Acceptance	8.9.1.B.[illegible]	
Selective Call Forwarding	8.9.1.B.10	
Selective Call Rejection	8.9.1.B.11	
Intelli-Ring	8.9.1.B.12	
Speed Calling (8)	8.1.1.A.5	
Three-Way Calling	8.1.1.A.1	
Price for first feature		$ 3.00
Price each for additional feature		$ 1.00
Maximum for 5 or more features		$ 7.00
Calling Number Identification	8.9.1.B.4	$ 5.00
Calling Name & Number Identification	8.9.1.B.5	$ 6.00
Call Waiting with Cancel Call Waiting	8.1.1.B.2	$ 3.00
Voice Mail		$ 6.00
Smart Choice (All Features)	8.1.2.B.5	$ 20.00
Local Directory Assistance Calls	8.2.1	$ 0.30
Toll Restriction	8.3.1	Free
Station to Station customer dialed local credit card call	8.4.1.C.1	$ 0.50
Station to station operator assisted local call	8.4.1.C.2	$ 1.00
Person to person operator assisted local call	8.4.1.C.3	$ 2.80
Preassigned Telephone Number (for 90 days)	8.5.1.A	$ 2.00

Rate Sheet

Local Tariff Rate Sheet

For Panama City, Florida

The following local rates are in effect as of XXXX, 1997

Item	Tariff Reference	KNOLOGY of Panama City
Auxiliary Line Mileage Installation Charge	8.6.1	$25 per 1/4 Mile
Radio Paging Line - Tone Only	8.7.2.A	Not Available
Radio Paging Line - Tone & Voice	8.7.2.B	Not Available
Radio Paging Line - Tone & Digital Display	8.7.2.C	Not Available
Radio Paging Line - Group Alert	8.7.2.D	Not Available
Radio Paging Line - Additional Line	8.7.2.E	Not Available
Radio Loop - Permanent	8.8.2.A.1	Not Available
Radio Loop - Occasional	8.8.2.A.2	Not Available
Radio Loop Installation - Permanent	8.8.2.B.1	Not Available
Radio Loop Installation - Occasional	8.8.2.B.2	Not Available
Calling Number Delivery Blocking - Per Call	8.9.1.B.6	Free
Customer Originated Trace	8.9.1.B.7	$ 4.00
Public Telephone Access Line	9.1.1.A.1	$ 22.65
Special Access Voice		
Channel Termination 2-Wire, Monthly	12.4	$20.00
Channel Termination 2-Wire, Installation	12.4	$320.00
Channel Termination 4-Wire, Monthly	12.4	$30.00
Channel Termination 4-Wire, Installation	12.4	$345.00
Channel Mileage Facility per Mile	12.4	$1.65
Voice Bridging 2-Wire, Monthly	12.4	$3.00
Voice Bridging 2-Wire, Installation	12.4	$29.00
Voice Bridging 4-Wire, Monthly	12.4	$3.75
Voice Bridging 4-Wire, Installation	12.4	$29.00
Data Bridging per Port 4-Wire, Monthly	12.4	$6.40
Data Bridging per Port 4-Wire, Installation	12.4	$32.00
Conditioning C Type, Monthly	12.4	$1.00
Conditioning C Type, Installation	12.4	$10.00
Improved Return Loss 2-Wire	12.4	Not Available
Improved Return Loss 4-Wire	12.4	Not Available
Signaling Capacity per Termination	12.4	Not Available
Selective Signal Arrangement	12.4	Not Available
Transfer Arrangement	12.4	Not Available
Special Access Digital Data		
Channel Termination 56.0 kbps	12.4	$66.00
Channel Termination 56.0 kbps, installation	12.4	$320.00
Channel Mileage Facility per Mile	12.4	$2.00
Bridging per Port	12.4	Not Available
Loop Transfer Arrangement	12.4	Not Available
Special Access Hi-Capacity		
Channel Termination, Monthly DS1	12.4	$200.00
Channel Termination, Installation DS1	12.4	$210.00
Channel Termination, Monthly DS3	12.4	$2,900.00
Channel Termination, Installation DS3	12.4	$1,300.00
Multiplexing DS3 to DS1	12.4	$9.50
Multiplexing DS1 to Voice	12.4	$6.00
Transfer Arrangement	12.4	$355.00

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
CyberNet Holding, Inc.:

We have audited the accompanying consolidated balance sheets of CYBERNET HOLDING, INC. (a Delaware corporation) AND SUBSIDIARIES (SUCCESSOR COMPANY) AND MONTGOMERY CABLEVISION & ENTERTAINMENT, INC. (an Alabama corporation) (PREDECESSOR COMPANY) as of December 31, 1995 and 1996 and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for the year ended December 31, 1994, the four months ended April 30, 1995, the eight months ended December 31, 1995 and the year ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CyberNet Holding, Inc. and subsidiaries (Successor Company) and Montgomery Cablevision & Entertainment, Inc. (Predecessor Company) as of December 31, 1995 and 1996 and the results of their operations and their cash flows for the year ended December 31, 1994, the four months ended April 30, 1995, the eight months ended December 31, 1995 and the year ended December 31, 1996 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, effective April 28, 1995, CyberNet Holding, Inc. acquired a majority ownership interest in Montgomery Cablevision & Entertainment, Inc. in a business combination accounted for as a purchase. As a result of this acquisition, the financial information for the periods after the acquisition is presented on a different cost basis than for the periods before the acquisition and, therefore, is not comparable.

Arthur Andersen LLP

Atlanta, Georgia
May 14, 1997

CYBERNET HOLDING, INC. AND SUBSIDIARIES

(SUCCESSOR COMPANY)

AND MONTGOMERY CABLEVISION & ENTERTAINMENT, INC.

