LAW OFFICES
MESSER, CAPARELLO, MADSEN, GOLDMAN & METZ
A PROFESSIONAL ASSOCIATION

215 SOUTH MONROE STREET, SUITE 701
POST OFFICE BOX 1876
TALLAHASSEE, FLORIDA 32302-1876
TELEPHONE (904) 222-0720
TELECOPIERS (904) 224-4359 (904) 425-1942

June 3, 1996

960698-TL

BY HAND DELIVERY

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

Dear Ms. Bayo:

Enclosed for filing on behalf of American Communication Services of Jacksonville, Inc. are an original and six copies of the Application for Authority to Provide 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 two extra copies of this letter.

Your attention to this filing is appreciated.

Sincerely,

Norman H. Horton, Jr.

Norman H. Horton, Jr.

NHH/alb
Enclosures
cc: Charles Kallenbach, Esq.

DOCUMENT NUMBER-DATE
06069 JUN-3 96
FPSC-RECORDS/REPORTING

Before the
STATE OF FLORIDA
PUBLIC SERVICE COMMISSION

Application of AMERICAN COMMUNICATION SERVICES OF JACKSONVILLE, INC. for Authority to Provide Local Telecommunications Service Statewide	))))	Docket No.

APPLICATION

Floyd R. Self, Esq.
Norman H. Horton, Jr.
MESSER, CAPARELLO, MADSEN, GOLDMAN & METZ
215 South Monroe Street
Suite 701
Tallahassee, Florida 32302-1876

James C. Falvey, Esq.
Charles H. N. Kallenbach, Esq.
AMERICAN COMMUNICATIONS SERVICES, INC.
131 National Business Parkway
Suite 100
Annapolis Junction, Maryland 20701

Their Attorneys

DCU1/ZOCHM/22409.41

Before the
STATE OF FLORIDA
PUBLIC SERVICE COMMISSION

Application of AMERICAN COMMUNICATION	)	
SERVICES OF JACKSONVILLE, INC. for	)	
Authority to Provide Local	)	Docket No.
Telecommunications Service Statewide	)	

APPLICATION

American Communication Services of Jacksonville, Inc. ("ACSI Jacksonville"), by its attorneys, respectfully requests that the Florida Public Service Commission ("Commission") grant it authority to provide local switched and dedicated telecommunications services to the public statewide. Specifically, ACSI Jacksonville requests that the Commission allow it to provide private line, special access and competitive local switched services throughout the State of Florida.

ACSI Jacksonville urges the Commission to continue to move toward full-fledged competition in the market for local telecommunications services in Florida. As the Commission has recognized, competition promotes the public interest by reducing costs, increasing efficiency, stimulating innovation and expanding the variety of products and services offered to consumers.

In support of its Application, ACSI Jacksonville provides the following information:

I. The Applicant

ACSI Jacksonville is incorporated under the laws of the State of Maryland. ACSI Jacksonville maintains its headquarters at 131 National Business Parkway, Annapolis Junction, Maryland 20701 and is qualified to do business in Florida as a foreign corporation. ACSI Jacksonville is a wholly-owned subsidiary of American Communications Services, Inc. ("ACSI"), a publicly-held Delaware corporation headquartered at 131 National Business Parkway, Suite 100, Annapolis Junction, MD 20701. Copies of the Applicant's Articles of Incorporation and Certificate of Qualification are attached hereto as Exhibits A and B respectively.

II. Designated Contacts

All correspondence, notices and inquiries regarding this Application should be addressed to:

Floyd R. Self, Esq.
MESSER, CAPARELLO, MADSEN, GOLDMAN & METZ
215 South Monroe Street
Suite 701
Tallahassee, Florida 32302-1876
(904) 222-0720

Copies of all correspondence should also be sent to:

Riley M. Murphy, Esq.
James C. Falvey, Esq.
AMERICAN COMMUNICATIONS SERVICES, INC.
131 National Business Parkway
Suite 100
Annapolis Junction, Maryland 20701

III. Request for Authority to Provide Private Line and Special Access Services

ACSI Jacksonville respectfully requests that the Commission grant it authority to provide private line and special access services within Florida. ACSI Jacksonville proposes to provide point to point high capacity non-switched interconnections, including interconnection between: (1) points-of-presence ("POPs") of the same interexchange carrier ("IXC"); (2) POPs of different IXCs; (3) large business and government end-users and their selected IXCs; (4) a POP and a local exchange carrier ("LEC") central office or two LEC central offices; and (5) different locations of business or government customers.

Specifically, ACSI Jacksonville proposes to offer the following dedicated services:

- *Special Access Services* that provide a link between an end-user location and the POP of its IXC, or links between IXC POPs.
    - *Switched Transport Services* that are offered to IXCs that have large volumes of long distance traffic aggregated by a LEC switch at a central office where the CAP has collocated its network. ACSI Jacksonville will provide dedicated facilities for transporting these aggregated volumes of long distance traffic from the LEC central office to its POP or between LEC central offices.
    - *Private Line Services* that provide dedicated facilities between two end-user locations in the same metropolitan area (*e.g.*, a central banking facility and a branch office or a manufacturing facility and its remote data processing center).

IV. Request for Authority to Provide Switched IntraLATA Intrastate Telecommunications Services

In addition, Applicant also seeks authority to provide switched intraLATA intrastate telecommunications services to the public on a statewide basis both through the use of their own facilities and by reselling local services obtained from other LECs. ACSI Jacksonville intends to operate as a competitive local exchange carrier ("CLEC") offering a variety of dedicated and switched services.

The Applicant seeks authority to provide local switched services such as:

- *"Plain Old Telephone Service"* -- originating and terminating local calls;
- *Switched Access Service* -- originating and terminating traffic between a customer premise and an IXC POP via shared local trunks using a local switch;
- *PBX Trunking* -- carrying switched traffic between the Applicant's switch and the customer's PBX.

V. Description and Fitness of the Applicant

ACSI Jacksonville is well-qualified to provide the services for which authority is requested in this Application. ACSI, through its operating subsidiaries, already has constructed and is successfully operating digital fiber optic networks and offering dedicated services in several states. ACSI currently has eleven operational networks[1] and an additional nine networks are under construction.[2]

ACSI and the Applicant are managed by a team of well qualified officers and directors who have extensive experience in the telecommunications industry with companies such as Metropolitan Fiber Systems (the predecessor of MFS Communications Company, Inc.), MCI, Cable and Wireless, Inc., WorldCom, Inc. (formerly LDDS Communications, Inc.) and TRT

---

[1] ACSI's operational networks are located in: Columbia, South Carolina; Fort Worth, Texas; Greenville, South Carolina; Little Rock, Arkansas; Louisville, Kentucky; El Paso, Texas; Albuquerque, New Mexico; Mobile, Alabama; Montgomery, Alabama; Lexington, Kentucky; and Tucson, Arizona.

[2] ACSI expects the following networks to be operational by mid-1996: Charleston, South Carolina; Spartanburg, South Carolina; Irving, Texas; Columbus, Georgia; Jackson, Mississippi; Birmingham, Alabama; Baton Rouge, Louisiana; and Amarillo, Texas.

Communications,. The names, titles and backgrounds of the officers and directors of the ACSI companies are listed in Exhibit C hereto.

As a start-up company, the Applicant has no significant financial history. However, the Applicant, though the strength of its parent corporation, ACSI, has access to ample capital to finish developing its network and to establish itself as a going concern financially capable of providing the services for which authority is requested herein. Copies of ACSI's most recent financial statements, and annual report are attached hereto as Exhibits.

VI. Network Description

ACSI Jacksonville will operate as a facilities-based and non-facilities-based carrier of local telecommunications services. The Applicant will construct its network using self-healing fiber optic ring topology. High capacity backbone routes will be built connecting the interexchange carriers and high volume telecommunications users in Florida. The network will then extend distribution rings from the backbone to reach end-user buildings not on the initial ring. The fiber network will also be connected to the local telephone company to facilitate interconnection with its networks.

The Applicant's system will provide state-of-the-art fiber optic clarity, speed, diversity of access, and virtually complete reliability of service, with automatic stand-by and rerouting in the event of a system failure. The network will be designed to provide at least two completely diverse routes, offering customers access to telecommunications services in the event of a fiber cable cut. If a system failure occurs, service is restored automatically within less than 50 milliseconds, usually without any detectable service interruption to the end-user. The network will also provide backup for customers in the event of a failure or disaster in the local telephone company's system.

The Applicant's network will utilize single mode fiber optic cable. State-of-the-art DDM 2000 SONET ring multiplexers will be deployed at IXC, Bell and end-user customer locations. Hub sites will be built on the network as well. The system will be constantly monitored by sophisticated network management equipment for transmission errors or deterioration in service.

VII. Proposed Tariffs

The Applicant intends to provide service in Florida pursuant to the terms and conditions outlined in its proposed illustrative tariffs, which are attached hereto as Exhibits.

VIII. Public Interest

A decision by the Commission granting ACSI Jacksonville authority to provide the local telecommunications services described herein is in the public interest. Permitting the Applicant to provide the services described in this Application will expand service options and increase competition in Florida without any adverse impact on the Commission's goals of universal service and affordable local service for individual customers. Approval will lead directly to substantial additional private investment in Florida's telecommunications infrastructure and promote consumer choice by expanding the availability of innovative, high quality, reliable and competitively-priced telecommunications services. Approval also is likely to cause other local telecommunications providers to improve their existing services, become more efficient and introduce service innovations of their own.

WHEREFORE, ACSI Jacksonville respectfully requests that the Commission grant it authority to transact the business of a provider of switched and dedicated local telecommunications services within the State of Florida.

Respectfully submitted,

AMERICAN COMMUNICATION SERVICES OF JACKSONVILLE

By: Norman H. Horton, Jr.

Floyd R. Self, Esq.
Norman H. Horton, Jr.
MESSER, CAPARELLO, MADSEN, GOLDMAN & METZ
215 South Monroe Street
Suite 701
Tallahassee, Florida 32302-1876
(904) 222-0720

James C. Falvey, Esq.
Charles H. N. Kallenbach, Esq.
AMERICAN COMMUNICATIONS SERVICES, INC.
131 National Business Parkway
Suite 100
Annapolis Junction, Maryland 20701

Their Attorneys

DATED: June 3, 1996

LAW OFFICES
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A PROFESSIONAL ASSOCIATION

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June 3, 1996

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Room 110, Easley Building
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Sincerely,

Norman H. Horton

Norman H. Horton, Jr.

NHH/alb
Enclosures
cc: Charles Kallenbach, Esq.

96 JUN -3 PM 4:18
MAILROOM

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: ____________________ March 29, 1996
Signature — **Date**

Title: Executive Vice President
Legal & Regulatory Affairs

301-617-4215
Telephone Number

Address: 131 National Business Parkway
Suite 100
Annapolis Junction, MD 20701

FORM PSC/CMU 8 (07/95)
Required by Chapter 364.337 F.S.

EXHIBIT A

ACSI Management Biographies

Anthony J. Pompliano, Chairman of the Board

Mr. Pompliano, who has over 35 years of telecommunications experience, joined the Company in August 1993. He was a co-founder of Metropolitan Fiber Systems of Chicago, Inc. (the predecessor of MFS Communications Company, Inc. and the largest public CAP in the country). Prior to leaving MFS in May 1991, Mr. Pompliano served as President, CEO and Vice-Chairman. He joined ACSI after the expiration of his two-year non-compete agreement with MFS. Before his association with MFS, Mr. Pompliano was Vice President - Sales for MCI Midwest (MCI Communications Corporation) and V.P. - National Operations for Western Union International, Inc.

Richard A. Kozak, President and Chief Executive Officer

Mr. Kozak, who has over 20 years telecommunications experience, joined the Company in November 1993. He was formerly President of the Southern Division of MFS Telecom, where he was responsible for MFS networks in Atlanta, Baltimore, Dallas, Houston, Philadelphia, Pittsburgh, and Washington, DC, as well as establishing networks in additional markets. Previously, he was President of MFS Development, where he was responsible for the planning, development, and implementation of more than $100 million of major expansions of MFS networks throughout the country, and Senior Vice President of Network Services for MFS. Prior to joining MFS in 1990, he was a Vice President and General Manager for Telenet Communications Corporation (now Sprint International) and an Executive Vice President and Chief Financial Officer for TRT Communications. Mr. Kozak holds an engineering degree from Brown University, studied at the University of Chicago Graduate School of Business, and completed his M.B.A. in Finance at the George Washington University School of Government and Business Administration.

George M. Tronsrue, III, Chief Operating Officer

Mr. Tronsrue has 18 years of telecommunications industry and management experience and was appointed COO in February, 1996. Prior to joining ACSI as Executive Vice President for Strategic Planning and Business Development in February 1994, he was Regional Vice President for the Central Region of Teleport Communications Group (TCG) and TCG's Vice President of Emerging Markets, responsible for start-up and profit and loss management of joint ventures with top cable TV providers in eight major markets. Prior to his employment at TCG, he was a member of the initial management team of MFS, where he held senior positions in planning and market development, served as Vice President/General Manager for the initial start-up of MFS's New York network, and Executive Vice President for MFS Intelenet. Previously, Mr. Tronsrue was a Director of Operations for MCI Midwest. He holds 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

Ms. Murphy has 14 years experience in the private practice of telecommunications law for interexchange, cellular, paging, and other competitive services, representing some of the nation's largest carriers. Ms. Murphy joined ACSI full-time in April 1994 and was Senior Counsel to Locke Purnell Rain Harrell, a Dallas-based law firm, through December 1994. From 1987 to 1992, she was a partner in Wirpel and Murphy, a telecommunications law firm she co-founded, and from 1992 to 1993 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.

Harry D'Andrea, Chief Financial Officer

Mr. D'Andrea is a senior financial executive with 15 years of experience in the financial management of companies ranging in size from $1 billion to $17 billion in revenues. Prior to joining ACSI, Mr. D'Andrea was EVP and CFO of Caterair, the world's largest airline catering company. Before joining Caterair, he served as Controller for the European In-flight Services Division of Marriott Corporation from 1987-1989; a post which allowed him to use his undergraduate degree from Penn State in Foreign Service and International Politics. He also held two earlier financial management positions at Marriott. Mr. D'Andrea began his career at Xerox after completing his MBA in Finance at Drexel University.

Douglas R. Hudson, Executive Vice President/GM - Network Services

Mr. Hudson has 12 years sales and marketing experience in the telecommunications industry. For the seven years prior to joining ACSI in May 1994, he had been with MFS, starting as director of field sales, then Vice President of Industry Sales and Marketing, and most recently Vice President and General Manager in charge of MFS' Mid-Atlantic region. Previous to his employment with MFS, Mr. Hudson was a regional sales manager for Microtel, a national telecom firm providing long distance and private line services.

Richard Robertson, Executive Vice President - Switched Services

Mr. Robertson, a 16-year veteran of BellSouth, came to ACSI in April having directed marketing activities 'or the regional Bell company's $3.5 billion network interconnection business since 1991. In that role, he was responsible for negotiating interconnection agreements with competitive local exchange carriers. He was responsible for development and implementation of BellSouth's advanced intelligent network (AIN) services for the interconnection market and also formulated the company's plan for and entry into the customer premise equipment (CPE) market in the mid-1980s, leading that unit to achieve over $100 million in sales in its first year of operation. In other assignments during his 28-year career, Mr. Robertson's experience included outside plant, manufacturing, finance, purchasing, strategy development and R&D positions with Western Electric, Bellcore, and the U.S. Army. Mr. Robertson has a bac' elor's degree in electrical engineering from Virginia Tech and an MBA from the University of Virginia.

Michael Mansouri, Executive Vice President/General Manager - Advanced Data Services

Before coming to ACSI, Mr. Mansouri spent nearly ten years at Sprint International, serving as director of international multimedia services, director of global messaging, director of global value added systems, and director of business development. Prior to Sprint, Mr. Mansouri was a manager of Applied Communications Systems at Tymshare/Tymnet, Inc. Mr. Mansouri holds a B.S. in computer science and statistics from Utah State University and an M.S. in operations research from The George Washington University.

Robert Ottman, Executive Vice President - Network Systems and Technology Services

Mr. Ottman, who has over 30 years of telecommunications industry experience, joined the Company in May 1995. Prior to joining ACSI, Mr. Ottman served in a variety of senior management and executive positions at MCI International, serving as Director - Operations and Labor Relations from 1982 - 1988, Vice President - Administration and Quality Assurance from 1988 - 1992, and Vice President - Operations and Administration from 1992 - 1995. Prior to his tenure at MCI, Mr. Ottman spent 17 years with Western Union International, starting as a technician in 1965 and rising to Director of Operations, a post he held from 1979 - 1982.

Dennis J. Ives, Senior Vice President - Network Development

Mr. Ives is responsible for outside plant engineering, network design, procurement and construction of all of ACSI's networks. Prior to joining ACSI in 1992, Mr. Ives was Vice President of Operations for Diginet Communications, a CAP serving the Chicago and Milwaukee markets, where he supervised the design, construction and operation of a 110-mile network. Previous to his employment at Diginet, Mr. Ives spent 30 years in various network-related managerial positions with AT&T Long Lines/Communications Division, with particular emphasis on provisioning, operations and quality control matters.

Martin F. McDermott, III, Sr. Vice President - Marketing

Mr. McDermott brings 30 years of experience in the telecommunications field to our company. He most recently served as chief operating officer for American Wireless Communications Corp., a company created to provide long distance service to small companies nationwide. Previously, he held two posts as vice president for Wiltel, first in Marketing and Customer Service and then in Federal Systems. Mr. McDermott made his mark in the industry as COO of a long distance coalition for carriers known as the National Telecommunications Network (NTN). He is a graduate of Georgetown University and a published author of a book about operating an interconnect company, as well as an active force in industry associations such as ACTA, NATA and Comptel.

Eli Stearns, Vice President - Real Estate Development

Prior to joining ACSI in February 1995, Mr. Stearns spent seven years overseeing real estate and building access for MFS Communications nationwide. Previous to his employment at MFS, Mr. Stearns spent two years in commercial real estate development, six years as a project manager for Chicago-based Pepper Construction Company and three years as an architectural engineer with A.M. Kinney, designing commercial office buildings. Mr. Stearns holds a B.S. degree in architecture from the University of Illinois at Champaign.

Mark C. Fuller, Regional Vice President/General Manager - East

Previous to joining ACSI in November 1994, he was Director of Sales at Teleport Communications Group, managing an 11 member national account team responsible for sales of access facilities to MCI with annual revenues in excess of $6 million. Prior to his position at TCG, Mr. Fuller held numerous management positions at MCI, including marketing support manager (where he was responsible for developing relationships with competitive access providers and for providing custom access solutions); technical support manager for MCI's eastern region; and manager of baseband management and provisioning, where he was responsible for managing and provisioning MCI's $1 billion network infrastructure. After earning a B.S. degree in applied sciences and engineering from the U.S. Military Academy at West Point in 1979, Mr. Fuller served in the U.S. Army in various command and staff positions until December 1988.

Richard S. Kingston, Regional Vice President/General Manager - West

Mr. Kingston has 11 years of sales and marketing experience in the telecommunications industry. Prior to joining ACSI in March 1994, he had been at Teleport Communications Group as Director of the MCI account for TCG's eight-state midwest region. From 1991 to 1993, he was founder and president of King Communications, a telecommunications marketing firm. Mr. Kingston has also held various high level sales positions with MFS, Telesphere and Sprint. He holds a bachelor's degree from Western Michigan University.

Terry Kokinda, Regional Vice President/General Manager - Central

Mr. Kokinda's 18 years of experience in telecommunications began at South Central Bell where he served as an account executive. After holding two separate positions at Attis, he became District Sales Manager in the state of Kentucky for AT&T Business Network Services. Mr. Kokinda earned a bachelors degree in Education from Western Kentucky University and has extensive training in Sales excellence.

James P. Martino, Vice President - Strategic Ventures

Mr. Martino joined ACSI from Teleport Communications Group (TCG), where he was most recently director of national operations, managing the field operations of the company's 25 major markets nationwide. He was previously TCG's manager of corporate ventures, responsible for the planning of TCG's corporate expansion from five cities to 25 markets. Mr. Martino graduated *summa cum laude* with a B.S. in finance from the University at Albany (S.U.N.Y.) and he holds an M.B.A. with honors in international finance from St. John's University.

Deborah W. Sellers, Vice President - Carrier Sales

Ms. Sellers is responsible for managing interexchange carrier sales for all accounts except AT&T and MCI. Prior to joining ACSI in October 1994, she was senior account manager for ADC Communications, responsible for strategic selling of transmission and broadband connectivity products to Ameritech; regional account manager for NEC America, Transmission Division, Chicago, where she was responsible for strategic sales and marketing of SONET transmission products to US West and GTE; a senior account manager for MFS of Chicago (where she was the top account executive for MFS nationwide from January, 1990 through June of 1991); and an account manager for Cable & Wireless Communications (where she was a consistent top 20 sales performer). She earned a B.A. degree from the University of Wisconsin - Madison.

Steven T. Hudson, Vice President - Strategic Marketing and Business Development (Advanced Data Services)

Mr. Hudson has an extensive background in business, public and government affairs. Prior to joining ACSI as Vice President - Business Development in September 1994, he had been a staff member of the State of Texas Office of State-Federal Relations in Washington, DC; a non-attorney member of the Austin-based government affairs practice of the law firm of Johnson & Gibbs; and Vice President of Government Relations for the Texas Association of Builders. He also has experience as an investment banker with Carlyle Capital Markets, Inc., structuring the financing of major telecommunications systems and other capital projects for governmental entities nationwide. Mr. Hudson has a bachelor's degree from Yale University and an M.B.A. from the University of Texas at Austin.

Richard LaPerch, Vice President/General Manager, Enhanced Voice Messaging

Mr. LaPerch joined ACSI in November 1995 after seven years with Octel, where he managed the government sales and marketing organization. Prior to his position at Octel, Mr. LaPerch was a national account manager and senior sales engineer with Rolm/IBM. A former officer in the U.S. Army, he earned a B.S. in engineering from the United States Military Academy at West Point and is a candidate for an M.B.A. at George Mason University in Fairfax, Virginia.

Richard Zbylut, Vice President - Strategic Marketing & Business Development (Switched Services)

Mr. Zbylut has had a varied carreer in telecommunications, information services and finance. Prior to joining ACSI, he was Vice President - Business and Market Development for Info Enterprises, Inc., a Motorola company, developing industry-specific opportunities for electronic information services. Previously, he was Vice President/Director - Business and Market Development for US West Enhanced Services, Inc., responsible for the development and introduction of voice messaging services within and outside US West's region; national marketing director for Ciber, Incorporated, an information services provider; and product manager/account manager for Telic Services Corporation/Telcor (a US West joint venture). Mr. Zbylut holds a B.S. in accountancy from the University of Illinois at Urbana, an M.S. in educational administration from the National College of Education in Evanston, Illinois, and an M.B.A. *magna cum laude* in management information systems and finance from the University of Denver.