(PREDECESSOR COMPANY)

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1995 AND 1996

ASSETS	1995	1996
CURRENT ASSETS:		
Cash and cash equivalents	$ 300,494	$ 83,092
Accounts receivable—trade, less allowance for doubtful accounts of $17,113 and $23,342 in 1995 and 1996, respectively	362,374	885,463
Interest receivable—affiliate (Note 8)	12,097	1,345
Advances to affiliate (Note 8)	4,255,836	0
Deferred tax assets (Note 6)	5,686	0
Prepaid expenses	99,970	230,920
Total current assets	5,036,457	1,200,820
PROPERTY AND EQUIPMENT:		
Cable system and installation equipment	7,054,087	20,965,636
Test and office equipment	199,114	421,997
Automobiles and trucks	90,437	286,422
Inventory	261,574	1,605,922
Leasehold improvements	8,531	170,272
	7,613,743	23,450,249
Less accumulated depreciation and amortization	(637,475)	(1,973,040)
Property and equipment, net	6,976,268	21,477,209
COST IN EXCESS OF NET ASSETS ACQUIRED, net of accumulated amortization of $54,426 and $202,516 in 1995 and 1996, respectively	6,924,017	6,877,607
ORGANIZATIONAL COSTS, net of accumulated amortization of $59,228 and $157,535 in 1995 and 1996, respectively	404,764	326,590
OTHER	4,811	9,519
Total assets	$19,346,317	$29,891,745

LIABILITIES AND STOCKHOLDERS' EQUITY	1995	1996
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 3)	[illegible]	[illegible]
Accounts payable	[illegible]	[illegible]
Accounts payable—affiliate (Note 8)	[illegible]	[illegible]
Accrued liabilities	[illegible]	[illegible]
Unearned revenue	[illegible]	615,651
Other	[illegible]	0
Total current liabilities	[illegible]	4,452,022
NONCURRENT LIABILITIES:		
Long-term debt (Note 3)	[illegible]	11,291,296
Total liabilities	12,613,673	15,743,318
MINORITY INTEREST	84,479	0
DEFERRED TAX LIABILITIES, net of allowance of $1,356,820 and $2,475,223 in 1995 and 1996, respectively (Note 6)	379,000	0
COMMITMENTS AND CONTINGENCIES (Notes 4 and 5)		
STOCKHOLDERS' EQUITY:		
Convertible preferred stock, $.01 par value per share; 15,000 shares authorized, 7,520 shares issued and outstanding in 1995; 50,000 shares authorized, 17,092 shares issued and outstanding in 1996	75	171
Common stock, $.01 par value per share; 15,000 shares authorized, no shares issued and outstanding	0	0
Additional paid-in capital	7,454,615	18,459,218
Accumulated deficit	(1,185,534)	(4,310,962)
Total stockholders' equity	6,269,156	14,148,427
Total liabilities and stockholders' equity	$19,346,317	$29,891,745

The accompanying notes are an integral part of these consolidated balance sheets.

CYBERNET HOLDING, INC. AND SUBSIDIARIES

(SUCCESSOR COMPANY)

AND MONTGOMERY CABLEVISION & ENTERTAINMENT, INC.

(PREDECESSOR COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1994,

THE FOUR MONTHS ENDED APRIL 30, 1995,

THE EIGHT MONTHS ENDED DECEMBER 31, 1995,

AND THE YEAR ENDED DECEMBER 31, 1996

	Predecessor Company		Successor Company	
	1994	Four Months Ended April 30, 1995	Eight Months Ended December 31, 1995	1996
OPERATING REVENUES:				
Subscriber	$2,004,419	$ 811,103	$2,016,082	$ 4,682,666
Miscellaneous	107,533	46,058	180,916	651,517
Total	2,111,952	857,161	2,196,998	5,334,183
OPERATING EXPENSES:				
General and administrative	587,979	175,724	1,027,001	2,346,201
Programming charges	1,042,186	409,325	1,029,959	2,513,693
Depreciation and amortization	768,496	259,336	745,004	1,640,025
Field and technical	303,600	98,293	417,273	877,870
Sales and marketing	126,909	16,590	58,414	659,667
Total	2,830,770	959,268	3,277,651	8,037,456
OPERATING LOSS	(718,818)	(102,107)	(1,080,653)	(2,703,273)
OTHER INCOME AND EXPENSES:				
Affiliate interest income (Note 8)	0	0	12,098	273,799
Other interest income	0	0	6,646	46,221
Affiliate interest expense (Note 8)	(165,455)	(2,017)	(58,856)	0
Other interest expense	(65,120)	(19,861)	(509,057)	(1,055,498)
Other income (expense), net	75,158	0	0	(60,000)
Total	(155,417)	(21,878)	(549,169)	(795,478)
LOSS BEFORE MINORITY INTEREST AND INCOME TAX BENEFIT	(874,235)	(123,985)	(1,629,822)	(3,498,751)
MINORITY INTEREST (Note 2)	0	0	109,837	0
LOSS BEFORE INCOME TAX BENEFIT	(874,235)	(123,985)	(1,519,985)	(3,498,751)
INCOME TAX BENEFIT	0	0	334,451	373,323
NET LOSS	(874,235)	(123,985)	(1,185,534)	(3,125,428)
PREFERRED STOCK DIVIDENDS	(591,175)	(230,407)	0	0
NET LOSS AFTER PREFERRED STOCK DIVIDENDS	$(1,465,410)	$(354,392)	$(1,185,534)	$(3,125,589)
PRIMARY NET LOSS PER SHARE (Note 2):				
Weighted average shares outstanding–7,520 and 13,626 shares in 1995 and 1996, respectively	$ 0	$ 0	$ (157.65)	$ (229.37)

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

CYBERNET HOLDING, INC. AND SUBSIDIARIES

(SUCCESSOR COMPANY)

AND MONTGOMERY CABLEVISION & ENTERTAINMENT, INC.