Joseph Isaksen, Vice President and Controller

Mr. Isaksen, a CPA and University of Maryland graduate, spent most of his 14 year career at MCI Telecommunications in the Corporate Financial Reporting area. His background also includes experience as an accounting instructor and audit supervisor. He came to ACSI from Concert Communications in London, where he served as director of Financial Services for that company's subsidiaries in 11 European and Asian countries.

Charles Kallenbach , Vice President of Regulatory Affairs, Western Region

Mr. Kallenbach, an attorney, was most recently with the Washington, DC law firm of Swidler & Berlin, where he represented international and domestic common carriers and cable operators, specialized carriers, and information service providers. Previously, Mr. Kallenbach was an associate in the DC office of Jones, Day, Reavis & Pogue. He is a *cum laude* graduate of the University of Pennsylvania and received his law degree from the NYU School of Law.

James Falvey , Vice President of Regulatory Affairs, Eastern Region

Mr. Falvey, an attorney, joined ACSI from the Washington, DC law firm of Swidler & Berlin, where he represented competitive local exchange providers, competitive access providers, cable operators, and other common carriers in state and federal proceedings. Prior to his employment at Swidler & Berlin, Mr. Falvey was an associate in the Washington, DC office of Johnson & Gibbs where he practiced antitrust litigation. He is a *cum laude* graduate of Cornell University, received his law degree from the University of Virginia School of Law, and is admitted to practice law in the District of Columbia.

EXHIBIT B

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10 - QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 1996

Commission File number 0 - 25314

AMERICAN COMMUNICATIONS SERVICES, INC.
(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

DELAWARE	**52-1947746**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.) (formerly 05-0440761)

131 National Business Parkway
Annapolis Junction, MD 20701
(Address of Principle Executive Offices)

(301) 617-4200
(Issuer's telephone number)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days.

YES ______X____ NO__________

Indicate the Number of shares of the issuer's classes of common stock outstanding as of the latest practicable date.

Class of Common Stock	Outstanding as of March 31, 1996
Common Stock, Par Value $0.01	6,555,455

Transitional Small Business Disclosure Format (check one):

YES__________ NO ____X____

AMERICAN COMMUNICATIONS SERVICES, INC.
FORM 10 - QSB

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Part 1
Financial Information

Item 1 - Financial Statements

American Communications Services, Inc.
Condensed Consolidated Balance Sheet

	June 30, 1995	March 31, 1996 (UNAUDITED)
Assets		
Current Assets		
Cash and Short Term Investments	$ 20,350,791	$154,454,550
Restricted cash	752,000	1,452,000
Accounts receivable, net	350,436	598,799
Other current assets	92,325	729,719
Total current assets	21,545,552	157,235,068
Networks, furniture and equipment, net	15,567,290	42,737,680
Deferred financing fees and other assets	514,123	8,005,863
Total assets	$ 37,626,965	$207,978,611

Liabilities, Redeemable Stock, Options and Warrants, Minority Interest and Stockholders' Equity

	June 30, 1995	March 31, 1996 (UNAUDITED)
Current Liabilities		
Accounts payable	$ 3,843,167	$ 1,749,314
Accrued liabilities	3,648,248	1,801,145
Notes payable	146,083	103,169
Total current liabilities	7,637,498	3,653,628
Long Term Liabilities		
Notes payable	3,652,085	14,054,484
Senior Discount Notes (due 2005)	-	64,571,366
Senior Discount Notes (due 2006)	-	100,452,832
Other Long Term Liabilities	-	670,633
Dividends payable	1,070,985	3,918,681
Total liabilities	$ 12,360,568	$187,321,624

See accompanying notes to unaudited condensed interim financial statement

American Communications Services, Inc.
Condensed Consolidated Balance Sheet

	June 30, 1995	March 31, 1996 (UNAUDITED)
Liabilities, Redeemable Stock, Options and Warrants, Minority Interest and Stockholders' Equity (continued)		
Redeemable stock, options and warrants	2,930,778	2,457,337
Minority Interest	194,402	384,515
Stockholders' Equity		
Preferred stock, $1.00 par value, 186,664 shares designated as 9% Series A-1 Convertible Preferred Stock, authorized issued and outstanding	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 and 277,500 shares, respectively issued and outstanding	227,500	277,500
Common Stock, $0.01 par value, 75,000,000 shares authorized, 5,744,782 and 6,555,455 shares, respectively issued and outstanding	56,827	64,934
Additional paid-in-capital	42,411,448	56,213,198
Accumulated deficit	(20,741,222)	(38,927,161)
Total stockholders' equity	22,141,217	17,815,135
Total Liabilities, Redeemable Stock, Options and Warrants, Minority Interest and Stockholders' Equity	$ 37,626,965	$207,978,611

See accompanying notes to unaudited condensed interim financial statement

American Communications Services, Inc.
Condensed Consolidated Statement of Operations
(UNAUDITED)

	For the three months ended March 31 1995	March 31, 1996	For the nine months ended March 31, 1995	March 31, 1996
Revenues	$ 87,385	$816,639	$ 95,631	$1,895,812
Operating Expenses				
Network, development and operations	585,431	1,954,514	1,220,125	4,796,067
Selling, general and administrative	1,373,368	2,650,263	2,615,921	5,929,996
Non-cash compensation expense	4,257,464	1,985,765	4,866,095	3,190,184
Depreciation and amortization	118,093	630,004	140,172	1,413,861
Total Operating Expenses	6,334,356	7,220,546	8,842,313	15,330,108
Non-operating expenses/(income)				
Interest and other income	(93,664)	(661,313)	(189,474)	(1,438,817)
Interest and other expense	85,897	3,500,624	214,900	6,374,884
Debt conversion expense	5,000	0	584,985	0
Net loss before minority interest	6,244,204	9,243,218	9,357,093	18,370,363
Minority interest	(4,495)	(102,074)	(16,155)	(190,668)
Net loss	6,239,709	9,141,144	9,340,938	8,179,695
Preferred stock dividends/accretion	628,644	955,489	628,644	2,847,696
Net loss to common stockholders	$6,868,353	$ 10,096,633	$9,969,582	21,027,391
Net loss per common/common equivalent share	($1.31)	($1.54)	($2.17)	($3.48)
Average number of common/common equivalent shares outstanding	5,245,104	6,536,722	4,590,182	6,046,136

See accompanying notes to unaudited condensed interim financial statements

American Communications Services, Inc.
Condensed Consolidated Statements of Cash Flows
(UNAUDITED)

	For the three month period ended March 31, 1995	For the three month period ended March 31, 1996	For the nine month period ended March 31, 1995	For the nine month period ended March 31, 1996
Cash flows from operating activities				
Net loss	$ (6,239,709)	$ (9,141,144)	$ (9,340,938)	$ (18,179,695)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities				
Depreciation and amortization	118,093	630,004	140,172	1,413,861
Noncash debt conversion expense	5,000		584,985	
Noncash interest expense		3,500,624		6,374,884
Provision for doubtful accounts		30,691		59,697
Loss attributable to minority interest	(4,495)	(102,074)	(16,155)	(190,668)
Noncash compensation	4,257,464	1,985,765	4,866,095	3,190,184
Changes in operating assets and liabilities				
Restricted cash related to operating activities	104,069			
Trade accounts receivable	(76,003)	(72,826)	(83,499)	(308,060)
Other current assets		(184,526)		(637,394)
Other assets	(55,139)		(238,893)	
Accounts payable	538,415	(3,296,545)	1,389,375	(2,093,853)
Other accrued liabilities	292,335	(1,526,443)	528,051	(1,847,103)
Net cash provided by (used in) operating activities	(1,059,970)	(8,176,474)	(2,170,807)	(12,218,147)
Cash flows from investing activities				
Purchase of net assets of Piedmont Teleport			(20,000)	
Investment in office equipment	(14,812)	(282,320)	(73,492)	(1,710,364)
Investment in network, equipment and software	(4,047,986)	(10,297,369)	(10,059,373)	(26,526,520)
Investment in Marketable Securities - available for sale				
Restricted cash related to network activities			(475,000)	(700,000)
Net cash used in investment activities	(4,062,798)	(10,579,689)	(10,627,865)	(28,936,884)
Cash flows from financing activities				
Issuance of preferred stock, net of offering costs and conversion of bridge financing			11,371,912	4,725, 318
Deferred financing fees		(2,588,305)		(7,839,110)
Issuance of Senior discount notes and warrants		65,565,429		166,884,179
Issuance of notes payable	752,501	2,997,811	1,640,784	11,176,201
Warrant or stock option exercises	41,763	60,674	346,326	79,811
Proceeds from sale of minority interest in subsidiaries			109,475	378,474
Issuance of stockholder notes payable			250,000	
Payment of notes payable			(1,633,973)	(146,083)
Payments of capital lease obligation	(3,617)		(17,448)	0
Net cash flow from financing activities	790,647	56,035,609	12,067,076	175,258,790
Net increase/(decrease) in cash and cash equivalents	(4,332,121)	47,279,446	(731,596)	134,103,759
Cash and cash Equivalents - beginning of period	6,870,922	107,175,104	3,270,397	20,350,791
Cash and cash equivalents - end of pe..od	2,538,801	154,454,550	2,538,801	154,454,550
Supplemental disclosure of cash flow information				
Interest paid on all indebtedness				
Supplemental disclosure of noncash investing and financing activities				
Excludes furniture acquired under capital leases			$ 50,785	
Dividends accrued in connection with preferred stock	$ 628,644	$ 955,489	$ 628,644	$ 2,847,696
Increase (decrease) in redeemable stock option and warrants costs				
Bridge financing converted to equity in connection with private placement			$ 4,080,079	

See accompanying notes to unaudited condensed consolidated interim financial statements

AMERICAN COMMUNICATIONS SERVICES, INC.
Notes to Unaudited Condensed Consolidated Interim
Financial Statements

(1)Basis of Presentation and Related Matters

Basis of Presentation

As of the end of and for the three and nine month periods ended March 31, 1996, the accompanying unaudited condensed consolidated interim financial statements include the accounts of American Communications Services, Inc. and its subsidiaries, all of which, excluding the Louisville, Kentucky, Fort Worth and El Paso, Texas, and Columbia and Greenville, South Carolina subsidiaries, are wholly owned (the Louisville, Kentucky subsidiary was also not wholly owned for the three month period ending March 31, 1995). The Company has a 92.75 percent ownership interest in these subsidiaries. Such statements, including comparative information for the three and nine month periods ended March 31, 1995, where applicable, have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and item 310(b) of Regulation S-B. The unaudited condensed consolidated statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended June 30, 1995 filed with the Securities and Exchange Commission (the "SEC") on October 13, 1995, as amended. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All material intercompany accounts and transactions have been eliminated in consolidation. Results for the interim periods are not indicative of the results to be expected for the full year.

Business

American Communications Services, Inc. ("ACSI" or the "Company") is a competitive local exchange carrier ("CLEC") that constructs and operates digital fiber optic networks and offers local telecommunications services to long distance companies (interexchange carriers or "IXCs") and business and government end users in the southern US.

The Company currently provides non-switched dedicated services including special access, switched transport and private line services. These services generally are offered by the Company in competition with incumbent local exchange telephone companies ("ILEC's") and are delivered with a high level of

(1) Basis of Presentation and Related Matters (CONTINUED)

network reliability. The Company also offers high speed data services including ATM, high speed Local Area Network ("LAN") to LAN applications and multiple internet services. In addition to the data and non-switched dedicated services, the Company has begun offering on a limited basis enhanced voice messaging services to small and mid -size business and government end users. Successful marketing of these enhanced voice messaging and high-speed data services will not only provide the Company with increased revenues, but also with an expanded end user customer base and relevant marketing experience that can be leveraged into the offering of local switched services.

As of March 31, 1996, ACSI had eleven operational networks and an additional nine networks under construction, most of which are expected to be operational by mid - 1996. As of March 31, 1996, ACSI had applied for authority to provide switched local exchange telecommunications services in Alabama, Arizona, Arkansas, Georgia, Maryland, Nevada and New Mexico. Since March 31, 1996, the Company has filed for switched services authority in Texas. As of March 31, 1996, ACSI had received authority to provide intrastate dedicated services in Alabama, Arkansas, Georgia, Kentucky, New Mexico, Nevada, South Carolina and Texas and had an application pending in Mississippi. Since March 31, 1996, the Company has filed for intrastate dedicated services in Louisiana. In Tennessee, ACSI has received authority to provide intrastate telecommunications services including both switched local exchange and dedicated telecommunications services. The Company intends to have 30 networks in service or under construction during the third calendar quarter of 1996, with all 30 networks operational by mid - 1997. To date, management believes that it has been able to deploy its capital most efficiently by constructing, rather than acquiring, fiber optic networks. By constructing all of its networks, ACSI believes it has realized significant cost savings, created considerable networking efficiencies and ensured quality, reliability and high operating standards.

Financing Activities

On March 26, 1996 the Company completed the private placement of $120,000,000 of 12-3/4% Senior Discount Notes due 2006 (the "2006 Notes")

(1) Basis of Presentation and Related Matters (CONTINUED)

under Rule 144A of the Securities Act of 1933, as amended (the "Act"). The Company received net proceeds of approximately $61,800,000 from the sale of the 2006 Notes. The Company has commenced an exchange offer pursuant to a registration statement on Form S-4 filed by the Company with the SEC pursuant to which the holders of the original 2006 Notes are entitled to exchange such 2006 Notes for newly-issued notes which are identical to the original 2006 Notes and which, with certain exceptions, are freely transferable under the Act. The exchange offer expires June 25, 1996. The 2006 Notes will accrete at a rate of 12-3/4% 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 12-3/4% and will be payable in cash semi-annually on April 1 and October 1, commencing on October 1, 2001. The Notes will mature on April 1, 2006.

On November 14, 1995, the Company completed a private 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"). On March 27, 1996, the Company completed an exchange offer of newly-issued 2005 Notes for all of the original 2005 Notes pursuant to a registration statement on Form S-4 filed with the SEC. The new 2005 Notes are identical to the original 2005 Notes and, with certain exceptions, are freely transferable under the Act. Resale of the Warrants, and the issuance of common stock upon exercise of the Warrants, have been registered on a registration statement on Form S-3 filed with the SEC. The 2005 Notes will accrete to an aggregate principal amount of $190,000,000 by November 1, 2000, after which cash interest will be due on a semi-annual basis. The Company received net proceeds of approximately $96,826,000 from the sale of the Units. At the time of the closing of the Units, the Company also received net proceeds of approximately $4,725,000 from the private sale to ING Equity Partners, L.P. I. ("ING") of 50,000 shares of its 9% Series B-4 Convertible Preferred Stock (the "Series B-4 Preferred Stock) and the exercise by ING of warrants to purchase 214,286 shares of common stock pursuant to the June 1995 Series B Convertible Preferred Stock private placement. The Company will continue to use the proceeds from the sale of the 2005 Notes and Warrants and the Series B-4

AMERICAN COMMUNICATIONS SERVICES, INC.
Notes to Unaudited Condensed Consolidated Interim
Financial Statements

(1) Basis of Presentation and Related Matters (CONTINUED)

Preferred Stock and the proceeds of the 2006 Notes to complete its 30 city business plan, as discussed below , and to fund negative operating cash flow until break-even.

Other Information

In February, 1996, the President signed into law comprehensive telecommunications reform legislation, The Telecommunications Act of 1996 ("1996 Act"). The new law requires all ILECs to unbundle their local network elements. Moreover, the 1996 Act requires all local exchange carriers ("LECs") to interconnect their facilities and equipment. Such provisions enable the Company to obtain critical connections to ILEC facilities. In addition, LECs are obligated to provide local telephone number portability and dialing parity upon request and make their local services available for resale by competitors. Under the legislation, LECs also have to allow competitors nondiscriminatory access to pole attachments, conduit space and other rights-of-way. Moreover, states are prohibited from disallowing local competition, although they are allowed to regulate such competition.

The Company believes that each of these requirements is likely to enhance competition in the local telecommunications marketplace, and simplify the process of switching from ILEC services to those offered by CLECs. However, the legislation also offers important benefits to the ILECs. The ILECs are granted substantial new pricing flexibility and Regional Bell Operating Companies ("RBOCs") regain the ability to provide long distance services and obtain new rights to provide certain cable TV services. These changes enhance the competitive position of the ILECs.

(2) Subsequent Events

On April 11, 1996, AT&T announced agreements with ACSI and four other companies allowing business customers in 70 cities to connect with AT&T's network for some services as an alternative to access provided by ILECs. Terms of the agreements were not disclosed , including the assignment of cities for service to the companies. ACSI expects to have networks in 22 of the 70 cities covered by the AT&T announcement.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

During 1995, ACSI undertook an aggressive plan to build networks in mid-size markets across the Southern and Southwestern United States. As of March 31, 1996, the Company had eleven operational networks and an additional nine networks under construction, most of which are expected to be operational by mid - 1996. The Company intends to have a total of 30 networks in service or under construction during the third calendar quarter of 1996, with all 30 networks operational by mid 1997. The preceding statements are forward looking in nature and the Company's ability to construct and operate its networks within such time frames may be affected by circumstances which the Company may not control, such as an inability to secure or maintain necessary franchises or rights of way, or an inability to attract a customer base sufficient to justify constructing or operating in a market.

ACSI Networks

Currently Operational	Under Construction
Albuquerque, NM	Amarillo, TX
Columbia, SC	Baton Rouge, LA
El Paso, TX	Birmingham, AL
Fort Worth, TX	Charleston, SC
Greenville, SC	Columbus, GA
Lexington, KY	Irving, TX
Little Rock, AR	Jackson, MS
Louisville, KY	Las Vegas, NV
Mobile, AL	Spartanburg, SC
Montgomery, AL	
Tucson, AZ	

The costs associated with the initial construction and operation of a network may vary greatly, in large part because of market variations in geographic and demographic characteristics. To date, management believes that it has been able to deploy its capital most efficiently by constructing, rather than acquiring, fiber optic networks. By constructing all of its networks, ACSI believes it has realized significant cost savings, created considerable networking efficiencies and ensured quality, reliability and high operating standards. In addition to capital expenditure requirements, the Company incurs sales and marketing expenses (including sales commissions), operating and right-of-way costs and property taxes and, in certain markets, franchise fees. Certain of these direct pre-operating costs, to the extent they are related to the construction of networks, are capitalized until the networks are substantially complete, at which time they are then expensed as incurred thereafter. These costs vary depending on the size of the market, the length of time required to build out the network and the rate of growth of the customer base.

The Company is introducing enhanced voice messaging and high-speed data services and plans to roll out local switched services in its target markets during the fourth calendar quarter of 1996. The preceding sentence is forward looking in nature and the introduction of local switched services in the Company's markets may be affected by, among other things, the time required to conclude reasonable economically-efficient interconnection agreements with incumbent ILEC's that operate in the Company's markets and to obtain state public utility commission ("PUC") approvals.

As of March 31, 1996, ACSI had applied for authority to provide switched local exchange telecommunications services in seven states, and had been granted authority in one. The Company plans to complete filings for switched services authority during the calendar quarter ended June 30, 1996 in all states in which it has networks in operation or under construction.

The Company began its interconnection negotiations in March, 1996 with ILECs in states in which it then had networks in operation or under construction. The 1996 Act requires that interconnection between incumbent ILECs and new entrants like the Company initially be resolved through private negotiation. If agreement is reached, it must be submitted to the state PUC for approval and the PUC has 90 days to act. If negotiations are not successful, the parties have a statutory right to seek arbitration by PUCs of outstanding disputes during the 135-160 days following the initial request for interconnection and the PUC must resolve all disputes within nine months of the initial interconnection requests, and then approve the arbitrated agreement within 30 days. Thus, the Company may begin seeking arbitration of interconnection disputes in the July-August time frame. In this regard, FCC rules interpreting the interconnection obligations of the 1996 Act are expected by August 8, 1996, which will establish national guidelines. PUC resolution of outstanding disputes involving the Company's initial interconnection requests should be completed by the end of January 1997.

In rolling out its new services, the Company will incur additional capital expenditures and operating costs. The amount of these costs will vary based on the number of customers served and the actual services provided to the customers. The Company has reorganized into three business units (Network Services, Advanced Data Services and Switched Services) in order to provide specific focus to each service and maximize cross-marketing opportunities. Although the Company has generated revenues from eleven of its fiber optic networks, on a consolidated basis it is still incurring negative operating and investing cash flows due, in large part, to the funding requirements for its networks currently under construction and to initiate operations for its enhanced voice, data services and other operations.

Results of Operations

Revenues

During the three months ended March 31, 1996 (third quarter fiscal 1996) and the nine months ended March 31, 1996 (the "first three quarters of fiscal 1996") , the Company recorded revenues and had operational networks compared to the three months ended March 31, 1995 (third quarter fiscal 1995) and the nine months ended March 31, 1995 (the "first three quarters of fiscal 1995") and to other prior periods as follows:

	Revenues	Operational Networks
Three months ended March, 1995	$ 87,385	4
Three months ended March, 1996	$ 816,639	11
Nine months ended March, 1995	$ 95,631	4
Nine months ended March, 1996	$1,895,812	11

These revenues were substantially derived from the Company's provision of dedicated special access services. The recurring monthly run-rate revenue at the end of March 1996 was $408,959.

Other network information is as follows:

As of the period ended:	Network Route Miles	Network Fiber Miles	Buildings on the Network	Voice Grade Equivalents	Full Time Employees
March 31, 1995	11	1,031	24	16,512	59
March 31, 1996	200	9,466	133	125,208	143

The terms "Voice Grade Equivalents ('VGEs')" or "Voice Grade Equivalent Circuits" are commonly used measures of telephone service equivalent to one telephone line (64 kilobits of bandwidth) actually billed to a customer.

Total Operating Expenses

Network development and operations expenses for the first three quarters of fiscal 1996 increased to $4,796,067 from $1,220,125 in the first three quarters of fiscal 1995, reflecting the Company's significant increases in personnel, network development and non-payroll operating expenses. These increased costs were associated with developing and establishing centralized engineering, circuit provisioning and network management functions, constructing and initially operating the Company's competitive access networks, and the performance of market feasibility, engineering, rights-of-way and regulatory evaluations in additional target cities. Related personnel costs increased to $1,501,959 in the first three quarters of fiscal 1996 from approximately $791,900 in the first three quarters of fiscal 1995, when the Company was operating primarily as a development stage company. For the third quarter of fiscal 1996, network development and operations expenses increased to $1,954,514 from $ 585,431 in the third quarter of fiscal 1995; related personnel costs increased to $597,842 from approximately $352,900 and other operating costs increased to $1,186,581 from approximately $232,500 for the corresponding periods, as the Company expanded its programs for rights-of-way and indefeasible rights-of use ("IRU's") with significant partners.

In the first three quarters of fiscal 1996, selling, general and administrative expenses increased to $5,929,996 from $2,615,921 in the first three quarters of fiscal 1995. Related personnel costs increased to $3,622,229 in the first three quarters of fiscal 1996 from $1,909,800 in the first three quarters of fiscal 1995, and corresponding operating costs increased to $2,307,767 in the first three quarters of fiscal 1996 from $483,300 the first three quarters of fiscal 1995. This increase reflected costs associated with the Company's efforts in expanding its national and local city sales, marketing and administrative staffs, as well as increased legal and other consulting expenses associated with its aggressive programs for obtaining regulatory approvals and certifications and providing quality network services. Reflecting these increased activities, third quarter fiscal 1996 selling, general and administrative expenses increased to $2,650,263 from $1,373,368 in the third quarter fiscal 1995. Related personnel costs increased to $1,463,682 in the third quarter fiscal 1996 from $1,079,100 in the third quarter fiscal 1995, and corresponding operating costs increased to $1,186,581 in the third quarter fiscal 1996 from $249,800 in the third quarter fiscal 1995.

Depreciation and amortization expenses increased to $1,413,861 in the first three quarters of fiscal 1996 from $140,172 in the first three quarters of fiscal 1995 and to $630,004 in the third quarter fiscal 1996 from $118,093 in the third quarter fiscal 1995. During the third quarter of fiscal 1996 the Company increased its capital assets by approximately $42,737,680, representing an increase of such assets of more than 293 % over the end of the first three quarters of fiscal 1995. Non-cash stock compensation expense decreased to $3,190,184 for the first three quarters of fiscal 1996 from $4,866,095 for the first three quarters of fiscal 1995 and to $1,985,765 for the third quarter fiscal 1996 from $4,257,464 for the third quarter fiscal 1995. This expense reflects the Company's accrual of non-cash costs for options and warrants granted to key executives, employees and others arising from the difference between the exercise price and the valuation prices used by the Company to record such costs and from the vesting of those options and warrants. Certain of these options had put rights and other factors that required variable plan accounting in fiscal 1994 and fiscal 1995 but, at the end of fiscal 1995, the Company renegotiated contracts with certain of its officers, establishing a limit of $2,500,000 on the Company's put right obligations with respect to those contracts. During the quarter ended September 30, 1995, this limitation was reduced further to $2,000,000.

Interest and other income increased to $ 1,438,817 for the first three quarters of fiscal 1996 from $ 189,474 in the first three quarters in fiscal 1995 and to $661,313 for the third fiscal quarter of 1996 from $ 93,664 in the third fiscal quarter of 1995. Interest expense and other costs increased to $6,374,884 in the first three quarters of fiscal 1996 from $214,900 in the first three quarters of fiscal 1995 and increased to $3,500,624 in the third quarter fiscal 1996 from $85,897 in the third quarter fiscal 1995. These increases in interest income and expenses reflected the significant increase in available funds from the Company's sale of its 9% Series B Preferred Stock in June and November 1995 and its 13% Senior Discount Notes (the "2005 Notes") in November, 1995. The increase in interest and other expenses reflected the accrual of interest related to the 2005 Notes and the Company's increased borrowings under its secured financing facility with AT&T Credit Corporation (the "AT&T Credit Facility"). Payments of principal and interest on the AT&T Credit Facility will begin in calendar 1997, payments of interest on the 2005 Notes do not begin until November, 2000 and payments of interest of the Company's 12 3/4% Senior Discount Notes due 2006 (the "2006 Notes") do not begin until October 2001.

Debt conversion expense in the first three quarters of fiscal 1995 totaled $5,000, reflecting expenses incurred in connection with the conversion of certain of the Company's debt to equity in September 1994. AT&T Credit Corporation's minority interest in the Company's operating subsidiaries for which it provided funding, reduced operating losses by approximately $190,668 and $102,074 for the first three quarters and third quarter of fiscal 1996, respectively, and by $16,155 and $4,495 for the first three quarters and third quarter fiscal 1995, respectively.

Liquidity and Capital Resources

The Company has been dependent upon external financing to fund its operations. The primary sources of funds used to finance the building of existing networks and the completion of new targeted networks have been the Company's two Preferred Stock private placements completed in October 1994 and June and November 1995, the AT&T Credit Facility, the private offering in November 1995 of 190,000 Units (the "Units") consisting of $190,000,000 principal amount of 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") and a private offering in March 1996 of $120,000,000 of 2006 Notes. The Company obtained approximately (i) $77,000,000 in financing and financing commitments from the Preferred Stock private placements and the AT&T Credit Facility, (ii) $96,826,000 from the private offering of the 2005 Notes and (iii) $61,800,000 from the private offering of the 2006 Notes. The 2005 Notes will accrete at a rate of 13% to an aggregate principal amount of $190,000,000 by November 1, 2000 after which cash interest will be due on a semi-annual basis. The 2006 Notes will accrete at a rate of 12-3/4% compounded semi-annually, to an aggregate principal amount of $120 million by

April 1, 2001. Thereafter, interest on the 2006 Notes will accrue at the annual rate of 12-3/4% and will be payable in cash semi-annually on April 1 and October 1, commencing on October 1, 2001. The Notes will mature on April 1, 2006. Payments of principal and interest on the AT&T Credit Facility will begin in calendar 1997.

The Company intends to continue to use these funds towards the completion of the Company's 30-city business plan including the development and construction of a total of thirty fiber optic networks, the further development and introduction of new services including enhanced voice messaging, high-speed data and local switched services, for expansion of the Company's existing networks and to fund negative operating cash flow until break-even. The Company estimates the total capital requirements for implementation of its 30-city business plan will aggregate between $250 and $275 million through fiscal 2000. ACSI will consider the sale of debt or equity securities or increases in existing credit facilities to fund the completion of its plan. Any acquisitions that the Company might consider are likely to require additional equity or debt financing, which the Company will seek to obtain as required. Certain covenants in the Indentures for the 2005 Notes and the 2006 Notes may restrict the Company's ability to incur additional indebtedness.

PART II OTHER INFORMATION

Item 2. Changes in Securities

(a) In response to voting rights issues raised by the Nasdaq Stock Market staff concerning the Company's governance structure, the Company amended its Certificate of Incorporation, which amendments were approved by the stockholders of the Company at the annual meeting held on January 26, 1996 (the "Annual Meeting"), such that the Board generally will be composed of seven members, four of whom will be elected by the holders of the Company's Common Stock and three of whom will be elected by the holders of the Company's Preferred Stock. Pursuant to the Governance Agreement dated November 8, 1995 between the Company and certain holders of its Preferred Stock (the "Governance Agreement"), until June 26, 1996, the Board was to consist of eleven members, four of whom were elected by holders of the Common Stock and seven of whom were elected by holders of the Preferred Stock. On February 26, 1996, the Company and the other parties to the Governance Agreement signed the Supplemental Governance Agreement pursuant to which the Board was reduced to seven members, four of whom were elected by holders of the Common Stock and three of whom were elected by holders of the Preferred Stock. When the Board was reduced to seven members on February 26, 1996, Richard A. Kozak, Steven G. Chrust, Frederick Galland and Cathy Markey, all of whom had been elected by the holders of the Company's Preferred Stock, resigned.

At the Annual Meeting, a number of resolutions were approved which amended the Company's Certificate of Incorporation. First, the stockholders approved a proposal to amend the Certificate of Incorporation to allow the board of Directors to amend the Company's by-laws, in addition to the stockholders, as provided under Delaware law. Second, the stockholders approved a proposal to amend the Company's Certificate of Incorporation to clarify that the prohibition on cumulative voting did not apply to holders of the Company's Preferred Stock. Third, the stockholders approved a proposal to change the definition of "triggering events" which cause the dividend rate to increase and the size of the Board of Directors to increase upon the occurrence of certain events. Fourth, the stockholders approved a proposal to amend the Certificate of Incorporation to provide for voting by the holders of the Preferred Stock as a separate class to approve certain matters, such as the authorization or creation of a new class or additional classes of stock on a par with or senior to the Preferred Stock, the amendment of the Company's Certificate of Incorporation or by-laws, a merger, consolidation or combination with another business involving the Company, and the sale of substantially all the assets of the Company. Finally, the stockholders approved an amendment to the Company's Certificate of Incorporation to permit the Company to reissue Preferred Stock acquired by the Company through the conversion of Preferred Stock or by other means.

(b) Pursuant to the Indentures for the 2005 Notes and 2006 Notes, the Company may not make certain Restricted Payments (as defined in the Indentures) unless certain financial covenants are satisfied. Accordingly, under this restriction, the Company may not pay dividends on the Company's Stock unless certain financial ratios are satisfied. A copy of the Indenture for the 2005 Notes was filed as an exhibit to a registration statement on Form S-4 filed by the Company on December 12, 1995 (file No.33-80305), and a copy of the Indenture for the 2006 Notes was filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on April 11, 1996.

Item 4. Submission of Matters to a Vote of Security Holders

(a) An Annual Meeting of stockholders was held on January 26, 1996.

(b) The directors elected by the holders of the Company's Common Stock were Anthony J. Pompliano, Benjamin R. Giess, Peter C. Bentz, and George M. Middlemas. The directors elected by the holders of the Company's Preferred Stock were Christopher L. Rafferty, Olivier L. Trouveroy, Edwin M. Banks, Steven G. Chrust, Richard A. Kozak, Frederick Galland and Cathy Markey.

(c) The matters voted upon at the annual meeting and the results of the voting are set forth below. All of the proposals discussed below were approved by the stockholders at the annual meeting. Brokers' non-votes were not applicable.

(i) The stockholders voted 4,099,222 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 215 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock from 30,000,000 to 75,000,000;

(ii) The stockholders voted 4,007,050 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 79,887 shares of Common Stock and 0 shares of Preferred Stock against and 12,500 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's Certificate of Incorporation to confer the power to adopt, amend or repeal the by-laws on the board of directors in addition to the stockholders;

(iii) The stockholders voted 4,085,702 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 1035 shares of Common Stock and 0 shares of Preferred Stock against and 12,500 shares of Common stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's Certificate of Incorporation to clarify that the prohibition on cumulative voting applies solely to the Company's Common Stock;

(iv) The stockholders voted 4,085,702 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 13,735 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's Certificate of Incorporation to further limit personal liability of directors and to provide indemnification for the Company's officers, directors, employees and agents;

(v) The stockholders voted 4,081,544 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 17,893 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's Certificate of Incorporation to alter the size and voting of the Board;

(vi) The stockholders voted 4,085,702 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 1235 shares of Common Stock and 0 shares of Preferred Stock against and 12,500 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's Certificate of Incorporation to alter the structure of the committees of the Boards of Directors of the Company's subsidiaries and to amend the provision for payment of certain expenses of Directors;

(vii) The stockholders voted 4,086,722 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 215 shares of Common Stock and 0 shares of Preferred Stock against and 12,500 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's Certificate of Incorporation to alter the definition of triggering events which cause the dividend rate of the Preferred Stock and the size of the Board to increase;

(viii) The stockholders voted 4,082,555 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 16,882 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's Certificate of Incorporation to alter the class voting rights of the Preferred Stock;

(ix) The stockholders voted 4,081,735 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 17,702 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's Certificate of Incorporation to eliminate the provision prohibiting the Company from reissuing Preferred Stock acquired by the Company;

(x) The stockholders voted 4,086,937 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 0 shares of Common Stock and 0 shares of Preferred Stock against and 12,500 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's by-laws to conform the by-laws to the Certificate of Incorporation with respect to the calling of special meetings of the stockholders;

(xi) The stockholders voted 4,099,216 shares of Common stock and 447,606 shares of Preferred Stock in favor, 221 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's by-laws to conform the by-laws to the Certificate of Incorporation with respect to voting with respect to the Company's Preferred Stock and Directors;

(xii) The stockholders voted 4,099,216 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 221 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's by-laws to conform the by-laws to the Certificate of Incorporation, as amended, with respect to the size and voting of the Board;

(xiii) The stockholders voted 4,099,437 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 0 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's by-laws to conform the by-laws to the Certificate of Incorporation, as amended, with respect to class voting in connection with board elections and to provide for the removal and replacement of Directors in accordance therewith;

(xiv) The stockholders voted 4,099,216 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 215 shares of Common Stock and 0 shares of Preferred Stock against and 6 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's by-laws to conform the by-laws to the Certificate of Incorporation, as amended, with respect to the membership criteria of the Compensation and Audit Committees of the Board;

(xv) The stockholders voted 4,070,064 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 29,373 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's by-laws to expand indemnification of the officers, directors, employees and agents of the Company;

(xvi) The stockholders voted 4,008,055 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 91,367 shares of Common Stock and 0 shares Preferred Stock against and 15 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's by-laws to conform the by-laws to the Certificate of Incorporation, as amended, with respect to conferring the power to adopt, amend or repeal the by-laws on the Board in addition to the stockholders;

(xvii) The stockholders voted 4,073,217 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 13,720 shares of Common Stock and 0 shares Preferred Stock against and 12,500 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to amend the Company's 1994 Stock Option Plan to increase the number of shares of Common stock reserved for issuance upon exercise of options granted under the 1994 Plan from 710,000 to 1,910,000 to permit discretionary grants of options to independent directors to eliminate the provision which provides that formula grants of options to independent directors become exercisable one year from the date of grant;

(xviii) The stockholders voted 4,081,550 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 17,887 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the proposal to ratify the Indemnity Agreements with current officers and directors of the Company; and

(xix) The stockholders voted 4,082,770 shares of Common Stock and 447,606 shares of Preferred Stock in favor, 16,667 shares of Common Stock and 0 shares of Preferred Stock against and 0 shares of Common Stock and 0 shares of Preferred Stock abstaining with respect to the ratification of the selection of KPMG Peat Marwick LLP, Independent Certified Public Accountants, to audit the Consolidated Financial Statements of the Company for the fiscal year ending June 30, 1996.

(xx) The stockholders voted for the nominees to the Board of Directors of the Company as follows:

A) Anthony J. Pompliano, 4,080,260 shares of Common Stock in favor, 19,177 shares withheld.

B) Benjamin P. Giess, 4,080,260 shares of Common Stock in favor, 19,177 shares withheld.

C) Peter C. Bentz, 4,080,260 shares of Common stock in favor, 19,177 shares withheld.

D) George M. Middlemas, 4,080,260 shares of Common Stock in favor, 19,177 shares withheld.

E) Christopher L. Rafferty, 447,606 shares of Preferred Stock in favor, and 0 shares withheld.

F) Olivier L. Trouveroy, 447,606 shares of Preferred Stock in favor, and 0 shares withheld.

G) Edwin M. Banks, 447,606 shares of Preferred Stock in favor, and 0 shares withheld.

H) Steven G. Chrust, 447,606 shares of Preferred Stock in favor, and 0 shares withheld.

I) Richard A. Kozak, 447,606 shares of Preferred Stock in favor, and 0 shares withheld.

J) Frederick Galland, 447,606 shares of Preferred Stock in favor, and 0 shares withheld.

K) Cathy Markey, 447,606 shares of Preferred Stock in favor, and 0 shares withheld.

Item 6. Exhibits and reports on Form 8-K

(a) Exhibits (numbered in accordance with Item 601 of Regulation S-K)

Exhibit Number	Description	Page Number
11.1	Computation of Primary Net Income Per Share	E-1
27.0	Financial Data Schedule	E-3

(b) Reports on Form 8-K

On March 11, 1996, the Company filed with the Commission a Current Report on Form 8-K dated February 29, 1996, to announce the possible underwritten public offering of 5 million shares of the Company's Common Stock, the proceeds of which would be used to fund the Company's 30-city network plan and implementation of its local and switched services business.

On April 11, 1996, the Company filed with the Commission a Current Report on Form 8-K dated March 26, 1996, to announce the completion of the private placement of $120,000,000 of the Company's 12 3/4 % Senior Discount Notes due 2006.

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Communications Services, Inc.
(Registrant)

May 14, 1996 /s/ Richard A. Kozak
(Richard A. Kozak, President and CEO)

May 14, 1996 /s/ Harry J. D'Andrea
(Harry J. D'Andrea, Chief Financial Officer)

American Communications Services, Inc.
Exhibit 11 - Computation of Per Share Earnings (Loss)

Net Loss	Three Months ended March 31, 1995	Three Months ended March 31, 1996	Nine Months ended March 31, 1995	Nine Months ended March 31, 1996
1 Net Loss	$ 6,239,709	$ 9,141,144	$ 9,340,938	$ 18,179,695
2 Less Preferred Stock Accretion	628,644	955,489	628,644	2,847,696
3 Net Loss to Common Stockholders	6,868,353	10,096,633	9,969,582	21,027,391
4 Add: Effect on Interest expense	$85,897	$899,499	$214,900	$2,710,888
Add Convertible Preferred Dividends Saved	628,644	955,489	628,644	2,847,696
5 Net Loss to Common Stockholders, Anti-Dilutive Basis	$ 6,153,812	$ 8,241,645	$ 9,126,038	$ 15,468,807
Average Shares Outstanding				
6 Weighted Average Number of Common Shares Outstanding	5,245,104	6,536,722	4,590,182	6,046,136
7 Net additional shares assuming stock options and warrants exercised and proceeds used first to purchase treasury shares to 20% of shares outstanding at year end, the balance newly issued	5,599,419	9,275,515	5,599,419	7,928,513
Additional shares assuming conversion of preferred shares	7,466,560	17,377,274	4,387,285	17,377,274
8 Weighted average number of common and common equivalent shares outstanding	18,311,083	33,189,511	14,576,886	31,351,923
Per Share Amounts				
9 Net loss per common share as presented in statement of operations (3 ÷ 6)	$ (1.31)	$ (1.54)	$ (2.17)	$ (3.48)
10 Net loss per share as antidilutive basis (5 ÷ 8)	$ (0.34)	$ (0.25)	$ (0.63)	$ (0.49)

Appendix A to Item 601(c) of Regulation S-K
Commercial and industrial Companies
Article 5 of regulation S-X

Item Number	Item Description	
-	Period type	Nine months
-	Fiscal year end	June 30, 1996
-	Period end	March 31, 1996
5-02(1)	Cash and cash items	$ 155,906,550
5-02(2)	Marketable securities	
5-02(3)(a)(1)	Notes and accounts receivable - trade	688,209
5-02(4)	Allowance for doubtful accounts	(89,410)
5-02(6)	Inventory	729,719
5-02(9)	Total current assets	157,235,068
5-02(13)	Property, plant and equipment	52,463,469
5-02(14)	Accumulated depreciation	(1,719,926)
5-02(18)	Total Assets	207,978,611
5-02(21)	Total current liabilities	3,653,628
5-02(22)	Bonds, mortgages and similar debt	183,667,996
5-02(28)	Preferred stock - mandatory redemption	186,664
5-02(29)	Preferred stock - no mandatory redemption	277,500
5-02(3)	Common stock	64,934
5-02(31)	Other stockholders' equity	20,127,889
5-02(32)	Total liabilities and stockholders' equity	207,978,611
-03(b)1(a)	Net sales of tangible products	
5-03(b)1	Total revenues	1,895,812
5-03(b)2(a)	Cost of tangible goods sold	4,736,370
5-03(b)2	Total costs and expenses applicable to sales and revenues	5,929,996
5-03(b)3	Other costs and expenses	3,165,228
5-03(b)5	Provision for doubtful accounts and notes	59,697
5-03(b)(8)	Interest and amortization of debt discount	6,374,884
5-03(b)(10)	Loss before taxes and other items	(18,370,363)
5-03(b)(11)	Income tax expense	0
5-03(b)(14)	Loss continuing operations	0
5-03(b)(15)	Discontinued operations	0
5-03(b)(17)	Extraordinary items	0
5-03(b)(18)	Cumulative effect - changes in accounting principles	0
5-03(b)(19)	Net loss	(18,370,363)
5-03(b)(20)	Earnings per share - primary	(3.97)
5-03(b)(20)	Earnings per share - fully diluted	N/A

EXHIBIT C

To Our Shareholders:

ACSI American Communications Services, Inc.

It is my pleasure to present to you ACSI's first annual report.

During fiscal year 1995, we undertook an effort to build a company that could meet the challenges and leverage the opportunities presented by the changing local telecommunications market. As 1996 approaches, I am proud to report that our company and its accomplishments to date have far exceeded our initial vision.

ACSI has attracted some of the most talented, experienced telecommunications professionals in the industry to plan and execute our mission: to become the dominant alternative local provider of telecommunications services to businesses and government in our target markets. We have now grown to over 100 employees.

The company sharpened its focus on the growing Southern and Southwestern regions of the country, and expanded its initial network development goal from having ten cities underway or under construction by the end of 1995 to having thirty networks in operation or under construction by the end of 1996.

On July 1, 1994, ACSI had one network under construction in Louisville, Kentucky. By the end of November 1995, we were halfway to our new network development goal. The downtown portions of the company's first nine networks were operational, and we were constructing six additional networks.

We are pursuing municipal authority to build networks in over fifteen additional cities and are evaluating these markets to determine where we can best invest our resources, experience, talent, and competitive advantage.

ACSI has announced its plans to offer high speed data services and enhanced voice messaging in its markets. We believe these new services will complement our existing special access and private line services, allowing the company to market to small and mid size businesses and to develop a strong retail sales force. As we gain regulatory approvals, ACSI can then pursue its strategy to become a full service local exchange provider in its markets, creating in the process a major regional telecommunications company.

We have successfully tapped the capital markets, raising nearly $45 million in equity in two private placements of preferred stock and entering into a secured debt financing arrangement with AT&T Credit for up to $40 million on a city by city basis. ACSI more recently closed a privately placed high yield debt offering that raised nearly $100 million in net proceeds.

In May 1995 the company moved its headquarters from Oak Brook, Illinois, to Annapolis Junction, Maryland and opened its national network management center there to monitor our operations and provide the highest level of customer service and response.

By concentrating initially on the construction of our basic network infrastructure in multiple markets, ACSI is creating the foundation from which the company may take full advantage of the continuing evolution and deregulation of the local telecommunications industry. We have honed our strategy to migrate from being a provider of interstate special access services to becoming a full service provider of local switched voice, data and value added communication services.

We are excited about this company and this industry, and we look forward to building on our 1995 results, creating value for our customers, our shareholders, and our employees.

Anthony J. Pompliano, Sr.

Chairman of the Board
November 27, 1995

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMERICAN COMMUNICATIONS SERVICES, INC.
(Name of small business issuer in its charter)

FORM 10-KSB, AS AMENDED

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

June 30, 1995	0-25314
For the fiscal year ended	Commission file number
Delaware	05-0440761
(State or other jurisdiction of incorporated or organization)	(I.R.S. Employer Identification No.)
131 National Business Parkway, #100, Annapolis Junction, Maryland	20701
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (301) 617-4200

Securities registered pursuant to Section 12(b) of the Exchange Act: None

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

Common Stock, $.01 par value
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. **Yes** X **No** ___

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information stat. ments incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Issuer's revenues for the fiscal year ended June 30, 1995, were $388,887.

The aggregate market value of the Common Stock, par value $.01 per share, held by non-affiliates based upon the average of the bid and asked prices as reported on the NASDAQ SmallCap Market on September 15, 1995 was $20,883,350. As of September 15, 1995 there were 5,853,050 shares of Common Stock, par value $.01 per share, outstanding.

AMERICAN COMMUNICATIONS SERVICES, INC.