(PREDECESSOR COMPANY)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY

FOR THE YEAR ENDED DECEMBER 31, 1994,

THE FOUR MONTHS ENDED APRIL 30, 1995,

THE EIGHT MONTHS ENDED DECEMBER 31, 1995

AND THE YEAR ENDED DECEMBER 31, 1996

	Common Stock		Additional Paid-In	Preferred Stock		Treasury Stock		Accumulated	Total Stockholders'
	Shares	Amount	Capital	Shares	Amount	Shares	Amount	Deficit	(Deficit) Equity
PREDECESSOR COMPANY:									
BALANCE AT DECEMBER 31, 1993	1,000	$ 10	$6,563,598	197	$197	(5,104)	$(255,200)	$(4,590,788)	$ 1,717,817
Dividends on preferred stock	0	0	0	0	0	0	0	(591,175)	(591,175)
Net loss	0	0	0	0	0	0	0	(874,235)	(874,235)
BALANCE AT DECEMBER 31, 1994	1,000	10	6,563,598	197	197	(5,104)	(255,200)	(6,056,198)	252,407
Dividends on preferred stock	0	0	0	0	0	0	0	(230,487)	(230,487)
Net loss	0	0	0	0	0	0	0	(123,905)	(123,905)
BALANCE AT APRIL 30, 1995	1,000	10	6,563,598	197	197	(5,104)	(255,200)	(6,410,590)	(101,985)
SUCCESSOR COMPANY:									
Initial capital contribution	0	0	200,000	0	0	0	0	0	200,000
Acquisition of Predecessor Company	(1,000)	(10)	(6,563,598)	(197)	(197)	5,104	255,200	6,410,590	101,985
Conversion of capital to preferred stock	0	0	(2)	20	2	0	0	0	0
Issuance of preferred stock, net of related offering expenses of $65,310	0	0	7,254,617	7,500	73	0	0	0	7,254,690
Net loss	0	0	0	0	0	0	0	(1,185,534)	(1,185,534)
BALANCE AT DECEMBER 31, 1995	0	0	7,454,615	7,520	75	0	0	(1,185,534)	6,269,156
Issuance of preferred stock, net of related offering expenses of $429,701	0	0	11,004,603	9,572	96	0	0	0	11,004,699
Net loss	0	0	0	0	0	0	0	(3,125,428)	(3,125,428)
BALANCE AT DECEMBER 31, 1996	0	$ 0	$18,459,218	17,092	$171	0	$ 0	$(4,310,962)	$14,148,427

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

CYBERNET HOLDING, INC. AND SUBSIDIARIES

(SUCCESSOR COMPANY)

AND MONTGOMERY CABLEVISION & ENTERTAINMENT, INC.

(PREDECESSOR COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1994,

THE FOUR MONTHS ENDED APRIL 30, 1995,

THE EIGHT MONTHS ENDED DECEMBER 31, 1995

AND THE YEAR ENDED DECEMBER 31, 1996

	Predecessor Company		Successor Company	
	1994	Four Months Ended April 30, 1995	Eight Months Ended December 31, 1995	1996
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(674,235)	$(123,985)	$(1,185,534)	$ (3,125,428)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	768,496	259,336	745,004	1,640,025
(Gain) loss on disposition of assets	(75,158)	0	0	21,370
Deferred income tax benefit	0	0	(334,451)	(373,323)
Minority interest	0	0	(109,837)	0
Changes in current assets and liabilities:				
Accounts receivable	(22,485)	(11,069)	(205,159)	(512,337)
Prepaid expenses	(6,479)	7,955	(86,156)	(130,950)
Accounts payable	102,646	79,608	(246,687)	(39,648)
Accrued liabilities and interest	163,468	28,528	372,966	293,394
Unearned revenue	26,337	(96,297)	336,894	278,757
Other	0	0	(29,968)	133
Total adjustments	956,825	268,061	442,606	1,177,421
Net cash provided by (used in) operating activities	82,590	144,076	(742,928)	(1,948,007)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(717,325)	(42,504)	(1,291,080)	(14,416,135)
Organizational cost expenditures	0	0	(453,736)	(20,133)
Purchase of investment	0	0	0	(5,000)
Net cash used in investing activities	(717,325)	(42,504)	(1,744,816)	(14,441,268)
CASH FLOWS FROM FINANCING ACTIVITIES:				
(Advances to) repayments from affiliate	0	0	(4,255,836)	4,255,836
Proceeds from issuances of debt and short-term borrowings	855,820	0	51,389	1,258,238
Principal payments on debt and short-term borrowings	(258,873)	(104,889)	(478,624)	(160,900)
Proceeds from initial capitalization of Successor Company	0	0	200,000	0
Proceeds from issuance of preferred stock, net of related offering expenses	0	0	7,254,690	10,818,699
Net cash provided by (used in) financing activities	596,947	(104,889)	2,771,619	16,171,873
NET (DECREASE) INCREASE IN CASH	(37,788)	(3,317)	283,875	(217,402)
CASH AT BEGINNING OF PERIOD	57,724	19,936	16,619	300,494
CASH AT END OF PERIOD	$ 19,936	$ 16,619	$ 300,494	$ 83,092
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the period for interest	$ 235,851	$ 22,027	$ 46,762	$ 1,016,039
Cash paid during the period for income taxes	$ 0	$ 0	$ 0	$ 0
NONCASH INVESTING AND FINANCING ACTIVITIES:				
Preferred stock dividends	$ 591,175	$ 230,407	$ 0	$ 0

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

CYBERNET HOLDING, INC. AND SUBSIDIARIES

(SUCCESSOR COMPANY)

AND MONTGOMERY CABLEVISION & ENTERTAINMENT, INC.