1995 FORM 10-KSB ANNUAL REPORT

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PART III

Information provided pursuant to this Part III is contained in the Form 10-KSB, as amended, on file with the Securities Exchange Commission. A description of the Company's officers and directors, taken in its entirety form Part III of the Company's Form 10-KSB, as amended, is included in this Annual Report beginning on Page 26.

Item 1. BUSINESS

Overview

American Communications Services, Inc. (the "Company" or "ACSI") is a rapidly growing competitive access provider ("CAP") that constructs and operates digital fiber optic networks and offers local telecommunications services to interexchange carriers ("IXCs") and business and government end users in the southern U.S. The Company provides non-switched dedicated services, generally at a discount to those of the local exchange carriers ("LECs"), and delivers such services with a high level of network reliability. In addition to dedicated services, the Company is testing and, subject to its receipt of necessary additional financing, plans to offer a wide range of enhanced voice messaging and high-speed data services to business and government end users. Successful marketing of these enhanced voice messaging and high-speed data services will not only provide the Company with increased revenues, but also with an expanded end user customer base and relevant marketing experience that can be leveraged into offering local switched services. ACSI's management team includes several pioneers in the development of the CAP industry with demonstrated expertise in successfully deploying fiber optic networks and aggressively managing operations to generate positive operating cash flow.

Currently, ACSI has five operational networks and an additional seven networks under construction, most of which are expected to be operational by early 1996. Subject to its receipt of necessary additional financing, the Company intends to have 30 networks in service by late 1997. To date, management believes that it has been able to deploy its capital most efficiently by constructing, rather than acquiring, fiber optic networks.

ACSI Networks

Currently Operational	Targeted to be Operational by Early 1996
Columbia	Albuquerque
Fort Worth	Charleston
Greenville	El Paso
Little Rock	Lexington
Louisville	Mobile
	Montgomery
	Tucson

Industry

The deregulation of the telecommunications industry and technological change have resulted in an increasingly information intensive business environment. The competitive arena has been repositioned such that the ability to access information quickly is critical to the success of both business and government end users. Both voice and data communications traffic of large business and government end users have increased significantly. In addition, deregulation has led to the increase in competition, most recently in the local exchange markets. CAPs such as ACSI have sought to take advantage of the opportunities presented by increased competition and the demand for timely and reliable telecommunications services.

Several factors have served to promote competition in the local exchange market, including (i) rapidly growing customer demand for an alternative to the LEC monopoly, spurred partly by the growth in demand for telecommunications services in these regions. During the last four years, three out of every five new jobs were created in the southern regions. Additionally, between 1989 and 1994, the rate of access line growth in the southern regions of the U.S. exceeded the national average by approximately two and one-half times. The Company believes that the first operational CAP network in a market generally has a competitive advantage in attracting customers willing to switch from the LEC. Management believes that the Company will be the first CAP to offer services in nine of its twelve markets that are expected to be operational by early 1996.

Building on Strong Relationships with IXCs. ACSI has significant customer relationships with most of the major IXCs serving its markets. Currently, substantially all of the Company's revenues are generated from IXCs. IXCs generally choose the access provider of the local portion of a long distance call and have a strong presence in all of the Company's target markets. By demonstrating its ability to provide high quality services in its existing markets, the Company has the opportunity to obtain commitments for dedicated services from IXCs in new markets. The Company has signed a five-year agreement with MCImetro in which MCImetro has agreed to purchase minimum levels of dedicated services from ACSI in six cities.

Aggressive Bottom-Line Approach to Network Deployment. The Company rapidly deploys its networks and markets its services in order to quickly achieve operating breakeven. The Company's objective is to commence construction of a network in the central business district of a market immediately upon receipt of appropriate municipal authority. ACSI targets completion of its initial network phase and commencement of commercial service in a market within six months after the start of construction. The Company typically begins premarketing its services at the start of construction so that once a network becomes operational customer demand already exists for its dedicated services. The Company then will extend the reach of its network outside the central business district in response to customer demand. ACSI anticipates that each operating subsidiary will achieve EBITDA breakeven results, prior to overhead allocations, within ten to fifteen months after initiation of service In its most mature markets, Louisville and Little Rock, the Company achieved such EBITDA breakeven results in nine months after initiation of service.

Expanding Customer Base Through Enhanced Voice and High-Speed Data Service Offerings. ACSI currently provides dedicated services and intends to provide a wide range of enhanced voice messaging and high-speed data services beginning in 1996.

- Enhanced Voice Messaging Services. The Company is currently testing an enhanced voice messaging service that it plans to offer small- to mid-sized business and government end users. The Company's enhanced voice messaging service can function as a virtual Private Branch Exchange ("PBX"). Management believes that the market for enhanced voicemail services in 1993, was approximately $1.25 billion, that such market is underserved and that, with the availability of enhanced voice messaging services such as the Company's, the market has the potential for rapid growth.

- High-Speed Data Services. The Company also plans to offer a wide range of high-speed data services, including frame relay, asynchronous transfer mode ("ATM") and Internet access to business and government customers in targeted markets. The hubbed architecture of the Company's planned networks will allow seamless integration of these services with its dedicated, voice messaging and local switched services, thereby allowing

Item 1. BUSINESS

Overview

American Communications Services, Inc. (the "Company" or "ACSI") is a rapidly growing competitive access provider ("CAP") that constructs and operates digital fiber optic networks and offers local telecommunications services to interexchange carriers ("IXCs") and business and government end users in the southern U.S. The Company provides non-switched dedicated services, generally at a discount to those of the local exchange carriers ("LECs"), and delivers such services with a high level of network reliability. In addition to dedicated services, the Company is testing and, subject to its receipt of necessary additional financing, plans to offer a wide range of enhanced voice messaging and high-speed data services to business and government end users. Successful marketing of these enhanced voice messaging and high-speed data services will not only provide the Company with increased revenues, but also with an expanded end user customer base and relevant marketing experience that can be leveraged into offering local switched services. ACSI's management team includes several pioneers in the development of the CAP industry with demonstrated expertise in successfully deploying fiber optic networks and aggressively managing operations to generate positive operating cash flow.

Currently, ACSI has five operational networks and an additional seven networks under construction, most of which are expected to be operational by early 1996. Subject to its receipt of necessary additional financing, the Company intends to have 30 networks in service by late 1997. To date, management believes that it has been able to deploy its capital most efficiently by constructing, rather than acquiring, fiber optic networks.

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The deregulation of the telecommunications industry and technological change have resulted in an increasingly information intensive business environment. The competitive arena has been repositioned such that the ability to access information quickly is critical to the success of both business and government end users. Both voice and data communications traffic of large business and government end users have increased significantly. In addition, deregulation has led to the increase in competition, most recently in the local exchange markets. CAPs such as ACSI have sought to take advantage of the opportunities presented by increased competition and the demand for timely and reliable telecommunications services.

Several factors have served to promote competition in the local exchange market, including (i) rapidly growing customer demand for an alternative to the LEC monopoly, spurred partly by the development of competitive activities in the long distance market; (ii) advances in the technology for transmission of data and video, which require greater capacity and reliability levels than copper-based LEC networks were able to accommodate; (iii) a monopoly position and rate of return-based pricing structure that provided little incentive for LECs to upgrade their networks; (iv) the development of fiber optics and digital electronic technology, which combined the ability to build a network economically with the ability to transmit data and video at high-speeds and greatly increased capacity as compared to the LECs' copper-based networks; and (v) the significant access charges IXCs were required to pay to LECs to access the LECs' networks.

Competition in the local exchange services market began in the mid-1980s. In New York City, Chicago and Washington, D.C., newly formed companies provided dedicated non-switched services by installing fiber optic facilities connecting points of presence ("POPs") of IXCs within a metropolitan area and, in some cases, connecting business and government end users with IXCs. CAPs used the substantial capacity and economies of scale inherent in fiber optic cable to offer customers service that was generally less expensive and of higher quality than could be obtained from the LECs due, in part, to antiquated copper-based facilities used in many LEC networks. In addition, CAPs offered shorter installation and repair intervals and improved reliability in comparison to the LECs.

Most of the early CAPs were entrepreneurial enterprises that operated limited networks in the central business districts of major cities in the U.S. where the highest concentration of voice and data traffic, including IXC to IXC traffic, is typically found.

Prior to the Federal Communications Commission's ("FCC") Interconnection Decisions, CAPs could effectively compete only for special access and private line services to customers in buildings directly connected to their separate networks. The Interconnection Decisions permit CAPs to significantly increase the number of customers and markets serviced without physically expanding their networks. The Interconnection Decisions also enable CAPs to provide interstate switched access services in competition with LECs, which has encouraged the development of competitive interstate switched access market.

Regulatory and competitive trends have stimulated dramatic growth in the CAP industry. Regulatory initiatives in the telecommunications industry introduced to foster competition in the local exchange market have stimulated demand for local services, the total market for which was approximately $93.0 billion in 1994. To the extent that LECs begin to compete with IXCs for long distance services, IXCs may have a competitive incentive to move access business away from LECs to CAPs, and CAP market share may increase.

Company Strategy

The Company's objective is to become a leading provider of dedicated, enhanced voice messaging, high-speed data and local switched services in its targeted markets by implementing the following strategies:

Early Entry in Tier II and Tier III Markets in the Southern U.S. The Company primarily targets Tier II and Tier III markets (200,000 to 2,000,000 in population), as they are generally subject to less competition from other CAPs relative to larger, more developed Tier I markets, thereby enabling the Company to quickly achieve market penetration. ACSI intends to focus its market entry in areas of the southern U.S. because of attractive demographic trends and expected growth in demand for telecommunications services in these regions. During the last four years, three out of every five new jobs were created in the southern regions. Additionally, between 1989 and 1994, the rate of access line growth in the southern regions of the U.S. exceeded the national average by approximately two and one-half times. The Company believes that the first operational CAP network in a market generally has a competitive advantage in attracting customers willing to switch from the LEC. Management believes that the Company will be the first CAP to offer services in nine of its twelve markets that are expected to be operational by early 1996.

Building on Strong Relationships with IXCs. ACSI has significant customer relationships with most of the major IXCs serving its markets. Currently, substantially all of the Company's revenues are generated from IXCs. IXCs generally choose the access provider of the local portion of a long distance call and have a strong presence in all of the Company's target markets. By demonstrating its ability to provide high quality services in its existing markets, the Company has the opportunity to obtain commitments for dedicated services from IXCs in new markets. The Company has signed a five-year agreement with MCImetro in which MCImetro has agreed to purchase minimum levels of dedicated services from ACSI in six cities.

Aggressive Bottom-Line Approach to Network Deployment. The Company rapidly deploys its networks and markets its services in order to quickly achieve operating breakeven. The Company's objective is to commence construction of a network in the central business district of a market immediately upon receipt of appropriate municipal authority. ACSI targets completion of its initial network phase and commencement of commercial service in a market within six months after the start of construction. The Company typically begins premarketing its services at the start of construction so that once a network becomes operational customer demand already exists for its dedicated services. The Company then will extend the reach of its network outside the central business district in response to customer demand. ACSI anticipates that each operating subsidiary will achieve EBITDA breakeven results, prior to overhead allocations, within ten to fifteen months after initiation of service. In its most mature markets, Louisville and Little Rock, the Company achieved such EBITDA breakeven results in nine months after initiation of service.

Expanding Customer Base Through Enhanced Voice and High-Speed Data Service Offerings. ACSI currently provides dedicated services and intends to provide a wide range of enhanced voice messaging and high-speed data services beginning in 1996.

- Enhanced Voice Messaging Services. The Company is currently testing an enhanced voice messaging service that it plans to offer small- to mid-sized business and government end users. The Company's enhanced voice messaging service can function as a virtual Private Branch Exchange ("PBX"). Management believes that the market for enhanced voicemail services in 1993, was approximately $1.25 billion, that such market is underserved and that, with the availability of enhanced voice messaging services such as the Company's, the market has the potential for rapid growth.

- High-Speed Data Services. The Company also plans to offer a wide range of high-speed data services, including frame relay, asynchronous transfer mode ("ATM") and Internet access to business and government customers in targeted markets. The hubbed architecture of the Company's planned networks will allow seamless integration of these services with its dedicated, voice messaging and local switched services, thereby allowing the Company to offer its high-speed data customers a comprehensive solution to their communication needs. The Company believes that providing this solution will differentiate ACSI from its competitors.

Cost-Effective Entry into Local Switched Services. The market for local switched services in the U.S., which was approximately $89.0 billion in 1994, represents a significant growth opportunity for the Company. Upon receipt of regulatory approval and when cost-effective, the Company intends to begin offering local switched services by installing its own switches or obtaining switch capacity from third parties. Given the size and regional concentration of ACSI's markets, the Company plans to deploy a hubbed switching strategy whereby one switch can serve multiple markets via remote switching modules. The Company believes that this strategy justifies the switch investment in Tier II and Tier III markets by reducing capital costs and operating expenses. The Company's enhanced voice messaging customers are expected to provide an expanded customer base to whom switched services can be marketed. The Company anticipates that it will begin to offer local switched services by 1997. The Company has received approval in one state and has applications pending in two others for regulatory approval.

Network Development

The Company constructs and operates digital fiber optic networks. Signal transmissions carried over digital fiber optic networks are superior in many respects to older analog transmissions carried over copper wire and by microwave, which continue to be used in varying degrees by the LECs. Digital fiber optic telecommunications networks generally offer faster and more accurate transmissions for all data and voice communications than analog telecommunications systems or digital transmission systems using copper wire. Fiber optic networks also generally require less maintenance than copper wire or microwave facilities or comparable transmission capacity, thereby decreasing operating costs. An increase in capacity can be achieved through a change in electronics. Because ACSI is employing the latest digital transmission technology in its networks, its digital fiber optic networks will have substantial additional capacity. The Company believes it will be able to use its CAP networks to provide a wide range of telecommunications services with only incremental facilities costs.

Management believes that it can currently deploy its capital more efficiently by constructing fiber optic networks rather than acquiring networks constructed by other CAPs. In addition to the significant premium to book values associated with recent acquisitions within the CAP industry, there are considerable efficiencies associated with utilizing consistent vendors and equipment in the Company's network, therefore ensuring high quality, reliability and operating standards.

Key elements of the Company's network development plan include: (i) thoroughly analyzing potentially favorable markets for development; (ii) seeking authorizations from public and private entities for rights-of-way; and (iii) efficiently implementing construction plans in a timely manner, thereby allowing the Company to gain a competitive position in the chosen market.

Site Selection. Before deciding to enter a market, the Company conducts a detailed feasibility study to determine the potential size of the market, existing competition within the market, the Company's ability to obtain municipal authorizations, including franchises and access to rights-of-way, and the relative ease of market entry from a local and state regulatory standpoint. The rights-of-way assessment, done by independent telecommunications consultants, determines whether another CAP network is under construction or ready to construct in the target market, the availability of economical rights-of-way, the local utility's receptiveness to allow use of its rights of way, the topology of the city and concentrations of commercial real estate, and the local city permitting and franchise requirements. The market or end user survey, also done by independent telecommunications consultants, identifies the significant commercial and government end users in the target service areas. Individual telephone and/or face-to-face interviews are then conducted with potential end users, focusing on those anticipated to have the largest business volume. The interviews determine the end user's receptiveness to using a CAP, the telecommunications requirements of such end user, current pricing by the LEC and other relevant information. This "bottom up" sizing of the target service areas provides an estimate of the prospective business by building and by customer.

Rights-of-Way. As part of its due diligence on a market during its site selection process, the Company seeks municipal authorizations (such as franchises, licenses, or permits) to construct and operate its network within the public rights-of-way. The duration of this approval process can vary from less than three months to several years, depending on the specific legal, administrative, and political factors existing in that market. See "Regulation." Concurrent with its seeking municipal authorizations, the Company initiates discussions with electric or gas utilities, cable television companies ("CATV"), and other private providers of rights-of-way and/or facilities that may be used by the Company for installation of its network. These discussions are intended to result in agreements that allow the Company to make use of those parties' fiber optic cables, the underground conduits, distribution poles, transmission towers, and building entrances. The Company's ability to enter into such agreements can have a material impact on the Company's capital costs for network construction and the speed with which the Company can construct its networks. Additionally, obtaining such agreements facilitates the Company's ability to expand efficiently beyond the central business district to serve additional end users in its markets. The Company believes that the experience of members of its senior management team in negotiating such agreements gives it a competitive advantage over other CAPs that have less experience in successfully negotiating such agreements.

Implementation of Network Construction. The Company initially builds a one- to three-mile self-healing fiber loop in the central business district of a given target market. This network provides the users with lower costs, fiber optic clarity, diversity of access, and fault tolerant reliability of service, with automatic stand-by and rerouting in the event of operator, system or network failure. The Company utilizes outside contractors to construct its networks.

Prior to its obtaining required municipal authorizations, the Company, through outside consultants, prepares preliminary and final engineering studies for the initial portions of its networks. The Company's intent is to have the necessary route maps, detailed final engineering drawings, and other construction documents completed by the time municipal authorizations are obtained. This process enables the Company to initiate network construction activities immediately upon receipt of municipal authorizations. Concurrent with the engineering process, the Company identifies commercial space for the location of its administrative and sales offices and node (hub) site and commences negotiations for the lease of such space. Outside plant construction of a typical downtown network will take from four to six months, depending on various factors. Preparation and build out of the Company's office and node space and subsequent installation of electronics and cabling typically proceed during the outside construction activity and are scheduled to be completed concurrently. Finally, the Company initiates the application processes for collocation with the LEC's downtown central office and interconnection with selected IXC POPs to coincide with other construction milestones. The Company believes hat this coordinated construction process reduces overall network development costs and reduces construction intervals, allowing it to initiate operations at an earlier date.

Following completion of its initial network and the commencement of network operations, the Company's local staff, in consultation with personnel at the Company's headquarters, designs expansion routes that will enable the Company to reach additional end users and to interconnect with additional LEC central offices outside the central business district. Construction of these expansion routes is typically done under agreements with third party rights-of-way providers as described above, but in some instances the Company constructs its own new facilities (typically by trenching or directional boring) where third party facilities (whether aerial or underground) do not exist or are not available for use by the Company. The Company also from time to time constructs lateral network facilities from its fiber optic backbone to provide on-network service to its customers. In some instances, the Company will design and construct some or substantially all of its routes outside the central business district concurrent with the construction of the downtown network, increasing the speed of overall network construction and, in the Company's opinion, creating competitive advantage over other CAPs that may have entered or are seeking to enter the market. To the extent possible, the Company engages the third party right-of-way provider to install ACSI's cable in or on the third party's facilities, usually at a lower cost and with greater speed than that obtained by using outside contractors.

The Company's network management center in Annapolis Junction, Maryland monitors all of the Company's networks from one central location. Centralized electronic monitoring and control of the Company's networks allows the Company to avoid duplication of this function in each city. This consolidated operations center also helps to reduce the Company's per customer monitoring and customer service costs, such that they are lower than would be available if monitored on a single-city basis.

Products and Services

The Company currently provides, or is actively implementing plans to provide, a wide range of local telecommunications services including dedicated, enhanced voice messaging, high-speed data and local switched services. The Company's networks are designed to support this wide range of enhanced communications services, provide increased network reliability and reduce costs for its customers.

Dedicated Services. During fiscal 1995, dedicated services for IXCs and other carriers constituted substantially all of the Company's revenues with the remainder coming from business and government end users. The Company's dedicated services provide high capacity non-switched interconnections: (i) between POPs of the same IXC; (ii) between POPs of different IXCs; (iii) between large business and government end users and their selected IXCs; (iv) between a POP and a LEC central office or between two LEC central offices; and (v) between different locations of business or government customers.

- Special access services. Special access services provide a link between an end user location and the POP of its IXC, or links between IXC POPs, thus bypassing the facilities of the incumbent LEC. These services, which may be ordered by either the long distance customer or directly by its IXC, typically provide the customer better reliability, shorter installation intervals, and lower costs than similar services offered by the LEC. Customer charges are based on the number of channel terminations, fixed and mileage-sensitive transport charges, and costs for any services required to multiplex (increase or decrease the bandwidth or transmission speed) circuits (*e.g.*, taking voice grade equivalent circuits ("VGEs") at 64 kilobits per second and stepping them up to a single DS-1 (1.54) megabit circuit, which has the capacity to carry up to 24 VGE circuits and is priced at a significant discount to multiple VGE circuits over the same route). A CAP may provide special access service on an on-net basis by connecting an end user directly to its fiber backbone, or on an off-net basis by reselling a portion of the LEC's network to terminate the circuit at the end user's location and passing the cost of the LEC services on through to the customer (who realizes cost savings and network benefits for the portion of the circuit that is on the CAP's network). While resulting in lower margins than on-net service due to the payout to the LEC, off-net service can be provided to any customer within a local access and transport area ("LATA"), reducing the CAP's need to build pervasive network infrastructure.

- Switched transport services. Switched transport services are offered to IXCs that have large volumes of long distance traffic aggregated by a LEC switch at a central office where the CAP has collocated its network; the CAP provides dedicated facilities for transporting these aggregated volumes of long distance traffic from the LEC central office to its POP or between LEC central offices. The flat monthly charge to the IXC is typically lower than the transport fees charged by the LEC, which is typically lower than special access services that include a charge for terminating the traffic at the end user's location and/or the IXC POP in addition to the transport charges. Switched transport services, however, are also typically associated with higher volume orders compared to most special access orders, thus providing potential for large monthly recurring revenues to the CAP.

- Private line services. Private line services provide dedicated facilities between two end user locations in the same metropolitan area (*e.g.*, a central banking facility and a branch office or a manufacturing facility and its remote data processing center) and are priced like special access services (channel termination charges plus transport and any associated multiplexing charges).

Enhanced Voice Messaging Services. The Company is currently testing an enhanced voice messaging service that it plans to offer small- to mid-sized business and government end users. The Company's enhanced voice messaging service can function as a virtual PBX. Management believes that the market for enhanced voicemail services in 1993, was approximately $1.25 billion, that such market is underserved and that, with the availability of enhanced voice messaging services such as the Company's, the market has the potential for rapid growth.

Specifically, the menu of services for enhanced messaging will include basic voice messaging, follow-me call routing, virtual calling card services, fax services, E-mail and paging notification services, and automated attendant services.

- Voice messaging -- a basic voicemail solution that allows the subscriber greater flexibility, including closed-end user group message forwarding and interface capabilities with the office attendant.

- Follow-me call routing -- the platform can be programmed to find the subscriber by forwarding calls to designated phone numbers anywhere nationwide at the subscriber's discretion and control.

- Virtual calling card -- the platform enables the subscriber to use the service to make outbound calls in response to messages received without disconnecting the call.

- Fax services -- the platform enables faxes to be stored and transmitted at the discretion of the subscriber.

- Notification services -- at the subscriber's discretion, the arrival of voicemail can trigger pager or E-mail notification.

- Automated attendant -- the platform can provide all of the above services, as well as call screening for the subscriber.

Subject to its receipt of necessary additional financing, the Company plans to offer these services in all of its operational markets in 1996. In addition, the Company may offer these services in other markets where it does not intend to construct or has not yet constructed a network. The Company believes that such services will allow it to develop relationships with end users that may be potential customers for either dedicated services or switched services to be offered in the future.

High-Speed Data Services. The Company plans to offer a wide range of enhanced high-speed data services, including frame relay, ATM and Internet access services. Subject to its receipt of necessary additional financing, the Company plans to begin offering these services to business and government end users in 1996.

- Frame relay -- cost-effective data transport solutions for local area network ("LAN")-to-LAN connectivity, legacy networks, clientserver and multimedia applications. Frame relay combines fast packet switching with the high performance and reliability of private lines.

- ATM -- high bandwidth services providing virtual networking for voice, data and video traffic on a single network.

- Internet access -- services that facilitate connectivity for business, governmental and institutional end users to the Internet.

The hubbed architecture of the Company's network will allow seamless integration of its data, dedicated and local switched services, allowing the Company to provide a comprehensive solution to its customers. The Company believes that providing a comprehensive solution for the customer's data communications needs will differentiate its products from those offered by competing LECs, IXCs and other CAPs. In addition, as part of its marketing efforts, the Company intends to bundle its data service offerings with ACSI's dedicated and local switched services.

Increasing deployment and use of personal computers and the concurrent need for interconnecting both local and wide area networks are some of the key factors driving the growth in the high-speed data services market. There is a progressive trend toward migration from dedicated data services (such as X.25) to high-speed switched data applications such as frame relay and ATM, with all growth in the market coming from such switched data services. Based on independent research data, the Company believes that in 1994, the total market for advanced switched and dedicated data services in its targeted markets was estimated to be $373.0 million (representing 5.5% of the estimated $6.7 billion nationwide market for data services) and is projected to increase by approximately 9.5% annually through the year 2000 to approximately $650.0 million.

Switched Services. As necessary state regulatory approval is obtained and when cost-effective, the Company plans to provide local switched services, such as origination and termination of local calls, Centrex services, PBX trunking and switched access services. The Company anticipates that it will begin to offer local switched services by 1997. The Company has received approval in one state and has applications pending in two others for state regulatory approval.

- Origination and termination of local calls -- "plain old telephone service" between local callers' stations.

- Centrex services -- combine local dial tone service with feature-rich functionality, including free internal communications, call forwarding, transfer, conference and speed dial. The Company plans to offer this service to companies that have not invested in a PBX or as a backup to a customer's PBX system, allowing companies to obtain state-of-the-art communications without significant capital expenditures.

- PBX trunking -- carries switched traffic between ACSI's switch and the customer's PBX and allows for up to 24 lines which are shared among up to 200 internal users to communicate with a public network. This product will be offered to customers who have their own PBX system and manage their own internal communications.

- Switched access -- origination or termination of long distance traffic between a customer premise and an IXC POP via shared local trunks using a local switch.

The Company intends to employ a hubbed switching strategy by using Company-owned or leased switch capacity in a large, centrally located market to provide services within that market and to serve several other markets located within the same geographical area via remote switching modules. The Company believes this strategy will reduce the capital expense associated with installing a switch in each market, which may be too small on its own to justify the investment. By aggregating switched traffic from multiple Tier II and Tier III markets through a central hub switch, the Company also expects to realize reduced operating expenses associated with switch engineering and maintenance. The Company believes that providing dedicated, enhanced voice messaging and highspeed data services will enhance the Company's ability to cross-market local switched services. Finally, the Company is evaluating opportunities, on a market-by-market basis, to partner with certain entities that have local switching requirements, experience, facilities and/or back office operations that may result in mutually beneficial alliances. Successful negotiation of switching partnerships may further reduce the Company's capital and operating expenses associated with the provision of switched services.

The Company's switched services plan is targeted at small- to mid-sized business and government end users. The typical customer is expected to have 10 to 100 employees. The Company will first target users within the buildings of ACSI's existing customers and will connect these users directly to its network. Subsequently, the Company may offer its services to customers that are not directly connected to its network through resale of the LEC's network. The Company believes that it can gradually migrate many of these off-net customers to higher margin on-net accounts as it increases penetration of all its services within a given building, making the capital investment of connecting the facility to ACSI's network more cost-effective.

The Company believes that its local digital fiber optic networks, coupled with the distributed hub arrangements described above, will provide a robust platform for the provisions of a wide variety of voice, data and communications services at a reduced cost. Over time, the Company believes it can increase its market share of all of its service offerings as a result of the reliability and quality of its networks, prompt customer service, competitive pricing, cross-marketing/bundling synergies and new service offerings over its target 30-city market area.

The domestic market for local switched services (including switched access) was estimated to constitute more than 95% of the total local telecommunications market in 1994, or approximately $89.0 billion.

Sales and Marketing

While a network is under construction, the Company's salespeople in each city begin selling on-network interstate dedicated services to the major business and government end users in that city, while the central headquarters' sales staff concentrates on selling services to IXCs. The Company expects to initially price its services at a discount to the LEC's tariffs and sells on the basis of cost savings to the customer. However, based on management's experience in other cities where CAPs offer services, end users are expected to be attracted to the Company as a provider of back-up service for disaster recovery and a 100% fiber optic network that can provide generally higher quality and more reliable service than can the incumbent LEC's network.

The Company's sales efforts with respect to dedicated services emphasize cooperation between ACSI's national and local sales staff and the regional and field sales staff of the IXCs. ACSI's national sales staff works closely with senior management of the IXCs to establish technical and service requirements, pricing, and quality standards on a nationwide basis, then coordinates at the local level specific orders for service to the IXC and/or its end user customers in a given market. Because members of the Company's senior management team and its sales staff have long-standing relationships with principals of the major IXCs, the Company believes it has a competitive advantage over other CAPs whose sales organizations have less experience and fewer relationships with the IXCs in offering these dedicated services. The Company is pursuing multiple city sales arrangements with a number of IXCs, but no assurance can be made that the Company will ultimately be successful in negotiating such agreements with any of the IXCs.

The Company typically has a general manager and at least one account executive in each of its major markets. In many cases, the general manager oversees the operations and sales efforts of additional smaller markets that are operated as satellites of the larger market, thus reducing operating overhead. In the Company's experience, the sales process in the southern regions of the U.S. is largely affected by personal relationships, and the Company's ability to hire sales and management staff with existing customer relationships enhances its ability to penetrate the market.

The Company plans to utilize two separate sales forces to market its enhanced voice messaging services to business and government customers. While the Company's dedicated services sales force will target their on-net customers for such enhanced services, the enhanced voice sales staff will focus on potential customers that are not connected to ACSI's network. These enhanced voice salespersons will also be responsible for encouraging existing accounts to subscribe to additional features and to increase their usage of those features. The Company believes that, once established, the customer relationships will enhance the Company's ability to market local switched services to these customers as such services are offered. The Company's enhanced voice sales force will be augmented by additional sales personnel as local switched services are introduced on a market by market basis.

The Company's data services will be marketed by a separate sales group that focuses on providing total solutions to a customer's data and networking needs. This marketing will require a more technically sophisticated staff than for the Company's dedicated, enhanced and switched voice services. The Company believes that it will be able to bundle and cross-market all of its services through national and local account team coordination, making ACSI a full-service regional provider of local telecommunications services.

Competition

The Company operates in a highly competitive environment and has no significant market share in any market in which it operates. The Company initially plans to provide dedicated services to large business and government end users. In each of the metropolitan areas to be served by the Company's networks, the Company's dedicated services will compete principally with the dedicated services offered by the incumbent LEC. The LECs, as the historical monopoly providers of local access and other services, have long-standing relationships with their customers and have financial and technical resources substantially greater than those of the Company. The LECs also offer certain services that the Company cannot currently provide due to current regulatory restrictions. See "Regulation."

Competition for dedicated services is based on price, quality, network reliability, customer service, service features and responsiveness to the customer's needs. The Company believes that its management expertise, coupled with its highly reliable, state-of-the-art digital networks, which offer significant transmission capacity at competitive prices, will allow it to compete effectively with the LECs, which may have not yet fully deployed fiber optic networks in many of the Company's target markets. The Company currently prices its services at a modest discount compared to the prices of the LEC while providing a higher level of customer service. The Company's fiber optic networks will provide both diverse access routing and redundant electronics, design features not widely deployed by the LEC's networks (which were originally designed in tree and branch or star configurations).

Other potential competitors of the Company include CATV operators, public utilities, IXCs, wireless telecommunications providers, microwave carriers, satellite carriers, teleports, private networks built by large end users, and other CAPs. Other CAPs or CATV companies currently are competitors in various markets that the Company has networks in operation or under construction. Based on management's experience at other CAPs, the initial market entrant with an operational fiber optic CAP network generally enjoys a competitive advantage over other CAPs that later attempt to enter the market because it has the first opportunity to contact customers who are willing to switch from the LEC serving the market. The Company expects that there will be other CAPs operating in most, if not all, of its target markets and that some of these CAPs may have networks in place and operating before the Company's network is operational. While it is generally accepted within the CAP industry that being the first market entrant to offer services typically enhances that CAP's competitive advantage relative to CAPs that enter the market at a later time, the Company recognizes that in some instances it may have other competitive advantages (such as a superior right-of-way arrangement or a large customer commitment) that it believes outweighs another CAP's first to market advantage; in these instances, the Company may elect to enter a market where an established CAP already exists.

The following table summarizes the Company's understanding of the status of current CAP competition within its targeted markets:

City	CAPs Operating Networks	CAPs Building Networks	CAPs Holding or Seeking Franchises
Louisville(1)	Hyperion,(2) ICG(3)	none	none
Little Rock(1)	Brooks(4)	none	none
Fort Worth(1)	MAN(5)	none	none
Greenville(1)	none	none	none
Columbia(1)	none	none	none
El Paso(6)	none	none	Brooks
Lexington(6)	none	none	none
Mobile(6)	none	none	none
Montgomery(6)	none	none	none
Albuquerque(6)	none	Brooks, GST(7)	NextLink(8) Phoenix Fiberlink(9)
Charleston, SC(6)	none	none	none
Tucson(6)	none	GST	Brooks

(1) Operational Network.
(2) Hyperion Telecommunications, Inc.
(3) IntelCom Group, Inc.
(4) Brooks Fiber Properties, Inc.
(5) Metro Access Networks.
(6) Network Under Construction.
(7) GST Telecommunications, Inc.
(8) Nextlink, Inc.
(9) Phoenix Fiberlink of New Mexico, Inc.

Competition for enhanced voice messaging services primarily consists of basic voicemail services offered by LECs and cellular providers in connection with their core offerings and customer premise-based voicemail platforms. The voicemail offerings of the LECs typically have limited features and flexibility compared to the services contemplated by the Company; thus, the Company believes its enhanced voice messaging services will be able to effectively penetrate those segments of the small- to mid-sized business market that require more features and/or flexibility than services offered by the LECs. Customer premise-based platform voicemail offerings typically require a relatively large capital investment and recurring maintenance costs and are generally marketed to large companies rather than the small- to mid-sized end users targeted by the Company.

The Company's competitors for high-speed data services include the major IXCs, other CAPs, and various providers of niche services (*e.g.*, Internet access providers, router management services and systems integrators). In general, none of these competitors currently offers a comprehensive solution for a customer's potential data service requirements, a core premise of the Company's data strategy. The Company intends to pursue arrangements with other data service providers to leverage each entity's strengths in a given market or segment of the service chain by bundling elements of complete data solutions (*i.e.*, bundle its local access and frame relay services with an IXC's longhaul transport services). The interconnectivity of the Company's markets will create additional competitive advantages over other data service providers that must obtain local access from the LEC or another CAP in each market or that cannot obtain intercity transport rates on as favorable terms as the Company.

In all of the markets where the Company is currently operating or plans to operate, the LEC currently is a de jure or *de facto* monopoly provider of local switched services. The Company expects that regulatory changes at the state and/or federal level will enable CAPs, CATV operators, electric utilities, cellular and wireless providers, and others to offer local switched services in competition with the LECs in the Company's target markets. The Company believes that its strategy to leverage its basic network infrastructure into higher margin service offerings, migrating to local switched services, will allow it to penetrate a profitable share of the market. The Company's ability to cross-market services will create opportunities to increase margins by migrating customers from off-network to on-network status. As the number of end users in a given off-network building increases for all service offerings, the economics improve to the point where the capital costs of connecting the building to ACSI's network are more than covered by the increased margins represented by retaining the portion of customer revenue paid out to the LEC.

Regulation

Overview

The Company's services are subject to federal, state and local regulation. The Federal Communications Commission ("FCC") exercises jurisdiction over all facilities and services of telecommunications common carriers to the extent those facilities are used to provide, originate or terminate interstate or international communications. State regulatory commissions retain jurisdiction over the Company's facilities and services to the extent they are used to originate or terminate intrastate communications. Local governments may require the Company to obtain licenses or franchises regulating use of public rights-of-way necessary to install and operate its networks.

The allocation of jurisdiction between federal and state regulation of dedicated facilities carrying both interstate and intrastate traffic raises definitional issues. Although the FCC generally does not rule as to the jurisdictional nature of a carrier's traffic, under FCC practice, such services are considered to be jurisdictionally interstate if at least 10% of the traffic is interstate in nature. Virtually all dedicated services provided by the Company between long distance carrier POPs, and between IXCs and their end users, satisfy this requirement and are jurisdictionally interstate in the opinion of the Company.

Federal Regulation

In general, the FCC has a policy of encouraging entry of new competitors, such as the Company, in the telecommunications industry and preventing anti-competitive practices.

The FCC has established different levels of regulation for dominant carriers and nondominant carriers. For domestic common carrier telecommunications regulation, large LECs such as GTE and the Regional Bell Operating Companies ("RBOCs") are currently considered dominant carriers, while CAPs such as the Company, are considered nondominant carriers. As a nondominant carrier, the Company may install and operate facilities for the transmission of domestic interstate communications without prior FCC authorization. Services of nondominant carriers have been subject to relatively limited regulation by the FCC, primarily consisting of the filing of tariffs and periodic reports concerning the carrier's interstate circuits and deployment of network facilities. Moreover, the Company must offer its interstate services on a nondiscriminatory basis, at just and reasonable rates, and remains subject to FCC complaint procedures.

The FCC has ordered the RBOCs and all but one of the other LECs having in excess of $100 million in gross annual revenue for regulated services to provide expanded interconnection to LEC central offices to any CAP, IXC or end user seeking such interconnection for the provision of interstate access services. As a result, the Company is able to reach most business customers in its metropolitan service areas, and can expand its potential customer base. The FCC has imposed mandatory virtual collocation obligations on the LECs. Virtual collocation is a service in which the LEC leases or purchases equipment designated by the interconnector, and exerts complete physical control over this equipment, including central office installation, maintenance, and repair. In addition, some LECs have voluntarily filed tariffs making "physical collocation" available, enabling the interconnector to place its equipment in the LEC's central office space. Certain LECs have pending requests for judicial review of the FCC mandatory virtual collocation requirement.

Pursuant to these FCC requirements, the Company has filed and maintains a tariff for its interstate services with the FCC. All of the interstate retail "basic" services (as defined by the FCC) provided by the Company are described therein. "Enhanced" services (as defined by the FCC) need not be tariffed. The Company has an "enhanced" voice messaging product and an "enhanced" frame relay product, neither of which is contained in the Company's current FCC tariff. In an order released on October 18, 1995, the FCC concluded that the underlying frame relay services of facilities-based common carriers are "basic" services, and thus has required such services to be tariffed by December 17, 1995.

When ordering interconnection, the FCC granted LECs additional flexibility in pricing their interstate special and switched access services on a specific central office by central office basis. Under this pricing scheme, LECs may establish pricing zones based on access traffic density and charge different prices for each zone. The Company anticipates that this pricing flexibility will result in LECs lowering their prices in high traffic density areas, the probable arena of competition with the Company. The Company also anticipates that the FCC will grant LECs increasing pricing flexibility as the number of interconnections and competitors increases. In a concurrent proceeding on transport rate structure and pricing, the FCC enacted interim pricing rules that restructure LEC switched transport rates in order to facilitate competition for switched access.

In 1991, the FCC replaced traditional rate of return regulation for large LECs with price cap regulation. Under price caps, LECs can only raise prices for certain services, including interconnection services provided to CAPs, by a small percentage each year. In addition, there are constraints on the pricing of LEC services that are competitive with those of CAPs. On September 14, 1995, the FCC proposed to adopt a three-stage plan that would substantially reduce LEC price cap regulation as local markets become increasingly competitive. The FCC proposed to immediately eliminate the lower service band index limit on price reductions within service categories, modify tariff filing requirements and revise the structure of price cap baskets. The FCC also sought comment on whether LECs should be permitted to expand use of option discount plans such as volume and term discounts. Under the FCC's proposal, during the second phase certain LEC services could be removed from price cap regulation and regulated on a streamlined basis if they were deemed to be subject to competition. In the third stage, LECs would be granted nondominant status. Adoption of the FCC's proposal to significantly reduce its regulation of LEC pricing would significantly enhance the ability of LECs to compete against the Company and could have a material adverse effect on the Company.

The FCC has also ordered access to LEC signaling systems at an end office level, which allows CAPs to better control their networks. In addition, the FCC recently issued a Notice of

Proposed Rulemaking indicating that it intends to promulgate new rules that would enable LEC customers to retain their telephone numbers when switching to CAP services (i.e., number portability).

Proposed Federal Legislation

Both the U.S. Senate (S.652) and the U.S. House of Representatives (H.R. 1555) have recently approved comprehensive telecommunications reform legislation. The House bill would require all common carriers to allow other providers of telecommunications services to interconnect with their facilities and equipment. The Senate bill would impose this interconnection requirement on LECs with market power. Such provisions would enable the Company to obtain critical connections to LEC facilities. In addition, LECs would be obligated to provide local number portability and dialing parity upon request. Under the legislation, LECs also would have to allow competitors nondiscriminatory access to LEC pole attachments, conduit space and other rights-of-way. Moreover, states would be forbidden from disallowing local competition, although they would be allowed to regulate such competition.

The Company believes that each of these requirements would likely enhance competition in the local telecommunications marketplace, and simplify the process of switching from LEC services to those offered by CAPs. However, the legislation also offers important benefits to the LECs. The LECs would be granted substantial new pricing flexibility. RBOCs would regain the ability to provide long distance services and obtain new rights to provide certain cable TV services. These changes would tend to enhance the competitive position of the LECs.

The Senate and House bills differ in many significant respects. A House-Senate conference committee is attempting to negotiate a compromise version of the legislation, but there is no guarantee that they will succeed. In addition, a presidential veto of the legislation has been threatened. Thus, the prospects for final passage, as well as the implementation dates if legislation receives final passage, remain uncertain.

State Regulation

The Company believes that most, if not all, states in which it proposes to operate will require a certification or other authorization to offer intrastate services. Many of the states in which the Company operates or intends to operate have not yet addressed issues relating to the regulation of CAPs. Some states that have authorized the competitive provision of dedicated services have not authorized the provision of competitive local switched services. Some states may require authorization to provide enhanced services. Moreover, in some states, obtaining regulatory approval for the provision of local switched services may require changes in legislation or in existing public service commission ("PSC") policy.

The Company believes that the general trend is to authorize an increasing degree of competition for local switched services. However, there can be no assurance that any states in which the Company proposes to operate will allow the Company to provide intrastate dedicated services or the full range of local switched services.

The Company currently has obtained intrastate authority for the provision of dedicated services in Arkansas, Texas, Kentucky (excluding intraexchange private line services) and, effective on February 1, 1996, in South Carolina. The Company has applications pending before the PSCs in

Employees

As of September 30, 1995, the Company employed a total of 100 individuals full time. The Company believes that its future success will depend on its continued ability to attract and retain highly skilled and qualified employees. The Company believes that its relations with its employees are good.

Item 2. PROPERTIES

For its corporate headquarters and network management center, the Company leases a 14,265 square foot office space in Annapolis Junction, Maryland for $16,583 per month. The lease expires on April 30, 2002, but may be renewed for two additional five-year terms. The Company's field office, housing its network development and real estate development operations, is located in a 2,935 square foot facility in Oak Brook, Illinois which the Company leases for $3,790 per month. This lease expires on January 31, 1996.

The Company's subsidiaries in Louisville, Little Rock, Fort Worth, Greenville, Columbia, Lexington, Mobile, Montgomery, El Paso, Albuquerque, and Tucson have leased facilities for their offices and network nodes. The aggregate monthly rent on these properties is approximately $26,000. The various leases expire on dates ranging from February 28, 1998, to October 30, 2005. Most have renewal options. In addition, the Company's subsidiaries in Louisville, Little Rock, Fort Worth, Greenville, Columbia, and El Paso have leased separate facilities in various tenant buildings for their electronic equipment. Finally, a subsidiary of the Company leases shared office space in Greenville. Additional office space and equipment rooms will be leased as additional networks are constructed and the Company's operations are expanded.

The Company believes that its insurance coverage on these properties is adequate and in compliance with the related leases.

Item 3. LEGAL PROCEEDINGS

On October 16, 1995, Gerard Klauer Mattison & Co., LLC ("GKM") filed a complaint against the Company in the United States District Court for the Southern District of New York (95 Civ. 8792 (SAS)), alleging that the Company had breached a contractual obligation under a March 20, 1995, letter agreement (the "Agreement"), to designate GKM as the Company's "exclusive underwriter or financial advisor" for all investment banking services through September 20, 1996. The action seeks an order compelling the Company to employ GKM as the exclusive underwriter and financial advisor in connection with any investment banking services contemplated by the Company through September 20, 1996, or, in the alternative, pay GKM in excess of $5 million. The Company had terminated the Agreement with GKM due to what it believes to be GKM's failure to comply with its obligations thereunder. The Company believes that it has meritorious defenses to the complaint and intends to defend itself vigorously in this matter.

The Company and its subsidiaries are not a party to any other material litigation. The Company and its subsidiaries continue to participate in regulatory proceedings before the FCC and state regulatory agencies concerning the authorization of services and the adoption of new regulations.

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

None.

PART II

Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS.

The Company's Common Stock is traded under the symbol "ACNS" in the over-the-counter market. The Company's Common Stock has been quoted on the NASDAQ SmallCap Market since March 3, 1995. Prior to that time the Common Stock was quoted in the pink sheets, although it was not consistently quoted therein. On September 15, 1995, the high and low bid prices for the Company's Common Stock as reported by the NASDAQ SmallCap Market were \$6.25 and \$6.25, respectively. As of September 15, 1995, there were approximately 550 stockholders of record of the Company's Common Stock.

The Company has received notification from The NASDAQ SmallCap Market that it has been granted a temporary exception to permit sufficient time for the Company to revise its stockholder voting rights in order to bring them into compliance with the listing requirements of The NASDAQ SmallCap Market. The Company has been granted this temporary exception until November 24, 1995. During this period, the Company's symbol in the NASDAQ market will be followed by the letter "C" which designates that it is subject to the temporary exception. When the Company completes its proposed restructuring of its voting rights to the satisfaction of The NASDAQ SmallCap Market, the letter "C" will be removed. The Company is implementing changes in its voting provisions to comply with the NASDAQ SmallCap Market's requirements by returning the Company to the same provisions which were in effect prior to its private placement in June 1995. These new provisions will not result in any material change in the manner in which the Company is operated nor in the control of the Company.