(PREDECESSOR COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1994, 1995, AND 1996

1. ORGANIZATION AND NATURE OF BUSINESS

CyberNet Holding, Inc. and its subsidiaries (the "Company" or "Successor Company") provide integrated, interactive broadband communications services, including cable television, to various areas in the Southeast. The Company was initially capitalized as ITC Broadband Services, L.L.C. (subsequently changed to CyberNet Holding, L.L.C.) in March 1995, at which time it was ultimately wholly owned by ITC Holding Company, Inc. ("ITC Holding"). Due to subsequent equity transactions (Note 7), the Company is no longer a consolidated subsidiary of ITC Holding.

CyberNet Holding, L.L.C. was established for the purpose of the acquisition of Montgomery Cablevision & Entertainment ("MCE" or "Predecessor Company"), a provider of cable television services in Montgomery, Alabama. This acquisition was consummated on April 28, 1995 when the Company purchased the equity interests of InterRedec, Inc. ("InterRedec") in MCE in exchange for a note bearing interest at 9%, with principal and interest due in five years (Note 3). The transaction was accounted for as a purchase. As of December 31, 1995, the Company owned 80% of the common stock and approximately 97% of the preferred stock of MCE. In January 1996, the Company exchanged 200 shares of its preferred stock for the 200 common shares and 5 preferred shares of MCE held by the minority shareholder and $14,000 in cash. As a result of this exchange, MCE is now a wholly owned subsidiary of the Company.

In August 1995, CyberNet Holding, L.L.C. established American Cable, L.L.C. (95% owned by CyberNet Holding, L.L.C. and 5% owned by ITC Holding). On September 29, 1995, American Cable, L.L.C. purchased certain assets of American Cable Company Partnership and American Cable Company (collectively, "American"), a provider of cable television services in Columbus, Georgia, in exchange for a note bearing interest at 9%, with principal and interest due in five years (Note 3). The transaction was accounted for as a purchase.

The following table summarizes the net assets purchased by the Company in connection with its acquisitions of MCE and American and the amount attributable to cost in excess of net assets acquired (in thousands):

	MCE	American	Total
Purchase price	$6,000	$5,000	$11,000
Assumption of note payable	(2,191)	0	(2,191)
Assumption of preferred stock dividends payable	(1,107)	0	(1,107)
Net (assets) liabilities	1,002	(1,725)	(2,080)
Cost in excess of net assets acquired	$3,704	$3,275	$6,979

The acquisitions of these assets have been accounted for as noncash transactions for purposes of the consolidated statements of cash flows.

In November 1995, American Cable, Inc. ("ACI") a Delaware corporation was established. In consideration for shares in ACI, CyberNet Holding, L.L.C. and ITC Holding conveyed their ownership interests in American Cable, L.L.C. to ACI.

In November 1995, the Company (a Delaware corporation) was established. In December 1995, in exchange for shares of the Company's preferred stock, ITC Holding conveyed its direct and indirect interests in CyberNet Holding, L.L.C. and ACI to the Company (Note 7).

CyberNet Holding L.L.C. and American Cable, L.L.C. were dissolved in February and October 1996, respectively.

The Company has experienced operating losses as a result of efforts to build out its broadband systems and expand into new markets. The Company expects to continue to focus on increasing its customer base and expand its broadband operations. Accordingly the Company expects that its operating expenses and capital expenditures will continue to increase significantly, all of which will have a negative impact on short-term operating results. In addition, the Company may change its pricing policies to respond to a changing competitive environment. In the opinion of management, the Company's projected cash flows from operations and existing credit position, including the agreements discussed in Note 9, will be sufficient to meet the capital and operating needs of the Company through at least 1997. However, there can be no assurance that growth in the Company's revenue or customer base will continue or that the company will be able to achieve or sustain profitability and/or positive cash flow.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation

As a result of the MCE acquisition discussed in Note 1, the capital structure of and the basis of accounting for the Company differs from those of MCE prior to the acquisition. Financial data of the Company with respect to all reporting periods subsequent to

April 28, 1995 (the "Successor Period") reflect the acquisition under the purchase method of accounting. Therefore, financial data with respect to MCE prior to the acquisition (the "Predecessor Period") generally will not be comparable to that of the Company with respect to the items described below.

As a result of the acquisitions of MCE and American discussed in Note 1, the statements of operations for the Successor Period includes amortization of cost in excess of net assets acquired and interest expense on debt incurred in connection with the acquisitions. Also, as a result of purchase accounting, the fair values of the property and equipment at the date of their acquisition became their new "cost" bases with respect to the Company. Accordingly, the depreciation of property and equipment for the Successor Period is based on the newly established cost bases of these assets. Other effects of purchase accounting in the Successor Period are not significant.

The statements of operations, stockholders' (deficit) equity, and cash flows for 1995 are divided between the four months ended April 30, 1995, when InterRedec held the controlling interest in the Predecessor Company, and the eight months ended December 31, 1995, when the Successor Company held the controlling interest following the transfer of ownership discussed in Note 1. In addition, the financial statements as of December 31, 1995 and for the eight months then ended include the accounts of CyberNet Holding, Inc., CyberNet Holding, L.L.C., ACL, American Cable, L.L.C., and MCE. The equity share of MCE not owned by the Company is reflected in the accompanying balance sheets and statements of operations as minority interest. The financial statements as of December 31, 1996 and for the year then ended include the accounts of CyberNet Holding, Inc. and MCE. Significant intercompany transactions have been eliminated in consolidation.

Certain prior year amounts have been reclassified to conform with the current year presentation.