The following table sets forth the range of high and low bid quotations obtained from the National Quotations Bureau for the Common Stock for the last three quarters of the fiscal year ended June 30, 1994, the first two quarters of the fiscal year ended June 30, 1995 and the period from January 1, 1995 through March 2, 1995 (the day prior to the day the Common Stock began being quoted on the NASDAQ SmallCap Market). The following table also sets forth the high and low bid quotations as reported by the NASDAQ SmallCap Market for the period from March 3, 1995 through March 31, 1995 and for the last quarter of the fiscal year ended June 30, 1995. No quotations for the Common Stock were available from the National Quotations Bureau for the first quarter of the fiscal year ended June 30, 1994, which period preceded the reverse acquisition of Golf Links, Ltd. by the Company. The quotes as set forth below are believed to be representative of inter-dealer quotations, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

(Table appears on next page)

	High Bid Price	Low Bid Price
Fiscal Year Ended June 30, 1994:		
Second Quarter	$4.00	$2.50
Third Quarter	$4.75	$3.00
Fourth Quarter	$3.25	$1.75
Fiscal Year Ended June 30, 1995:		
First Quarter	$4.50	$1.50
Second Quarter	$4.25	$2.50
Third Quarter (through March 2, 1995)	$4.75	$3.25
Third Quarter (March 3 through March 31, 1995)	$4.75	$3.25
Fourth Quarter	$4.00	$3.12

The Company has paid no dividends on its Common Stock since its inception and does not plan to pay dividends on its Common Stock in the foreseeable future. Except as may be utilized to pay dividends payable on the Series A-1 Preferred Stock and the Series B Preferred Stock, any earnings which the Company may realize will be retained to finance the growth of the Company. The agreements relating to the Company's secured debt financing prohibits the Company from paying any dividends on its capital stock, except the Series A Preferred Stock and Series B Preferred Stock, and restrict the ability of the Company's subsidiaries to transfer funds to the Company, unless in each case certain financial covenants are met. The Company's certificate of incorporation prohibits the payment of dividends on the Common Stock unless all dividends due and payable (including accrued dividends) on the Series A Preferred Stock and the Series B Preferred Stock have been paid in full.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

ACSI provides or plans to provide a variety of telecommunications services to IXCs and business and government end users in Tier II and Tier III markets located in the southern U.S. The Company began construction of its first fiber optic network in Louisville in February 1994 and began to provide commercial service on that network in November 1994. Since August 1994, the Company has commenced construction of an additional 11 networks, four of which (Columbia, Fort Worth, Greenville, and Little Rock) are currently in service. The Company expects to provide commercial service in the remaining seven networks (Albuquerque, Charleston, El Paso, Lexington, Mobile, Montgomery, and Tucson) by early 1996. The Company is actively developing the necessary marketing and engineering plans and pursuing required municipal authorizations to begin construction of an additional eight markets resulting in a total of 20 networks) by early 1996 and, subject to its receipt of necessary additional financing, plans to have a total of 30 networks in service by late 1997.

The Company provides dedicated services to IXCs and to those business and government end users whose volumes of voice and data traffic are large enough to warrant paying a fixed monthly charge for a specific capacity requirement rather than a usage-based variable charge. These monthly charges vary according to the capacity of each circuit, the volume of individual circuits ordered by the customer, the mileage of the circuits, the need for any ancillary services, and the term of the service contract, but are typically less than the rates charged by the LECs for similar services, volumes and terms. The Company focuses its sales efforts on the largest IXCs, with whom it believes it has good customer relationships based on management's extensive experience in the industry. Sales of dedicated services are typically coordinated with the end user's IXC account team and billed by the IXC rather than by the Company, thus providing the end user a single point of contact for its entire long distance account and reducing the Company's back-office overhead requirements. Currently, the Company offers these services in all five of its operational markets and plans to offer these services in all markets where it constructs and operates networks.

In addition, the Company is testing and, subject to its receipt of necessary additional financing, plans to offer a wide range of enhanced voice messaging services to small- to mid-sized business and government end users that can generate high-margin revenues with limited capital investment. These customers will be billed by the Company. The services will be provided from centralized hub locations rather than equipment at each customer's site, providing transparent, maintenance-free and flexible access to a variety of value-added communications features. This range of services will include a basic voice messaging service for a flat monthly charge that may be bundled with one or more additional features (such as automated attendant/call screening, follow-me calling, remote fax, and paging and E-mail notification, among others) in order to meet the customer's specific communications requirements. The additional features will be offered for incremental fixed charges and/or usage based charges. Successful marketing of these enhanced voice messaging services will build the Company's customer base and provide relevant sales experience that can be leveraged into offering local switched services. The Company may also offer these enhanced voice messaging services on a retail or wholesale basis in markets where it has no network facilities, resulting in increased revenue potential. However, the gross margins associated with such revenues may be lower resulting from the payment of LEC access charges in those non-ACSI markets.

Subject to its receipt of necessary additional financing, the Company also plans to offer a wide range of high-speed data services, including frame relay, ATM and Internet access. Frame relay is a cost-effective data transport solution for LAN-to-LAN connectivity, legacy networks, and client-server applications. ATM is a high-bandwidth service offering virtual networking for voice, data and video traffic, allowing a customer to use a single network for all three applications. Internet access facilitates the connectivity of corporate, institutional and governmental customers to the Internet, a collection of data networks that communicate with one another using common protocols. Customer charges include nonrecurring charges for installation and provisioning and either flat rate or usage-based recurring charges based on network access speed and the statistically guaranteed throughput rate of data for the particular service order. The Company's data services offerings will utilize the same hubbed architecture employed by its enhanced voice and local switched services, resulting in operational efficiencies and lower costs while further enhancing opportunities for cross marketing and bundling services to ACSI's customers.

As necessary regulatory authority is obtained on a state-by-state basis, the Company plans to provide local switched services, such as local dial tone, termination of local calling, Centrex services, PBX trunking, and switched access services. It is expected that these services will be offered for appropriate fixed and usage-based charges at rates below those charged by LECs for similar services. The Company intends to employ a hubbed switching strategy by using Company owned or leased switch capacity in a large, centrally located market to provide services within that market and to serve several other markets located within the same geographical area via remote switching modules. The Company believes that this strategy will reduce the capital expense associated with installing a switch in each market, which may be too small on its own to justify the investment. By aggregating switched traffic from multiple Tier II and Tier III markets through a central hub switch, the Company also expects to realize reduced operating expenses associated with switch engineering and maintenance. The Company believes that providing dedicated, enhanced voice messaging and high-speed data services will enhance the Company's ability to cross-market local switched services. Finally, the Company is evaluating opportunities, on a market-by-market basis, to partner with certain entities that have local switching requirements, experience, facilities, and/or back office operations that may result in mutually beneficial alliances. Successful negotiation of switching partnerships may further reduce the Company's capital and operating expenses associated with the provision of switched services.

The Company believes that its local digital fiber optic networks, coupled with the distributed hub arrangements described above, will provide a robust platform for the provision of a wide variety of voice, data and communications services at a reduced cost. While the Company may offer its services to customers that are not directly connected to its network through resale of the LEC's network, the Company believes that it can gradually migrate many of these off-net customers to higher margin on-net accounts as it increases penetration of all its services within a given building. As a result, the capital investment of connecting the facility to ACSI's network becomes more cost-effective. Over time, the Company believes it can increase its market share of all of its service offerings as a result of the reliability and quality of its networks, prompt customer service, competitive pricing, cross marketing/bundling synergies, and new service offerings over its target 30-city market area.

Initially, the Company expects to experience negative cash flow from operations in each of its operating subsidiaries. The Company estimates that because of the reduced operating costs associated with its smaller markets and IXC-focused sales force, it can achieve operating breakeven results (i.e., positive EBITDA before overhead allocations) on its networks within ten to fifteen months from the start of commercial service. Thereafter, the Company anticipates that its margin will increase as each network is expanded to directly connect additional customers to its backbone, as off-net customers migrate to on-net status (thus allowing the Company to retain the portion of customer charges previously paid out to the LEC for resale of LEC facilities), and as additional value-added services such as enhanced voice messaging, high-speed data services, and local switched services are offered.

Capital Expenditures; Operating Cash Flow (EBITDA)

Currently, the Company has completed construction and is operating five digital fiber optic networks, has initiated construction on seven additional networks, and intends to have 30 operational networks by late 1997. The costs associated with the initial construction and operation of a network may vary greatly, in large part because of market variations in geographic and demographic characteristics. Management estimates that construction of the initial one-to-three mile fiber optic backbone and installation of related network transmission equipment for dedicated services for each market will generally cost between $3.5 million and $6.0 million, depending on the size of the market served. Including planned expansion routes, total capital expenditures per network are estimated to average $6.0 million. In addition to capital expenditure requirements, the Company incurs sales and marketing expenses (including sales commissions), operating and property taxes and, in certain markets, franchise fees. Certain of these direct pre-operating costs, to the extent they are related to the construction of networks, are capitalized until the network begins to realize revenue, after which they are expensed as incurred. Management estimates that these operating expenses amount to approximately $500,000 to $1,000,000 per network prior to the potential for achieving breakeven results. These costs vary depending on the size of the market, the length of time required to build out the network and the rate of growth of the customer base.

At such time as the Company develops, introduces and rolls out its enhanced voice messaging, high-speed data and local switched services in its target markets, additional capital expenditures and net operating costs will be incurred. The amount of these costs will vary based on the number of customers served and the actual services provided to the customers. Per its 30-city network plan, management estimates that expenditures over the next three years for these services will amount to approximately $20 to $25 million for enhanced voice messaging and high-speed data services and $30 to $40 million for local switched services.

Although the Company is now generating revenues from five of its fiber optic networks, on a consolidated basis it is still incurring negative cash flows due, in part, to the funding requirements for its networks currently under construction.

Results of Operations

Fiscal Year Ended June 30, 1995, Compared to Fiscal Year Ended June 30, 1994

Revenues

During the fiscal year ended June 30, 1995 ("fiscal 1995"), the Company recorded $388,887 in revenues compared to no revenues in the fiscal year ended June 30, 1994 ("fiscal 1994"). The Company operated as a development stage company throughout fiscal 1994 and through the first half of fiscal 1995. These revenues substantially were comprised of revenues from the Company's provision of interstate dedicated services in its Louisville, Little Rock, Greenville and Fort Worth networks in which it began recording revenues in December 1994, March 1995, May 1995 and June 1995, respectively. Three of the five largest IXCs accounted for $329,000, or 85%, of fiscal 1995 revenues.

Total Operating Expenses

Network development and operations expenses for fiscal 1995 increased to $3,282,200 compared to $1,054,400 in fiscal 1994, reflecting the Company's significant increases in personnel, network development and non-payroll operating expenses. These increased costs were associated with developing and establishing centralized engineering, circuit provisioning and network management functions, constructing and initially operating the Company's first five competitive access provider networks, and with the performance of market feasibility, engineering, rights-of-way and regulatory evaluations in several additional cities. Related salaries, wages and benefits increased from $331,500 in fiscal 1994 to $1,341,100 in fiscal 1995 as the number of network development and operations employees increased from six at June 30, 1994, to 44 at June 30, 1995. The Company also incurred significant operating expenses related to the development of prospective new markets. These costs, which include expenses such as contract labor, legal and certain franchise fees, travel, rent, utilities, and taxes, increased from $722,900 in fiscal 1994 to $1,941,100 in fiscal 1995.

In fiscal 1995, selling, general and administrative expenses increased to $4,597,600 from $1,297,500 in fiscal 1994. Related salaries, wages and benefits increased from $382,900 during fiscal 1994 to $1,974,200 in fiscal 1995, and corresponding office and other operating costs increased to $2,210,900 in fiscal 1995 from $134,600 in fiscal 1994. This increase reflected costs associated with the recruitment of additional executive management, the establishment of a national sales and marketing organization, and the establishment of administration and sales staff. Selling, general and administrative staff grew from nine at June 30, 1994, to 30 at June 30, 1995. Consulting and professional fees decreased from $780,000 in fiscal 1994 to $412,500 in fiscal 1995, as the Company's need for the significant legal and accounting costs that it incurred early in fiscal 1994 as it restructured its operations and began to finance its growth activities was reduced. Depreciation and amortization expenses increased from $1,967 in fiscal 1994 to $497,811 in fiscal 1995, as the Company began to depreciate the capitalized costs of its first four networks in Louisville, Little Rock, Greenville, and Fort Worth.

Non-cash stock compensation expense increased from $633,151 in fiscal 1994 to $6,419,412 in fiscal 1995, primarily reflecting the accrual of costs equal to the difference between the current fair market value of the shares of Common Stock which vested under options and warrants granted to key executives and consultants and the aggregate exercise price with respect to such shares. Such options have put rights and other factors that required variable plan accounting in fiscal 1994 and fiscal 1995. During June 1995, the Company renegotiated contracts with certain of its officers and established a limit of $2,500,000 on the Company's put right obligations, thereby eliminating the requirement for the Company to continue to record expenses based on the continually changing fair market value of the underlying stock in excess of the $2,500,000 limitation. As a result of establishing this limitation, the Company reclassified $4,511,000 to additional paid-in capital from redeemable stock options and warrants. Subsequent to the end of fiscal 1995, this limitation was reduced to $2,000,000.

Interest and other income increased from $5,155 in fiscal 1994 to $217,525 in fiscal 1995. The Company placed funds received from its financing efforts in short-term interest investments, which yielded returns of approximately 6.00% and 5.75% in fiscal 1994 and 1995, respectively. Due to increased borrowings in connection with the construction and operation of its networks, interest costs increased from $332,997 in fiscal 1994 to $706,100 in fiscal 1995. In fiscal 1995, the Company capitalized $536,000 of interest in connection with its construction of fiber optic networks, causing interest expense to decrease to $170,095.

Debt conversion expense in fiscal 1994 totalled $681,250, reflecting debt conversion expenses associated with the conversion of debt in September 1993. During fiscal 1995, the Company incurred costs of $554,900 in connection with (i) the issuance in June 1994 of $4,300,000 of notes, substantially all of which were retired or converted into Series A Preferred Stock (as hereinafter defined) in the Company's October 1994 $16,800,000 equity financing, and (ii) the amortization of debt issuance costs associated with the Company's initial round of secured debt financing under a credit facility with AT&T Credit Corporation (the "AT&T Credit Facility"), $323,900 of which was capitalized. In connection with the conversion of the June 1994 notes,

$231,000 was recorded as debt conversion expense for fiscal 1995. The Company recorded an additional debt conversion expense amount of $154,000 due to a premium associated with its conversion of certain secured notes that was paid in conjunction with the Company's October 1994 equity financing.

AT&T Credit Corporation's minority interest in the Company's Louisville and Fort Worth operating subsidiaries reduced operating losses for fiscal 1995 by $40,000 and $8,000, respectively

Liquidity and Capital Resources

To date the Company has been dependent upon external financing to fund its operations. The primary source of funds used to finance the building of existing networks and the completion of the twelve targeted networks has been provided by two Preferred Stock offerings and the AT&T Credit Facility.

Beginning with the development and construction of the Company's first network in early 1994, the Company estimates the total capital requirements for implementation of its 30-city network plan will aggregate between $250 and $275 million over a five-year period. To date, the Company has obtained approximately $77 million in gross proceeds from financings and financing commitments that has been or will be applied towards the development and initial construction of the Company's first twelve networks and to support its general corporate development, network services and national sales functions. ACSI will consider the sale of debt or equity securities or increases in existing credit facilities to fund the completion of the 30-city network plan. Any acquisitions that the Company might consider are likely to require additional equity or debt financing, which the Company will seek to obtain as required.

Preferred Stock.

In October 1994, the Company completed the private placement of 186,664 shares of its 9% Series A Convertible Preferred Stock, par value $1.00 per share (the "Series A Preferred Stock"), with accompanying warrants to purchase an aggregate of 2,674,506 shares of Common Stock for an aggregate consideration of $16,800,000, including the conversion of $4,300,000 of outstanding debt (the "October 1994 Private Placement"). In connection with the June 1995 Private Placement (as hereinafter defined), the Series A Preferred Stock was exchanged for an identical number of shares of Series A-1 Preferred Stock and subsequently retired. The Series A-1 Preferred Stock is convertible into an aggregate of 7,466,560 shares of Common Stock. The Huff Alternative Income Fund, L.P. ("Huff") acquired 138,889 shares of the Series A-1 Preferred Stock and associated warrants, and, in connection with such acquisition, received warrants to purchase 1,491,222 shares of the Company's Common Stock, all of which were exercised in November 1994. Currently, Huff owns 74.4% of the outstanding Series A-1 Preferred Stock.

In June 1995, the Company completed a private placement of 100,000 shares of its Series B-1 Preferred Stock, 102,500 shares of its Series B-2 Preferred Stock and 25,000 shares of its Series B-3 Preferred Stock (the Series B-1 Preferred Stock, Series B-2 Preferred Stock and Series B-3 Preferred Stock are collectively referred to herein as the "Series B Preferred Stock"), with accompanying warrants to purchase an aggregate of 1,584,303 shares of Common Stock, for an aggregate consideration of $22,750,000 (the "June 1995 Private Placement"). The Series B Preferred Stock is convertible into an aggregate of 8,125,003 shares of Common Stock. In addition, 50,000 shares of Series B-4 Preferred Stock, together with accompanying warrants which are convertible into an aggregate of 2,000,000 shares of Common Stock, will be sold for an aggregate of $5,000,000 to ING Equity Partners, L.P. I ("ING") upon the Company's compliance with, or ING's waiver of, certain conditions. The Company currently plans to achieve such milestones by the end of the second quarter of the fiscal year ending June 30, 1996. Huff and certain of its affiliates and ING currently own an aggregate of 200,975 shares of the Company's Series B Preferred Stock, representing 88.3% of such class of stock outstanding.

Under the terms of the Series A-1 Preferred Stock and Series B Preferred Stock, the Company is required to accrue quarterly dividends at an annual interest rate of 9% of the face value of the Series A-1 and Series B Preferred Stock outstanding. Such accrued dividends will be paid cumulatively beginning January 1, 1998, or earlier upon conversion into Common Stock. Such conversion may occur (i) any time at the holder's option or (ii) automatically upon the consummation of a Qualifying Offering (as defined in the Company's Certificate of Incorporation). The Company is also required to accrue quarterly dividends at an annual interest rate of 18% on its Preferred Stock from and after January 1, 2000, if a conversion has not occurred prior to such date and at any time after the occurrence and before the cure of the aforementioned triggering events. As of June 30, 1995, no such conversions have occurred and accrued dividends on the Preferred Stock totalled approximately $1,070,985.

AT&T Credit Facility.

In October 1994, the Company entered into the AT&T Credit Facility pursuant to which AT&T Credit Corporation has agreed to provide up to $31,250,000 in financing for the development and construction of fiber optic networks by the Company's subsidiaries. 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 $19,800,000 in loans secured by the assets of such subsidiaries. As of June 30, 1995, an aggregate of $3,650,000 had been borrowed under these agreements. Subsequent to June 30, 1995, the Company's 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 $5,500,000 in loans secured by its assets. In connection with each loan, AT&T Credit Corporation purchases 7.25% of the capital stock of the funded subsidiary. The Company is presently considering a proposal by AT&T Credit Corporation to increase the amount of the AT&T Credit Facility, but has not reached any decision regarding that proposal.

The Company's current sources of liquidity are its current cash reserves, additional borrowings under the AT&T Credit Facility, future borrowings under a proposal to increase the AT&T Credit Facility and operating revenues. The Company believes that its current sources of liquidity will be sufficient to complete construction of the seven networks currently under construction and fund currently anticipated operating expenses of its existing five networks and such seven additional networks through the fiscal year ending June 30, 1996. In order to construct additional networks or fund operating expenses subsequent to June 30, 1996, the Company will require significant additional financing. Although the Company is in the process of seeking such additional funding, there can be no assurance it will be successful in obtaining such financing.

Item 7. FINANCIAL STATEMENTS.

The response to this Item is submitted as a separate section of this report commencing on Page F-1.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable

PART III

Information provided pursuant to this Part III is contained in the Form 10-KSB, as amended, on file with the Securities Exchange Commission. A description of the Company's officers and directors, taken in its entirety from Part III of the Company's Form 10-KSB, as amended, is included below.

BUSINESS EXPERIENCE OF DIRECTORS

Anthony J. Pompliano, Chairman of the Board of Directors and current Chief Executive Officer, has 30 years of experience in the telecommunications industry. He was co-founder and President of Metropolitan Fiber Systems, the predecessor organization to MFS Communications Company, Inc. (MFS), a publicly-traded CAP. Mr. Pompliano served as President, CEO and Vice Chairman of MFS from April 1988 until March 1991. He joined ACSI in August 1993 after the expiration of his non-competition agreement with MFS. Before his association with MFS 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. On November 1, 1995, Mr. Pompliano will relinquish his role as Chief Executive Officer of the Company and will remain as Chairman of the Board of Directors. On such date Richard A. Kozak, currently the Company's President and Chief Operating Officer will assume the role of Chief Executive Officer.

George M. Middlemas is a general partner of APEX Management Partnership, L.P., which is the General Partner of the venture capital funds, Apex Investment Fund II, L.P. and Apex Investment Fund Limited Partnership. See "Security Ownership of Certain Beneficial Owners and Management." 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.

Steven G. Chrust is the President and founder of SGC Advisory Services, Inc., an investment advisory and money management services firm concentrating on telecommunications and technology that renders consulting services to the Company. See "Certain Relationships and Related Transactions." From 1990 to 1992, Mr. Chrust was the Chairman and CEO of AMNEX, Inc., from 1985 to 1989, an Executive Vice President of corporate planning at Executone Information Systems, Inc. and from 1970 to 1985, the director of technology research at Sanford C. Bernstein & Co. Mr. Chrust is also the Vice Chairman of Winstar Communications, Inc., a publicly traded telecommunications and information services company.

Edwin M. Banks has been employed by W. R. Huff Asset Management Co., L.L.C. since 1988 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 Bachelor of Arts degree from Rutgers College and his Masters of Business Administration 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 is employed by WRH Partners, L.L.C., the general partner of Huff. From January 1993 to February 1994, Mr. Rafferty was the 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 has been employed by ING and its predecessors and affiliates since 1992 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 Masters of Business Administration degree from the Wharton School of the University of Pennsylvania.

Olivier L. Trouveroy has been employed by ING and its predecessors and affiliates since 1992 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 Bachelor of

Science and Masters degrees in Economics from the University of Louvain in Belgium, as well as a Masters of Business Administration degree from the University of Chicago.

Peter C. Bentz has been employed by W. R. Huff Asset Management Co., L.L.C. as a research analyst specializing in telecommunications, media and healthcare since 1992. Mr. Bentz received his Bachelor of Science degree from Boston College in 1987 and his Masters of Business Administration degree from the Wharton School of the University of Pennsylvania in 1992.