Accounting Estimates

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

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with an original maturity date of three months or less to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided for using the straight-line method over the estimated useful lives of the assets, commencing when the asset is installed or placed in service. Maintenance, repairs, and minor renewals are charged to expense as incurred. The cost and accumulated depreciation of property and equipment disposed of are removed from the related accounts, and any gain or loss is included in income. Depreciation and amortization are provided over the estimated useful lives as follows:

Cable system and installation equipment	Seven to ten years
Test and office equipment	Five to seven years
Automobiles and trucks	Five years
Leasehold improvements	Five years

Inventories are valued at the lower of cost or market (determined on a first-in, first-out basis) and include converter boxes and cable and electronic cable hook-up equipment. These items are transferred to cable system and installation equipment when installed.

Cost in Excess of Net Assets Acquired

This amount represents the excess of cost over the fair value of the net assets acquired by the Company in its 1995 purchases of MCI and American discussed in Note 1. These costs are being amortized using the straight-line method over 40 years.

Organizational Costs

Organizational costs represent direct costs, primarily legal and salary costs, incurred in making the Company viable. All indirect costs, such as travel and entertainment, and other general and administrative costs have been expensed as incurred. The deferred costs are being amortized using the straight-line method over a five-year period from the date of inception.

Long-Lived Assets

In 1995, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and cost in excess of net assets acquired related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. The effect of adopting SFAS No. 121 was not material.

The Company periodically reviews the values assigned to long-lived assets such as inventory, property and equipment, and cost in excess of net assets acquired to determine whether any impairments are other than temporary. Management believes that the long-lived assets in the accompanying balance sheets are appropriately valued.

Revenue Recognition

Subscriber revenues are recognized in the month of service. Subscriber fees billed in advance are included in the accompanying balance sheets as unearned revenue and are deferred until the month the service is provided.

Barter Transactions

The Company engages in certain exchanges of services for advertising and promotional services. The Company records these transactions at the market value of the services provided.

Advertising Costs

The Company expenses all advertising costs as incurred.

Income Taxes

The Company utilizes the liability method of accounting for income taxes, as set forth in SFAS No. 109, "Accounting for Income Taxes." Under the liability method, deferred taxes are determined based on the difference between the financial and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax benefit represents the change in the deferred tax asset and liability balances (Note 6).

Net Loss Per Share

Net loss per share is computed using the weighted average number of shares of common stock and dilutive common stock equivalent shares from convertible preferred stock (using the if-converted method). As the Company has no common stock outstanding, the convertible preferred stock is assumed to be converted for purposes of this calculation. The Predecessor Company's net losses per share are not shown, as they are not comparable with the Successor Company's.

Sources of Supplies

The Company attempts to maintain multiple vendors for each required product. However, the Company currently only has one supplier for cable and three suppliers for converters and remotes, which represent important components of its system. If the suppliers are unable to meet the Company's needs as it builds out its network infrastructure, then delays and increased costs in the expansion of the Company's network infrastructure could result, which would adversely affect operating results.

Credit Risk

The Company's accounts receivable potentially subject the Company to credit risk, as collateral is generally not required. The Company's risk of loss is limited due to advance billings to customers for services and the ability to terminate access on delinquent accounts. The concentration of credit risk is mitigated by the large number of customers comprising the customer base. The carrying amount of the Company's receivables approximates their fair values.

3. LONG-TERM DEBT

Long-term debt at December 31, 1995 and 1996 consists of the following:

	1995	1996
InterRedec, bearing interest at 9%, payable on March 31, 2000, plus interest, unsecured (a)	$ 6,000,000	$ 6,000,000
Francine, Inc., bearing interest at 9%, payable on September 29, 2000, plus interest, unsecured (b)	$ 5,000,000	$ 5,000,000
Sterling Bank, bearing interest at prime plus 1%, payable in monthly installments of $5,190, plus interest, through September 1996, unsecured (c)	32,665	0
Sterling Bank, bearing interest at prime plus 1.5%, payable in monthly installments of $1,425, plus interest, through May 1999, unsecured (c)	50,329	36,316
Compass Bank, bearing interest at 8.75%, payable in monthly installments of $1,673 through September 1998, secured	48,453	31,659
SunTrust Bank, bearing interest at 8.25%, payable in monthly installments of $828 through September 1997, secured	15,384	6,828
Former stockholders of MCF, bearing interest at prime, plus 2%, payable on May 16, 1996, unsecured (c)	75,000	0
First National Bank of West Point line of credit, bearing interest at prime, maturing March 1997, unsecured	0	900,000
Compass Bank, bearing interest at 9.25%, payable in monthly installments of $5,426 through November 1999, secured	0	170,000
First National Bank of West Point, note bearing interest at 8.5%, payable in monthly installments of $945 through March 1999, secured	0	23,200

	1995	1996
Troup capitalized lease obligation, at a rate of 10 payable in quarterly installments of $6,304 through December 2006, secured	0	151,166
	11,221,831	12,319,169
Less current maturities	146,133	1,027,873
	$11,075,698	$11,291,296

(a) ITC Holding is a co-obligor under this note
(b) ITC Holding is a guarantor of this note
(c) The prime rate was 8.5% and 8.25% at December 31, 1995 and 1996, respectively

Following are maturities of long-term debt for each of the next five years as of December 31, 1996:

1997	$ 1,027,873
1998	124,509
1999	91,230
2000	25,214
2001	11,025,214
Thereafter	25,214
Total	$12,319,169

The fair values of long-term debt exclusive of affiliated debt, including current maturities, at December 31, 1995 and 1996 are estimated to be approximately $8,838,000 and $9,397,000, respectively, based on a valuation technique that considers cash flows discounted at current rates

4. OPERATING LEASES

The Company leases office space, utility poles, and other assets for varying periods. Leases that expire are generally expected to be renewed or replaced by other leases.

Future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1996 are as follows:

1997	$128,144
1998	122,929
1999	124,694
2000	94,41[illegible]
2001	73,115
Total minimum lease payments	$543,293

Total rental expense for all operating leases was approximately $77,000, $27,000, $66,000, and $70,000 for the year ended December 31, 1994, the four months ended April 30, 1995, the eight months ended December 31, 1995, and the year ended December 31, 1996, respectively.

5. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

Effective January 1996, the Company joined the National Cable Television Cooperative ("NCTC"), which coordinates programming for member cable companies. In addition, the Company has entered into contracts with various entities not in NCTC to provide programming to be aired by the Company. As compensation for the programming, the Company pays a monthly fee to NCTC or the individual supplier. The fee is generally based on the number of average subscribers to the program, although some fees are adjusted based on the total number of subscribers to the system and/or the system penetration percentage. Certain contracts have minimum monthly fees. The Company has budgeted approximately $3.9 million in future minimum payments required in 1997.

Build-Out Requirements

Under a franchise agreement with the city of Montgomery, Alabama, MCE is subject to the terms and conditions specified by City Ordinance Number 16-90. One such condition contains a build-out clause which requires MCE to complete 200 miles of service per year over the five-year period commencing March 6, 1990, with certain grace periods specified in the agreement. Failure to meet the build-out requirements would subject MCE to a penalty for each time period during which MCE failed to meet the build-out requirements and would permit the city of Montgomery to revoke its franchise. In connection with the proposed sale of InterRedec's interest in MCE discussed in Note 1, City Resolution Number 58-95 was approved by the Montgomery City Council on April 4, 1995. This resolution extended MCE's time frame to meet the current period requirements until August 4, 1996. In management's opinion, MCE is currently in compliance with this ordinance.

Legal Proceedings

In the normal course of business, the Company is subject to various litigation; however, in management's opinion, there are no legal proceedings pending against the Company which would have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

6. INCOME TAXES

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of deferred tax assets and liabilities as of December 31, 1995 and 1996 are as follows (in thousands):

	1995	1996
Deferred tax assets:		
Net operating loss carryforwards	$1,663	$3,875
Other	48	92
Valuation allowance	(1,357)	(2,475)
Total deferred tax assets	354	1,492
Deferred tax liabilities--depreciation and amortization	(739)	(1,492)
Net deferred tax liabilities	(385)	0
Portion included in current assets	6	0
Net deferred taxes	$ (379)	$ 0

The Company has available, at December 31, 1996, unused operating loss carryforwards of approximately $3,875,000 expiring in various years from 2005 to 2011, unless utilized. Management has recorded a valuation allowance of approximately $1,357,000 and $2,475,000 in 1995 and 1996, respectively, on these operating loss carryforwards, the majority of which contain limitations on utilization.

A reconciliation of the income tax provision computed at statutory tax rates to the income tax provision for the year ended December 31, 1994, the four months ended April 30, 1995, the eight months ended December 31, 1995, and the year ended December 31, 1996 is as follows:

	Predecessor Company		Successor Company	
	1994	Four Months Ended April 30, 1995	Eight Months Ended December 31, 1995	1996
Income tax benefit at statutory rate	(34)%	(34)%	(34)%	(34)%
State income taxes, net of federal benefit	(2)	(2)	(2)	(2)
Tax benefits recorded by ITC Holding	0	0	14	0
Prior year actualization	0	0	0	(6)
Goodwill	0	0	0	(1)
Deferred tax valuation allowance	36	36	0	32
	0%	0%	(22)%	(11)%

A limited liability company is treated as a partnership for income tax purposes. Therefore, through November 1995, the income tax benefits generated by CyberNet Holding, L.L.C. and American Cable, L.L.C. were recorded by ITC Holding as the corporate owner of these entities. Following the formation of ACI and CyberNet Holding, Inc. and the subsequent transfer of ownership interests in CyberNet Holding, L.L.C. and ACI from ITC Holding in December 1995 (Notes 1 and 8), the Company recognized the income tax benefits generated by its subsidiaries in the accompanying statements of operations for the Successor Period. Effective December 1995, the Company and its subsidiaries began filing a consolidated federal income tax return. Each entity files separate state income tax returns.

For the period following the acquisition of MCE by CyberNet Holding, L.L.C. through the formation of the Company, MCE filed separate income tax returns. Subsequent to the formation of the Company, MCE is included in the Company's consolidated federal income tax return.

7. EQUITY INTERESTS

Predecessor Company Stock Transactions

On June 16, 1993, MCE effected a recapitalization whereby InterRedec forgave $4,658,000 in debt in exchange for an increase in its equity ownership, 5,104 shares of common stock were repurchased for total proceeds of $255,200 from various shareholders, and the remaining outstanding common and preferred shares were adjusted such that InterRedec owned 80% of the outstanding $.01 par value common stock and approximately 97% of the outstanding $1 par value preferred stock. The repurchased shares are reflected as treasury stock in the accompanying statements of stockholders' (deficit) equity at cost.

The cost associated with the cumulative nonvoting preferred stock following the recapitalization is $31,000 per share. The shares of cumulative nonvoting preferred stock may be called for redemption by the Company at any time, and upon such call, the Company shall pay $32,750 per share in cash plus an amount equal to all dividends accrued and unpaid thereon to the date of such redemption. The Company is accreting the difference between the redemption price and the face value of the shares over a five-year period as a charge to retained earnings and a corresponding increase to additional paid-in capital. The holders of the cumulative nonvoting preferred stock shall be entitled to receive, out of the unreserved and unrestricted surplus or net profits of the corporation, cash dividends as declared by the board of directors. No such dividends have been declared as of December 31, 1996, but the Company is accruing dividends at a rate of prime plus 2%. The preferred stock has no conversion privileges. For the eight months ended December 31, 1995 and the year ended December 31, 1996, these preferred stock accretion and dividend amounts were eliminated in consolidation.