Cathy Markey has served as General Counsel for W. R. Huff Asset Management Co., L.L.C. since 1988. From 1981 through 1984, Ms. Markey was an Assistant Portfolio Manager with Eberstadt Asset Management Co., specializing in small cap and emerging technology stocks. She received her Masters of Business Administration degree from Rutgers University and her law degree from Rutgers University Law School. Ms. Markey received her Bachelor of Arts degree in economics from Barnard College.

BUSINESS EXPERIENCE OF EXECUTIVE OFFICERS

The following is a description of the background of the executive officers of the Company who are not directors:

Richard A. Kozak, 49, President and current Chief Operating Officer, joined the Company in November, 1993. On November 1, 1995, Mr. Kozak will become President and Chief Executive Officer of the Company. Mr. Kozak served as Chief Financial Officer of the Company from September 30, 1994, until November 30, 1994. Mr. Kozak served on the Board from November 15, 1994, until June 1995, when he resigned voluntarily to allow the investors in the Company's June 1995 private placement to elect representatives to the Board without unduly increasing the size of the Board. Mr. Kozak has more than 20 years of experience in the telecommunications industry. He was President of the Southern Division of MFS from October 1992 until June 1993, where he was responsible for networks in Atlanta, Baltimore, Dallas, Houston, Philadelphia, Pittsburgh and Washington, DC, as well as for establishing networks in additional markets in the southern United States. Previously, he was President of MFS Development from July 1991 until October 1992, where he was responsible for the planning, development and implementation of more than $100 million of major expansions of networks throughout the United States, and Senior Vice President of Network Services for MFS. Prior to joining MFS in 1990, he was a Vice-President and General Manager for Telenet Communications Corporation (now Sprint International) from 1986 through 1989 and an Executive Vice-President and Chief Financial Officer for TRT Communications from 1982 until 1986. Mr. Kozak holds an engineering degree from Brown University, studied at the University of Chicago Graduate School of Business, and completed his MBA in Finance at the George Washington University School of Government and Business Administration.

George M. Tronsrue, III, 39, Executive Vice President - Strategic Planning and Business Development, has 17 years of telecommunications industry and management experience. 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, 39, Executive Vice President - Legal and Regulatory Affairs, and Secretary has 12 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.

Douglas R. Hudson, 34, Executive Vice President - Sales and Marketing, has 10 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, 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.

Ronald W. Kaiser, 41, Chief Financial Officer, joined the Company in November, 1994. Mr. Kaiser is a Certified Public Accountant with over 15 years of experience in accounting and financial management of both publicly held and private companies. From April, 1993 to November, 1994, Mr. Kaiser served as Vice President of Finance, Treasurer and Chief Financial Officer at ADAK Communications Corporation, a manufacturer and distributor of telecommunications digital access controllers. From 1990 to 1993, Mr. Kaiser served as Vice President - Finance and Treasurer of a subsidiary of George Fischer AG, a Swiss corporation, and from 1988 to 1990, he served as Chief Financial Officer of Leeco Diagnostics, Inc. ("Leeco"), a publicly held manufacturer of medical diagnostic kits. Prior to joining Leeco, Mr. Kaiser served as the Chief Financial Officer of a developmental stage medical device manufacturer and a publicly held equipment manufacturer, and as a member of the tax and audit staff of a predecessor of Deloitte Touche & Tohmatsu, an international public accounting firm. Mr. Kaiser received Bachelor of Arts Degrees in accounting and pre-law from Michigan State University.

Robert H. Ottman, 56, Executive Vice President - Network Services, joined the Company in May, 1995. Mr. Ottman has 30 years of experience in telecommunications and has been involved in network services, operations, quality assurance, human resources and labor relations within the telecommunications industry. Prior to joining ACSI, he served in various positions at MCI Telecommunications International from 1988 to 1995. In 1988 he served as the Vice President of Administration and subsequently served as the Vice President of Operations and Quality Assurance for MCI Telecommunications International and was directly responsible for the New York City, Washington, Atlanta, Boston, Miami, Chicago, Detroit, San Francisco, Los Angeles, Puerto Rico, Hawaii and Guam Networks in 1995. While at MCI Telecommunications International, Mr. Ottman initiated Quality Programs for the support and assistance of MCI customers. From 1981 to 1983 Mr. Ottman was Assistant Vice President of Operations and Labor Relations for Western Union, International, Inc. and in 1983 he served as the Director of Human Resources - Labor Relations.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of American Communications Services, Inc. and its subsidiaries as of June 30, 1995, and the related consolidated statements of operations, Series A preferred stock and stockholders' equity (deficit), and cash flows for the year then ended. 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 audit.

We conducted our audit 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 audit provides 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 its subsidiaries as of June 30, 1995, and the results of their operations and their cash flows for the year then ended, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

KPMG Peat Marwick LLP

Washington, D.C.
August 25, 1995

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
American Communication Services, Inc.

We have audited the accompanying consolidated balance sheet of American Communications Services, Inc. (a development stage company) as of June 30, 1994 and the related consolidated statements of operations, Series A preferred stock and stockholders' equity (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

Our original report on the Company's fiscal 1994 financial statements, dated August 29, 1994, included an explanatory paragraph that referenced to a footnote discussing factors indicating substantial doubt as to the Company's ability to continue as a going concern for a reasonable period of time beyond December 31, 1994. Such note also discussed the Company's being in the development stage and continuation of the Company being dependent upon obtaining and maintaining adequate sources of capital or other financing arrangements, evolving from the development stage and achieving sufficiently profitable operations. Based on events subsequent to our original report, the reissued fiscal 1994 financial statements accompanying this report do not contain such footnote disclosures and an explanatory paragraph discussing such matters is no longer required.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Communication Services, Inc. as of June 30, 1994 and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Coopers & Lybrand L.L.P.
Chicago, Illinois
August 29, 1994, except for matters discussed
in the third paragraph above, as to which the
date is September 15, 1995

AMERICAN COMMUNICATIONS SERVICES, INC.

Consolidated Balance Sheets
June 30, 1995 and 1994

	1995	1994
Assets		
Current assets:		
Cash and cash equivalents (note 1)	$ 20,350,791	$ 3,270,397
Restricted cash (note 1)	752,000	200,000
Trade accounts receivable, net of allowance for doubtful accounts of $8,570	350,436	—
Other current assets	92,325	—
Total current assets	21,545,552	3,470,397
Networks, equipment and furniture, net (note 2)	15,567,290	522,918
Deferred financing fees, net of accumulated amortization of $34,956 and $124,021 at June 30, 1995 and 1994, respectively	292,113	601,879
Other assets	222,010	10,465
Total assets	$ 37,626,965	$ 4,605,659
Liabilities, Redeemable Stock, Options and Warrants, Minority Interest and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 3,843,167	$ 492,332
Accrued financing fees	1,542,255	179,950
Accrued employee costs	836,509	117,176
Other accrued liabilities	1,269,484	355,547
Convertible bridge notes (note 4)	—	4,300,720
Secured note — stockholder (note 4)	—	75,000
Secured convertible notes — related party (note 4)	—	606,640
Notes payable — stockholders (note 4)	146,083	627,775
Total current liabilities	7,637,498	6,755,140
Long term liabilities		
Notes payable (note 4)	3,652,085	—
Dividends payable (note 3)	1,070,985	—
Total liabilities	12,360,568	6,755,140
Redeemable stock, options and warrants (notes 6 and 7)	2,930,778	1,116,276
Minority interest (note 4)	194,402	—
Stockholders' equity (deficit) (note 6):		
Preferred stock, no par value, non-voting, cumulative, 2,000 shares authorized, 1,700 shares issued and outstanding at June 30, 1994, liquidation value is equal to face value (note 12)	—	1,700,000
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 (notes 3 and 4)	186,664	—
Preferred stock, $1.00 par value, 277,500 shares authorized and designated as 9% Series B Convertible Preferred Stock, 227,500 shares issued and outstanding at June 30, 1995 (notes 3 and 5)	227,500	—
Common stock, no par value, 20,000,000 shares authorized, 2,755,005 shares issued and outstanding at June 30, 1994	—	—
Common stock, $.01 par value, 30,000,000 shares authorized, 5,744,782 shares issued and outstanding at June 30, 1995 (notes 5, 6, and 12, and 13)	56,827	—
Additional paid-in capital	42,411,448	1,080,566
Note receivable from sale of common stock	—	(2,750)
Accumulated deficit	(20,741,222)	(6,043,573)
Total stockholders' equity (deficit)	22,141,217	(3,265,757)
Commitments and contingencies (notes 1, 6, 7, 8, and 9)		
Total liabilities, redeemable stock, options and warrants, minority interest and stockholders' equity (deficit)	$ 37,626,965	$ 4,605,659

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended June 30, 1995 and 1994

	1995	1994
Revenues	$ 388,887	—
Operating expenses:		
Network development and operations	3,282,183	1,054,358
Selling, general and administrative	4,597,615	1,297,499
Noncash stock compensation (note 6)	6,419,412	633,151
Depreciation and amortization	497,811	1,967
Total operating expenses	14,797,021	2,986,975
Non-operating income (expenses):		
Interest and other income	217,525	5,155
Interest and other expense	(170,095)	(332,997)
Debt conversion expense (note 4)	(385,000)	(681,250)
Loss before minority interest	(14,745,704)	(3,996,067)
Minority interest	48,055	—
Net loss	(14,697,649)	(3,996,067)
Preferred stock dividends and accretion (note 3)	(1,070,985)	(48,670)
Net loss to common stockholders	$(15,768,634)	(4,044,737)
Net loss per common share	$ (3.30)	(1.77)
Average number of common shares outstanding	4,771,689	2,283,695

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONSOLIDATED STATEMENTS OF SERIES A PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

Years ended June 30, 1995 and 1994

	Series A Preferred Stock		Stockholders' Equity (Deficit): Preferred Stock		Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional paid-in capital	Notes receivable on sale of common stock	Equity in combined equities	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
Balances at June 30, 1993	1,250	$ 960,061	—	$ —	—	$ —	—	$ —	893,712	$ —	190,919	(2,750)	35,000	(2,047,506)	(1,824,337)
Series A Preferred Stock dividends accrued	—	48,670	—	—	—	—	—	—	—	—	(48,670)	—	—	—	(48,670)
Exchange of Series A Preferred Stock and common stock for debt	(100)	(73,378)	—	—	—	—	—	—	(36,372)	—	(26,797)	—	(35,000)	—	(61,797)
Common stock exchanged for trade payables (note 5)	—	—	—	—	—	—	—	—	151,588	—	132,636	—	—	—	132,636
Exchange of notes receivable for Series A Preferred Stock and common stock (note 4)	550	550,000	—	—	—	—	—	—	628,577	—	550,000	—	—	—	550,000
Series A Preferred exchanged for Preferred Stock	(1,700)	(1,485,353)	1,700	1,700,000	—	—	—	—		—	(214,647)	—	—	—	1,485,353
Common stock issuance in reverse acquisition	—	—	—	—	—	—	—	—	562,500	—	—	—	—	—	—
Common stock issued to Bridge Loan creditors (note 3)	—	—	—	—	—	—	—	—	150,000	—	131,250	—	—	—	131,250
Issuance of common stock to an employee	—	—	—	—	—	—	—	—	5,000	—	4,375	—	—	—	4,375
Issuance of common stock (note 3)	—	—	—	—	—	—	—	—	400,000	—	849,000	—	—	—	849,000
Issuance of put right obligation (note 7)	—	—	—	—	—	—	—	—	—	—	(487,500)	—	—	—	(487,500)
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(3,996,067)	(3,996,067)
Balances at June 30, 1994	—	—	1,700	1,700,000	—	—	—	—	2,755,005	—	1,080,566	(2,750)	—	(6,043,573)	(3,2[illegible],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 7)	—	—	—	—	—	—	—	—	—	—	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

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 1995 and 1994

	1995	1994
Cash flows from operating activities		
Net loss	$(14,697,649)	(3,996,0[illegible])
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	497,811	1,967
Amortization of deferred financing fees	323,900	124,02[illegible]
Provision for doubtful accounts	8,570	
Loss attributed to minority interest	(48,055)	
Noncash compensation, consultants and other expenses	6,419,412	633,1[illegible]
Noncash debt conversion expense	385,000	681,25[illegible]
Changes in operating assets and liabilities		
Trade accounts receivable	(359,007)	—
Restricted cash related to operating activities	200,000	(200,000)
Other current assets	(92,325)	—
Other assets	(26,545)	(19,865)
Accounts payable	3,170,885	472,973
Accrued financing fees	1,542,255	—
Accrued employee costs	719,333	117,176
Other accrued liabilities	1,055,673	312,748
Net cash used in operating activities	(900,742)	(1,862,647)
Cash flows from investing activities		
Purchase of net assets of Piedmont Teleport, Inc	(19,135)	—
Proceeds from sale of Wilmington Delaware Network	—	70,000
Purchase of furniture and fixtures	(306,454)	(14,73[illegible])
Restricted cash related to network activities	(752,000)	—
Network development costs	(14,996,303)	(505,214)
Net cash used in investing activities	(16,073,892)	(449,945)
Cash flows from financing activities		
Issuance of notes payable	3,510,349	
Payment of deferred financing fees	(310,175)	(594,900)
Warrant and stock option exercises	172,824	
Issuance of common stock, net of offering costs	—	699,000
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	
Issuance of bridge notes	—	4,300,72[illegible]
Issuance of secured convertible note	—	606,640
Issuance of secured note	—	75,000
Issuance of notes payable — stockholders	250,000	641,[illegible]
Proceeds from sale of minority interest in subsidiaries	242,457	
Payments of notes payable — stockholders	(481,692)	(150,000)
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	5,578,066
Net increase in cash and cash equivalents	17,080,394	3,265,474
Cash and cash equivalents beginning of year	3,270,397	4,923
Cash and cash equivalents end of year	$ 20,350,791	3,270,397
Supplemental disclosure of cash flow information — interest paid on all debt obligations	$ 219,554	21,452
Supplemental disclosure of noncash investing and financing activities		
Series A Preferred exchanged for Preferred Stock	$ —	1,483,35[illegible]
Dividends declared in connection with Series A Preferred Stock	$ 1,070,985	48,670
Bridge financing, secured convertible notes, and notes payable — stockholders converted to equity in connection with private placements	$ 4,080,079	—
Accrued redeemable warrant costs	$ (487,500)	487,500
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	—
Common stock exchanged for trade payable	$ —	132,636

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1995 and 1994

(1) Basis of Presentation and Related Matters

Basis of Presentation

As of July 1, 1993, the Company's operations consisted of the activities of American Lightwave, Inc (ALI) and its subsidiaries, Alabama Lightwave, Inc., North Carolina Lightwave, Inc., Chicago Lightwave, Inc., Delaware Lightwave, Inc. and Virginia Lightwave, Inc. combined with American Consolidated Communications, Inc. (ACC) and its subsidiaries, Austin Lightwave, Inc., Los Colinas Lightwave, Inc., Winston Salem Lightwave, Inc., and Phoenix Lightwave, Inc. combined with a management company, American Communication Services, Inc. (an Illinois Corporation) (ACS). These entities are collectively referred to hereafter as "Combined ALW." Common ownership served as the basis for combination. All significant intercompany accounts and transactions were eliminated in the combination.

On September 14, 1993, a merger agreement and related agreements, among other things, caused the merger of Combined ALW into Golf Links Ltd. (GLL), a dormant publicly-held company, with GLL as the surviving corporation, in exchange for newly issued shares of GLL's preferred and common stock. Under the agreements, each outstanding common share of ALI was exchanged for 207.84044 shares of GLL common stock, and each outstanding share of ALI Series A Preferred Stock was exchanged for one share of GLL preferred stock and the shares of ACC and ACS were assigned to GLL. Additionally, notes receivable for common stock of ACC totaling $50,000 were forgiven in conjunction with the merger. After the merger, GLL changed its name to American Communication Services, Inc. (a Colorado Corporation) (hereinafter "the Company" or "ACSI"). ACSI became a Delaware corporation in September 1994.

For accounting purposes, and as required by Securities and Exchange Commission Staff Accounting Bulletin 2A-2, the above transaction was treated as a reverse acquisition. Combined ALW is deemed to have acquired GLL. As such, the historical financial statements have been prepared on the historical basis of Combined ALW and have been presented as if held by a holding company. The transaction is presented as if the Company was capitalized with 1,637,500 shares of common stock and 1,700 shares of preferred stock issued to its stockholders which was consistent with the actual shares received in this transaction. The stockholders' equity (deficit) of the Company retroactively reflects such capitalization.

Additionally, the transaction has been recorded as if the Company issued common stock to each of the stockholders of GLL in exchange for GLL shares on a one-for-one basis to effect the merger on September 14, 1993. Since this transaction was considered a reverse acquisition, it has been accounted for using the purchase method. All material intercompany transactions and accounts have been eliminated in consolidation.

As of and for the year ended June 30, 1995, the consolidated financial statements include the accounts of American Communications Services, Inc. and its subsidiaries, all of which, excluding the Louisville and Fort Worth subsidiaries, are wholly owned. As discussed in note 4 to the consolidated financial statements, the Company has a 92.75 percent ownership interest in these two subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Business

The Company's efforts have been directed toward becoming a competitive access provider (CAP) of business telecommunications services in selected mid-sized cities. The Company builds and operates competitive access fiber optic networks to provide local special access telecommunications services to major businesses and government customers in selected target markets.

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

The Company was considered a Development Stage Company through November 1994 as defined in Statement of Financial Accounting Standards (SFAS) No. 7, "Accounting and Reporting by Development Stage Enterprises." In December of 1994, the Company recorded its first operating revenues.

During 1995, the Company raised capital in two separate private placements of equity, a portion of which was used to repay debt (see notes 3 and 4). Also, the Company obtained a financing facility from AT&T Credit Corporation, with respect to equipment and working capital financing for up to $31.7 million, a portion of which has been drawn upon as of June 30, 1995 (see notes 3 and 4).

The Company has utilized its existing equity and debt financing to enable it to establish its initial five networks and support its operations through 1995 and believes that it can sustain its general operating expenses through the end of fiscal 1996 through these sources. The Company is in the process of seeking and obtaining additional funding, without which it will be forced to severely curtail its operations and development activities, to enable it to support its future operating requirements and further develop its next networks.

The Company is continuing discussions with a number of equity and debt investors. While the success of these efforts is uncertain, the Company's management believes that it will secure the necessary funding to carry out its business plans.

Cash Equivalents

Cash equivalents generally consist of highly liquid debt instruments with an initial maturity date of three months or less. At June 30, 1995, cash equivalent consisting of overnight investments are $20,944,751, including restricted cash of $752,000.

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 and $200,000 at June 30, 1995 and 1994, respectively.

Networks, Equipment and Furniture

Networks, equipment and furniture are stated at cost less accumulated depreciation. Costs capitalized during the network development stage include expenses associated with network engineering, design and construction, negotiation of rights-of-way, obtaining legal regulatory authorizations and the net amount of interest costs associated with the network development. In 1995, the Company has capitalized interest of approximately $536,000.

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	10 years
Leasehold improvements	Life of lease
Furniture and fixtures	5 years

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

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 and is recorded net of interconnection payments to local exchange carriers. Billings to customers for services in advance of providing such services are deferred and recognized as revenue when earned.

Earnings (Loss) Per Common Share

The computation of earnings (loss) per common share is based upon the weighted average number of common shares outstanding. For the per share computation, accrued dividends on the Series A Preferred Stock have been added to the reported net loss. 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.

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 1994 financial statements to conform to the 1995 presentation. Such reclassifications had no effect on net loss or total stockholders' equity.

(2) Networks, Equipment and Furniture

Networks, equipment and furniture consists of the following at June 30:

	1995	1994
Networks and telecommunications equipment	$15,570,450	505,214
Furniture and fixtures	327,112	20,658
	15,897,562	525,872
Less — accumulated depreciation and amortization	330,272	2,954
Total, net of accumulated depreciation and amortization	$15,567,290	522,918

(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 with proceeds of $10,962,046, net of placement agent commissions and related placement fees and costs.

(3) Private Placements — (Continued)

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 second 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 (the Series B-1 Preferred, Series B-2 Preferred and Series B-3 Preferred, hereafter collectively referred to as the "Series B Preferred Stock"). There were 227,500 shares issued for cash at $100 per share with proceeds of $20,661,500, net of placement agents commissions and related placement fees and costs. An additional 50,000 shares of 9% Series B-4 Convertible Preferred Stock (the "Series B-4 Preferred Stock"), $1.00 par value, will be issued for $5,000,000 in cash less commissions upon the achievement of certain milestones. The Company currently expects to meet these requirements by the end of the second quarter of 1996. Additionally, 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 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 June 30, 1995, the outstanding Series A-1 Preferred Stock was convertible into 7,466,560 shares of common stock and the outstanding Series B Preferred Stock (all series) was convertible into 8,125,003 shares of common stock. If issued, the Series B-4 Preferred Stock will be convertible into 1,785,714 shares of the Company's common stock.

The holders of common stock are entitled to elect two directors and the holders of the Preferred Stock are entitled to elect an aggregate of seven directors. In addition, certain transactions and matters require the consent of the holders of at least the majority of the shares of Series A-1 Preferred Stock voting as a separate class and a majority of the shares of Series B-1 Preferred Stock voting as a separate class.

In connection with the Company's private placement offering of its Series A-1 Preferred Stock, the Company has recorded $1,070,985 as a reduction in additional paid-in capital, for the payment of anticipated dividends. The associated investment agreement requires the Company to accrue dividends, on a quarterly basis, at an annual rate of 9 percent of the face value of the Series A-1 Preferred Stock. The Series B Preferred Stock, which was issued on June 26, 1995, will also accrue dividends on a quarterly basis, at an annual rate of 9 percent of their face value.

Although the Board of Directors of the Company has not taken any formal action as of June 30, 1995, as a condition of the aforementioned agreement, the dividends have been deemed declared and properly reflected in the accompanying consolidated financial statements as of June 30, 1995. Pursuant to the resolution authorizing the Series A-1 and B Preferred Stock, dividends accrued shall be paid cumulatively, beginning December 31, 1997, or earlier upon conversion. Upon such conversion prior to December 31, 1997, the Company may, in lieu of accrued and unpaid dividends, issue promissory notes to the holders of the Preferred Stock. The Company will issue promissory notes to the holders on January 1, 1998 for dividends accrued, if conversion has not occurred. Conversion may occur at any time at the holder's option or automatically, upon certain qualifying issuance of common stock, liquidation, or occurrence of certain triggering events. As of June 30, 1995, no conversions have occurred.