Successor Company Capital Transactions

The Successor Company has authorized 15,000 shares of $.01 par value common stock and 50,000 shares of $.01 par value convertible preferred stock. In December 1995, the Company offered 7,780 shares of preferred stock for subscription at $1,000 per share. At December 31, 1995, subscriptions had been accepted for 7,520 shares and consideration of $1,000 per share had been received. As additional consideration for 4,000 shares, ITC Holding conveyed its direct and indirect ownership interests in CyberNet Holding, L.L.C. and ACI to the Company. In January 1996, the remaining subscriptions for 260 shares were accepted. Included in this amount are 200 shares which were exchanged for the minority interest of MCE (Note 1). In April 1996, the Company offered and accepted 9,312 shares of preferred shares for subscription at $1,200 per share. The amount of the consideration paid in excess of the par value, net of expenses incurred in connection with the issuance, is included in additional paid-in capital on the accompanying balance sheets. Each share of convertible preferred stock is automatically convertible into common stock on a one-for-one basis at the earlier of either the effective date of a public offering of common stock by the Company or on December 8, 2000. In the event of liquidation of the Company, whether voluntary or involuntary, the holders of convertible preferred stock are entitled to receive preferential distributions of $1,000 or $1,200 per share (depending on when issued) before any distributions to common stockholders. The holders of the preferred stock are not entitled to any other preferences, including dividends.

Successor Company Stockholders' Agreement

The Company entered into a stockholders' agreement (the "Stockholders' Agreement"), dated as of December 8, 1995 and amended as of January 25, 1996, with all of the stockholders of the Company. None of the parties to the Stockholders' Agreement may transfer any class or series of capital stock of the Company or any right or option to acquire any share of capital stock of the Company held by such party to third parties (subject to limited exceptions) without having offered rights of first refusal to purchase such securities to the Company. The Stockholders' Agreement will irrevocably terminate upon the consummation of an initial public offering.

Successor Company Stock Option Plan

Under the Company's 1995 stock option plan (the "Stock Option Plan"), as adopted in December 1995, 844 shares of common stock are reserved and authorized for issuance upon the exercise of the options. All employees of the Company are eligible to receive options under the Stock Option Plan. The Stock Option Plan is administered by the compensation and stock option committee of the board of directors. Options granted under the Stock Option Plan are intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended.

The Company granted 502.95 options for shares of common stock to all employees at $1,200 per share during 1996. At December 31, 1996, there were 351.98 options outstanding with option prices of $1,200. All options were granted at an exercise price equal to the estimated fair value of the common stock at the dates of grant as determined by the board of directors based on equity transactions and other analyses. The options expire ten years from the date of grant.

Options for 110.11 shares granted to one executive officer become exercisable as to 40% on January 1, 1997 and as to an additional 20% annually thereafter through January 1, 2000. Options for 72.7 shares granted to one other executive officer and another employee become exercisable as to 40% on January 1, 1998 and as to an additional 20% annually thereafter through January 1, 2001. On October 29, 1996 an additional 13 shares were issued to this employee, exercisable on the same vesting schedule. The remaining options become exercisable as to 40% two years from the date of issuance and as to an additional 20% annually for the three following years.

Statement of Financial Accounting Standards No. 123

During 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation," which defines a fair value-based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities electing to remain with the accounting methodology required by APB Opinion No. 25 must make pro forma disclosures of net income and, if presented, earnings per share as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

The Company has elected to account for its stock based compensation plans under APB Opinion No. 25, under which no compensation cost has been recognized by the Company. However, the Company has computed, for pro forma disclosure purposes, the value of all options for shares of the Company's common stock to employees of the Company using the minimum value option pricing model and the following weighted average assumptions in 1996:

Risk-free interest rate	6.41%
Expected dividend yield	0%
Expected lives	Seven years
Expected forfeiture rate	7%

The weighted average fair value of options granted was $1,200 for 1996. The total value of options for the Company's stock granted to employees of the Company during 1996 was computed as approximately $154,000, which would be amortized on a pro forma basis over the five-year vesting period of the options. If the Company had accounted for these plans in accordance with SFAS No. 123, the Company's net loss for the year ended December 31,1996 would have increased as follows:

	As Reported	Pro Forma
Net loss for the year ended December 31, 1996	$(3,125,428)	$(3,155,917)

A summary of the status of the Company's stock option plan at December 31, 1996 is presented in the following table:

	Shares	Weighted Average Price Per Share
Outstanding at December 31, 1995	0.00	$ 0
Granted	502.95	1,200
Forfeited	150.97	1,200
Outstanding at December 31, 1996	351.98	1,200

No options were exercisable at December 31, 1996.

8. RELATED-PARTY TRANSACTIONS

Following the recapitalization of MCE (Note 7), InterRedec and MCE entered into a revolving credit agreement and note up to $2,000,000. Included in interest expense--affiliate for the year ended December 31, 1994 are interest costs of approximately $166,000 incurred by MCE related to this note. In connection with the Company's purchase of InterRedec's interest in MCE (Note 1), the Company assumed this note payable to InterRedec. For the four months ended April 30, 1995, interest on the note payable was forgiven as part of the sale. During the Successor Period, the note and the related interest expense were eliminated for consolidation purposes.

The current portion of long-term debt at December 31, 1995 includes notes due to former stockholders of MCE. These notes were repaid, with interest, in 1996.

ITC Holding occasionally provides certain administrative services, such as legal and tax planning services, for the Company. The costs of these services are charged to the Company based primarily on the salaries and related expenses for certain of the ITC Holding executives and an estimate of their time spent on projects specific to the Company. ITC Holding also leases office space to the Company in West Point, Georgia. For the period from inception (March 10, 1995) through December 31, 1995 and the year ended December 31, 1996, the Company recorded $1,000 and $24,000 in selling, operations, and administrative expenses related to these services. In the opinion of management, the methodology used to calculate the amounts charged to the Company is reasonable.

Certain of ITC Holding's other wholly owned or majority-owned subsidiaries provide the Company with various services and/or receive services provided by the Company. These entities include Interstate Telephone Company and Valley Telephone Company, which provide local and long-distance telephone services; DeltaCom, Inc., which provides long-distance and related services; InterCall, Inc., which provides conference calling services; and InterState FiberNet, which leases capacity on certain of its fiber routes. ITC Holding also holds equity investments in the following entities which do business with the Company: InterCel, Inc., which provides cellular services, and MindSpring Enterprises, Inc. ("MindSpring"), which is a regional provider of Internet access. In management's opinion, the Company's transactions with these affiliated entities are generally representative of arm's-length transactions.

For the period from inception (March 10, 1995) through December 31, 1995 and the year ended December 31, 1996, the Company received services from these affiliated entities in the amounts of $14,000 and $48,000, respectively, which are reflected in selling, operations, and administration expenses in the Company's statements of operations. In addition, in 1996, the Company received services from these affiliated entities in the amount of $11,000, which is reflected in field and technical expenses in the Company's statement of operations. At December 31, 1995 and 1996, amounts payable for these services of $158,000 and $7,000, respectively, are recorded in the Company's balance sheets as accounts payable—affiliate.

In December 1996, the Company invested $5,000 in an airplane co-owned by ITC Holding and several of its subsidiaries and other affiliated entities.

Amounts reflected as advances to affiliate at December 31, 1995 and which were outstanding for the majority of 1996 represent excess funds from the issuance of the Company's convertible preferred stock which were loaned to ITC Holding at an annual interest rate of 7%. The Company recorded interest income of approximately $12,000 and $274,000 for the period from inception (March 10, 1995) through December 31, 1995 and for the year ended December 31, 1996, respectively, on these advances, of which approximately $12,000 and $1,000 is reflected as interest receivable--affiliate in the accompanying balance sheets as of December 31, 1995 and 1996, respectively. The advances were repaid in December 1996.

An affiliate of the Company processed payments for the Company during 1995. Amounts included in accounts payable--affiliate reflect amounts owed to the affiliate for reimbursement of these payments as of December 31, 1995. These amounts were repaid in 1996, and the affiliate is no longer processing payments.

Relatives of the stockholders of ITC Holding are stockholders and employees of the Company's insurance provider. The costs charged to the Company for insurance services were approximately $86,000 and $36,000 for the year ended December 31, 1996 and for the period from inception (March 10, 1995) through December 31, 1995, respectively.

In 1995, an affiliate constructed fiber routes on behalf of the Company in Auburn, Alabama. The Company intends to develop the Auburn, Alabama, area in the future; however, since the exact plans and timing for development are uncertain, the Company recorded the $62,830 costs of constructing these routes as field and technical expense for the eight months ended December 31, 1995. This affiliate also provided certain engineering and construction-related management services to the Company in 1995. The Company was not billed for these services, which are estimated to have a value of approximately $50,000.

The chief executive officer of an affiliate served since July 15, 1996 as president and chief executive officer and as a director of the Company. He served in his capacity as chief executive officer and president of the Company at the request of the Company and ITC Holding and received no compensation from the Company for the year ended December 31, 1996. He resigned as chief executive officer and president of the Company effective February 20, 1997. The value of his services provided through February 20, 1997 is estimated to total approximately $20,000.

9. SUBSEQUENT EVENTS

Stock Option Plan

On January 21, 1997, the compensation committee of the board of directors granted options for 20 shares of the Company's preferred stock under the terms of the Stock Option Plan at an exercise price of $1,200 per share.

Private Equity Offering

In February 1997, the Company offered and accepted subscriptions for 8,960 shares of preferred stock at $1,200 per share. The proceeds, net of issuance expenses of $46,598, were $10,705,402.

Financing Arrangements

On May 7, 1997, the Company signed a letter of intent with SCANA Corporation ("SCANA") whereby SCANA will provide the Company with a revolving credit facility of up to $40,000,000 (the "SCANA Credit Facility") to fund construction for completion of its broadband network in Montgomery, Alabama, and Columbus, Georgia, as well as up to $5,000,000 for expansion into other cities, and for working capital. The SCANA Credit Facility, which is subject to reaching a definitive agreement within 90 days and receiving certain authorizations and approvals, will allow monthly drawdowns of between $500,000 and $5,000,000. Interest will accrue from the date of each drawdown on all outstanding principal, plus any accrued but unpaid interest at 12% per annum. On December 31, 1998, all outstanding amounts including unpaid interest will automatically convert to a term loan, payable in quarterly installments to be repaid over no more than five years. There is no penalty for early repayment. SCANA will also receive warrants to purchase preferred stock in an amount equal to 10% of each drawdown plus any incremental accrued interest. The price of the warrants has yet to be determined. The Company is responsible for legal and filing fees incurred in connection with the SCANA Credit Facility up to a maximum of $40,000.

On May 13, 1997, the Company obtained a $3,000,000 bridge loan facility from First National Bank of West Point (the "Bridge Facility") to provide additional liquidity until the SCANA Credit Facility is fully executed. Interest will accrue at the prime rate (as announced by SunTrust Bank, Atlanta) plus .5% per annum on all outstanding principal amounts, plus accrued but unpaid interest. The Bridge Facility is payable on demand with a final maturity date of July 15, 1997.