(4) Debt

Long-term debt at June 30 consists of the following:

	1995	1994
Convertible Bridge Notes, interest at 15%, maturing December 31, 1994	$ —	4,300,720
Secured note — stockholder, interest at 15%, maturing December 31, 1994	—	75,000
Secured convertible notes — related party at 15%, maturing December 31, 1994	—	606,640
Notes payable — stockholders at 10-15%, maturing September 15, 1995 and September 14 and 15, 1994, respectively	146,083	627,775
AT&T Credit Corporation equipment and working capital financing facility	3,652,085	—
Total long-term debt	3,798,168	5,610,135
Less current portion	146,083	5,610,135
	$3,652,085	—

Principal payments for each of the years from 1996 to 2000 and thereafter, are due as follows at June 30, 1995:

Year ending June 30,	Amount
1996	$ 146,083
1997	198,715
1998	190,946
1999	376,331
2000	546,180
Thereafter	2,339,913
	$3,798,168

Convertible Bridge Notes

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, to 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 offering (see note 3). The Company recorded noncash debt conversion expense of $231,000 associated with the related unamortized financing fees.

Secured Note — Stockholder

On May 25, 1994, the Company issued a Promissory Note in the principal amount of $75,000 to a stockholder with an interest rate of 15 percent per annum, due December 31, 1994. As additional consideration, the Company issued 6,923 shares of common stock. In October 1994, the cash proceeds of the Series A Preferred Stock private placement offering were used to retire the outstanding principal and accrued interest associated with this secured note (see note 3).

(4) Debt — (Continued)

Secured Convertible Notes

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 percent 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 for 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.

Demand Note

In August 1994, the Company borrowed $250,000, at a rate of 15 percent per annum from an affiliate that was payable on demand. In October 1994, this note was converted for 2,778 shares of Series A Preferred Stock (see note 3).

Notes Payable — Stockholders

At June 30, 1994, the Company had a total of $627,775 in notes payable to stockholders. Such notes payable included $300,000 in ACSI Bridge Notes due September 14, 1994, $252,775 in ALI Senior Subordinated Notes Payable (Senior Notes) including accrued interest due September 15, 1994, that were convertible into ACSI Bridge Notes, and a note payable to a stockholder of $75,000, that was paid by the Company on July 6, 1994. The ACSI Bridge Notes and the Senior Notes bore interest at 10 percent per annum while the note payable to stockholder bore interest at 15 percent per annum. Additionally, at June 30, 1994, the Senior Notes had attached warrants to purchase a total of 12,500 shares of ACSI common stock for every $50,000 of principal amount exercisable at $.875.

The aforementioned ACSI Bridge Notes and Senior Notes due September 14, 1994 and September 15, 1994, respectively, were all, with the exception of $146,083 principal amount, paid in July and August 1994. The maturity date for the remaining $146,083 was extended until September 14, 1995.

At June 30, 1993, ALI had short-term notes payable due to stockholders (ALI Notes Payable) totaling $569,994. The notes bore interest at various rates ranging from 8 to 10 percent, which was payable quarterly. Immediately prior to the reverse acquisition, as described in note 1, a stockholder exchanged the remaining balance on these ALI Notes Payable totaling $550,000 for 550 shares of no par Series A Preferred Stock and 628,577 shares of common stock. The Company recorded noncash debt conversion expense of $550,000 related to the exchange transaction.

Immediately prior to the September 14, 1993 reverse acquisition, ALI issued $600,000 of Senior Unsecured Promissory Notes (ALI Bridge Notes), which bore interest at 10 percent, payable quarterly. The ALI Bridge Notes had attached warrants to purchase 12,500 shares of common stock of ACSI, exercisable at $.875 per share, for every $50,000 of principal amount. The ALI Bridge Notes carried an initial term of one year. In conjunction with the reverse acquisition, the ALI Bridge Notes were converted into ACSI Bridge Notes (ACSI Bridge Notes). As an inducement to convert, the holders of the ALI Bridge Notes received, at no cost, 12,500 shares of ACSI common stock for every $50,000 of principal amount. The Company recorded a noncash debt conversion expense of $131,250 in 1994 associated with the debt conversion. During 1994, the Company made principal payments totaling $150,000 to the holders of such ACSI Bridge Notes. The Company also issued 400,000 shares of common stock at $2.50 per share for cash totaling $850,000 in

(4) Debt — (Continued)

satisfaction of $150,000 of such ACSI Bridge Notes. The issuance of the common stock has been recorded as an increase in additional paid-in capital net of offering costs totaling $151,000.

Additionally, in anticipation of the September 14, 1993 reverse acquisition, certain stockholders converted 100 shares of ALI Series A Preferred Stock, 36,372 shares of ALI common stock, and 3,325 shares of ACC common stock to Senior Notes with principal value of $135,175. The Senior Notes bore interest at 10 percent and matured in one year. Stockholders also exchanged short-term notes payable totaling $107,083 for Senior Notes.

AT&T Credit Corporation Equipment and Working Capital Financing Facility

The Company has an arrangement for an anticipated $31,200,000 secured equipment and working capital financing facility with AT&T Credit Corporation. Each network is treated as a separate loan facility which has a maturity date of nine years after the closing of the facility. Each loan shall bear interest at a rate per annum equal to a fixed rate or a variable rate, computed on the basis of a 360 day year compounded monthly. The variable rate is based upon the average offering rate for three month commercial paper. The fixed rate is based upon the "ask yields" of United States seven year treasury notes.

Interest on each loan shall be payable quarterly in arrears on each payment date providing that no event of default has occurred. All of the principal and related interest payments are deferred for twenty-four months from the date of closing. The Company is responsible for an interest deferral rate ranging from 5 to 5.75 percent.

The Company's subsidiaries, which have built and are currently operating networks in Louisville, Kentucky, Fort Worth, Texas, and Greenville and Columbia, South Carolina, have received loan commitments totaling approximately $19.8 million under this arrangement, of which approximately $3,650,000, including interest of approximately $142,000, which is accruing at rates ranging from 11.76 to 13.59 percent, has been drawn down at June 30, 1995. The Company also sold a 7.25 percent ownership interest in the Louisville and Fort Worth subsidiaries to AT&T Credit Corporation during 1995. Pursuant to this facility, subsequent to June 30, 1995, the Company also sold a 7.25 percent ownership interest in its Greenville and Columbia, South Carolina subsidiaries to AT&T Credit Corporation and received additional loan commitments from AT&T Credit Corporation totalling $5.5 million for its El Paso, Texas network on substantially identical terms.

The AT&T Credit Corporation facility is subject to certain conditions with respect to the funding of each city's network, including the execution of definitive loan documents, the completion of due diligence and submission of business plans satisfactory to the lender for each network to be funded.

The provisions of the facility restrict the subsidiaries' incurrence of liens and other indebtedness, sale of assets, dividend payments, and other activities not designated in the business plan. Additionally, timely reporting of financial and other non-financial information is required as well as maintaining the established minimum cash flow requirements, fixed charge coverage, and debt service reserve. At June 30, 1995, the Company and its subsidiaries were in compliance with the covenants contained in the agreements.

Further, pursuant to the facility, the Company is required to purchase certain minimum levels of equipment from AT&T, an affiliate of AT&T Credit Corporation, at prevailing market prices. At June 30, 1995, the Company is required to purchase approximately $2.3 million in AT&T equipment over the next two years. For the year ended June 30, 1995, the Company purchased approximately $1,775,000 of telecommunications equipment from AT&T, which amount is recorded as networks, equipment and furniture within the accompanying consolidated financial statements.

(5) Stockholders' Equity

Common Stock

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

In 1994, prior to the September 14, 1993 reverse acquisition (see note 1), the Company issued 151,588 shares of common stock in settlement of $132,636 in liabilities payable for services rendered. GLL issued 212,500 shares of common stock in payment of $185,938 in services to effect the reverse acquisition. This amount was charged to paid-in-capital.

Additionally, in October 1993, the Company approved the issuance of a total of 5,000 shares of the common stock of the Company to an employee in consideration for services performed. Noncash compensation expense recorded for the transaction was $4,375.

Preferred Stock

Pursuant to the Series B Preferred Stock offering, as described in note 3, four classes of Series B Preferred Stock have been issued. The composition of the Series B Preferred Stock at June 30, 1995 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 authorized and designated as 9% Series B-4 Convertible Preferred Stock; none issued and outstanding	—
Total	$227,500

(6) Stock Options and Stock Purchase Warrants

The Company has a stock option plan which provides for the granting of options to certain officers, employees, and affiliated members of the Company to purchase shares of its common stock within prescribed periods at a price which generally equals the fair market value on the date of grant.

In 1994, the Company entered into employment agreements with five executive officers. In 1995, the employment agreements were amended. As of June 30, 1995, pursuant to the agreements, as amended, such executive officers have been granted options to purchase 3,999,835 shares of common stock of the Company at exercise prices ranging from $.875 to $2.80 per share. The options vest at various dates as specified in the employment agreements with 3,919,835 of the options vesting on specific dates ranging from October 31, 1993 to March 31, 1998, and 80,000 of such options vesting upon the occurrence of certain specified performance milestones from August 31, 1995 through September 1, 1996. 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 reduction based on the employees' sales of stock. As of June 30, 1995 and 1994, 2,586,487 and 549,966 of the options are vested and exercisable, respectively. Noncash compensation expense associated with these agreements amounted to approximately $6,382,000 and $628,000, in 1995 and 1994, respectively.

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

During 1995 and in connection with the Series A and Series B Preferred Stock private placements and related bridge note conversions, warrants for 4,258,810 shares of common stock were issued at prices ranging from $.01 to $3.10. Subsequently, 2,299,967 in such options and warrants were exercised during the year for proceeds totaling approximately $305,000.

The Company has also issued 500,000 options to a supplier to purchase stock at 90 percent 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. None of the options have been exercised to date and they expire in June of 1998. The Company's obligation with respect to the options is included in redeemable stock, options, and warrants in the accompanying consolidated financial statements.

Stock option activity for the years ended June 30, 1995 and 1994 is as follows:

	Number	Price Per Share
Balances, June 30, 1993	—	$ —
Granted	858,875	.875 - 3.10
Cancelled	—	—
Balances, June 30, 1994	858,875	.875 - 3.10
Granted	4,935,314	.875 - 4.00
Exercised	—	—
Cancelled	(100,000)	2.25
Balances, June 30, 1995	5,694,189	$ .875 - 4.00

In addition to the Company's stock option plan, several options and warrants to purchase the Company's stock have been issued pursuant to various consulting agreements, bridge note conversions and in connection with the Company's Series A Preferred Stock and Series B Preferred Stock private placements.

At June 30, 1994, 512,194 warrants pursuant to consulting and subordinated note agreements, granted at $.875 during 1994, were outstanding. Pursuant to these warrant agreements, an additional 2,109 warrants were issued during 1995. Additionally, during 1995, 33,412 of such warrants were canceled and 72,500 of such warrants were exercised. Proceeds to the Company upon the exercise of such warrants approximated $64,000.

At June 30, 1995, the remaining warrants outstanding are as follows:

	Number	Price Per Share
Pursuant to consulting and subordinated note agreements, expiration through September 13, 1996	408,391	$ 0.875
Series A and Series B Preferred Stock placements	1,958,843	.01 - 3.10
Total	2,367,234	$ .01 - 3.10

Subsequent to June 30, 1995, warrants issued in connection with the Series B private placement for 108,268 shares were exercised at $.01 per share.

(7) Commitments and Contingencies

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 was released from its

(7) Commitments and Contingencies — (Continued)

obligations to repurchase the shares. 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.

As of June 30, 1995, 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.

(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 June 30, 1995 are, approximately, as follows:

Year ending June 30,	Amount
1996	$ 787,000
1997	719,000
1998	604,000
1999	562,000
2000	569,000
Thereafter	888,000
	$4,129,000

Rent expense for the years ended June 30, 1995 and 1994 was approximately $200,000 and $48,000, respectively.

(9) Related-Party Transactions

The Company and all of its subsidiaries are parties to a management services agreement whereby the Company renders financial, legal, and other administrative and network support services in connection with the development and operational needs of each subsidiary. A fee, based on direct and allocated costs, is billed monthly. The term of the agreement is initially 15 years and is renewed automatically for successive 5 year terms. During 1995 and 1994, intercompany billings for the aforementioned arrangement were approximately $2.3 million and $0, respectively, all of which have been eliminated in consolidation.

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 1995, the Company paid $67,500 under this arrangement.

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 Steven G. Chrust, a 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, 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

(9) Related-Party Transactions — (Continued)

exercise of the options will be priced at $2.25 per share and the shares issued will have piggy back registration rights.

An entity controlled by significant stockholders of the Company provided office space and certain administrative personnel through February 1, 1994. The Company was charged for these items based on a percentage of space occupancy and personnel time usage. Total charges for the year ended June 30, 1994 were $78,840. The Company incurred no such costs during 1995.

(10) Income Taxes

Temporary differences and carryforwards that give rise to deferred tax assets and liabilities at June 30 are as follows:

	1995	1994
Deferred tax assets:		
Capitalized start-up and other costs	$4,163,941	1,898,244
Stock options — noncash compensation	2,768,488	251,510
Net operating loss carryforwards	1,149,755	225,573
Other accrued liabilities	454,391	—
Total gross deferred tax assets	8,536,575	2,375,327
Less: valuation allowance	8,291,380	2,375,327
Net deferred tax assets	245,195	—
Deferred tax liabilities — fixed assets depreciation and amortization	245,195	—
Net deferred tax assets (liabilities)	$ —	—

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 year ended June 30, 1995 was an increase of $6,161,248. The valuation allowances at June 30, 1995 and 1994 are a result of the uncertainty of the ultimate utilization of the tax benefits related to the deferred tax assets. The utilization of the tax benefits associated with net operating losses of approximately $2,927,000 and $564,000 at June 30, 1995 and 1994, respectively, 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 2010. 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 1994 as the aforementioned deferred tax assets have provided no tax benefit.

(11) Major Customers

During 1995, special access services provided by the Company to three long distance carriers accounted for 85 percent of total revenues. No revenues were recorded in 1994.

(12) Exchange of Stock

On June 1, 1994, the Company entered into an agreement to exchange 548,387 shares of ACSI Common Stock for all 1,700 issued and outstanding shares of ACSI Preferred Stock. This transaction was completed in July 1994.

(13) 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 has 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 is recorded as redeemable stock in the accompanying consolidated financial statements.

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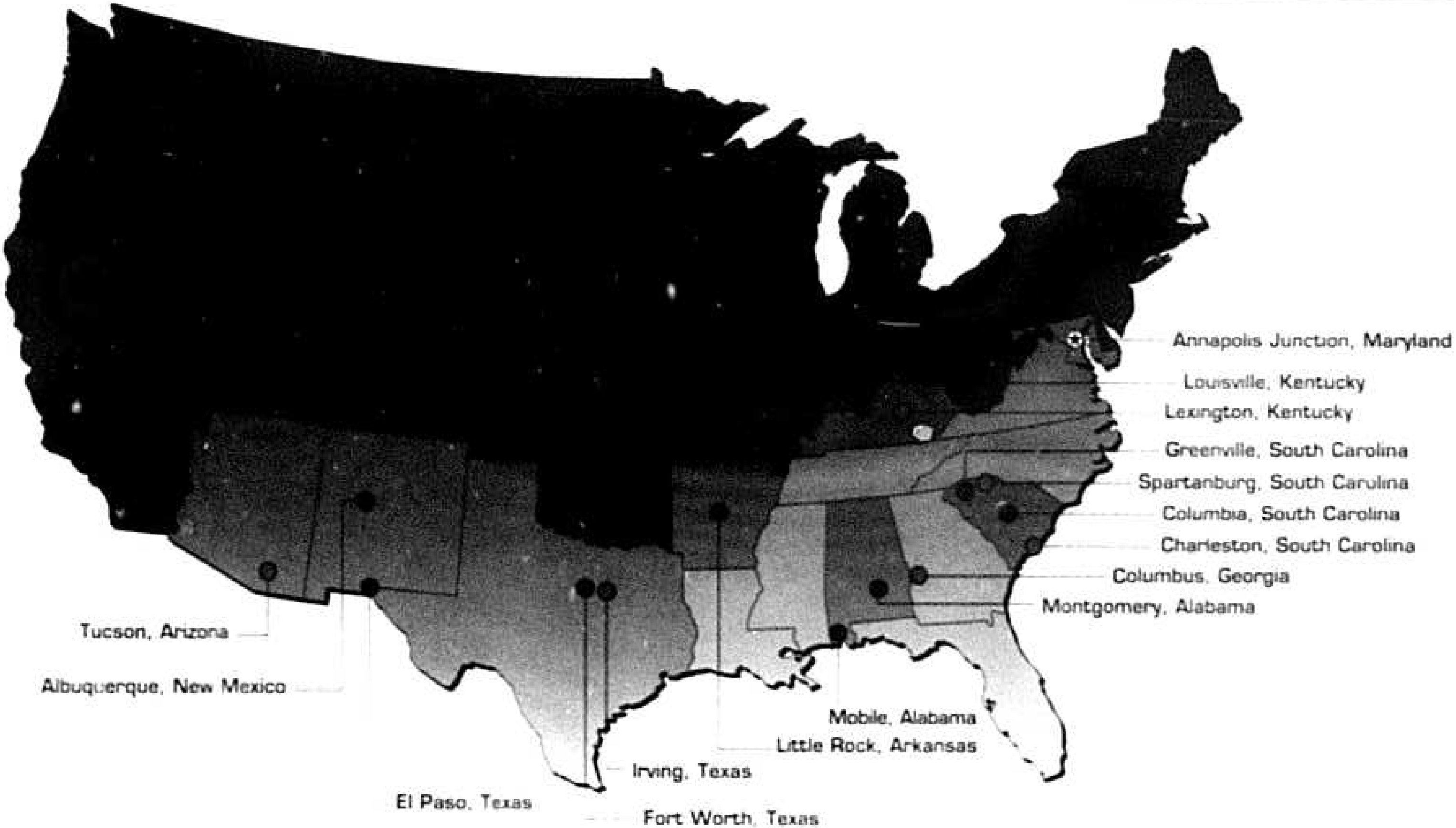
ACSI American Communications Services, Inc.

ACSI's Southern Strategy



- ● Networks in Operation - 12/1/95
- ● Networks Under Construction - 12/1/95
- ★ Corporate Headquarters/Network Management Center
- ■ States with Operational Networks and Networks Under Construction
- ■ Additional Targeted States

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EXHIBIT D

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REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES

APPLYING TO END-USER

COMMUNICATION SERVICES WITHIN

THE STATE OF FLORIDA

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EXPLANATION OF SYMBOLS, REFERENCE MARKS, AND ABBREVIATIONS OF TECHNICAL TERMS USED IN THIS TARIFF

The following symbols shall be used in this tariff for the purpose indicated below:

C	To signify changed regulation.
D	To signify discontinued rate or regulation.
I	To signify increased rate.
M	To signify a move in the location of text.
N	To signify new rate or regulation.
R	To signify reduced rate.
S	To signify reissued matter.
T	To signify a change in text but no change in rate or regulation.

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate end-user communications services by American Communication Services of Jacksonville, Inc., hereinafter referred to as the Company, to customers within the State of Florida

CONCURRING CARRIERS

DEFINITIONS

DEFINITIONS

Certain terms used generally throughout this tariff are defined below.

Account Codes: Permits Centrex Stations and attendants to dial an account code number of up to eight digits. For use when placing calls over facilities arranged for Automatic Message Accounting (AMA) recording. The account or project number must be input prior to dialing the called number.

Advance Payment: Part or all of a payment required before the start of service.

DID Trunk: A form of local switched access that provides the ability for an outside party to call an internal extension directly without the intervention of the company operator.

Automatic Number Identification (ANI): Allows the automatic transmission of a caller's billing account telephone number to a local exchange company, interexchange carrier or a third party subscriber. The primary purpose of ANI is to allow for billing of toll calls.

Bit: The smallest unit of information in the binary system of notation.

Call Back/Camp On: Permits a station line encountering an all-trunk-busy condition the option of being notified when a trunk becomes idle.

Call Forwarding:

Call Forwarding Station: Allows calls directed to a station line to be routed to a user defined line inside or outside the customer's telephone system.

Call Forwarding System: Permits calls attempting to terminate to a busy station line to be re-directed to a predetermined line inside or outside the customer's telephone system.

Call Forwarding Remote: This optional feature allows a user to activate/deactivate the Call Forwarding - All Calls feature or change the forwarded to telephone number from a remote location.

DEFINITIONS

Call Forwarding Busy: Allows incoming calls to a busy station to be routed to a preselected station line or attendant within the same system or outside the system. Intercom calls can be arranged to be forwarded to a number different from DID calls.

Call Forwarding Don't Answer: Allows incoming calls to be automatically routed to a preselected station line or attendant in the same system or outside the system, when the called station is not answered after a preset number of rings. Intercom calls can be arranged to be forwarded to a number different from DID calls.

Call Forwarding Variable Limited: When this feature is activated by a station line user or the attendant, incoming calls to the activated station line or attendant position will be automatically routed to any other selected station line, within the same Centrex system, or to the attendant position. The attendant may also activate this feature for a station line user.

Call Forwarding Variable Unlimited: The same as Call Forwarding Variable Limited except that incoming calls may be automatically routed to a telephone number outside the Centrex system or to station lines within the same Centrex system. The attendant may not activate this feature to a telephone number outside the Centrex system for a station line use. Calls forwarded outside the Centrex system are subject to the appropriate charges for local and toll messages.

Call Hold: Allows the user to hold one call for any length of time provided that neither party goes on-hook.

Call Park: Allows a station line to park a call against its own line number. The parked call can be retrieved from any station line by dialing a feature code and the line number against which the call is parked.

Call Pickup: Allows a station line to answer incoming calls to another station line within a defined call pickup group. Call pickup is provided on individual station lines within a customer group.

DEFINITIONS

Call Transfer: Allows a station line user to transfer any established call to another station line inside or outside the customer group without the assistance of the attendant.

Call Waiting: Permits a line in the talking state to be alerted by a tone when another call is attempting to complete to the line. Audible ringing is returned to the originating line. The Service also provides a hold feature that is activated by a switchhook flash.

Communication Services: The Company's intrastate toll and local exchange switched telephone services offered for both intraLATA and interLATA use.

Company or ACSI: American Communication Services of Jacksonville, Inc., the issuer of this tariff

Customer or Subscriber: The person, firm or corporation that orders service and is responsible for the payment of charges and compliance with the Company's regulations.

Dial Pulse (or "DP"): The pulse type employed by rotary dial station sets.

Direct Inward Dial (or "DID"): A service attribute that routes incoming calls directly to stations, by-passing a central answering point.

Direct Outward Dial (or "DOD"): A service attribute that allows individual station users to access and dial outside numbers directly.

Do Not Disturb: Permits the attendant to cut off a single station line and selected groups of station lines from receiving incoming and station-to-station calls.

DSX-1 Panel: Distribution equipment used to terminate and administer DS1 (1.544 Mbps) circuits.

Dual Tone Multi-Frequency (or "DTMF"): The pulse type employed by tone dial station sets.

Duplex Service: Service that provides for simultaneous transmission in both directions.

DEFINITIONS

Fiber Optic Cable: A thin filament of glass with a protective outer coating through which a light beam carrying communications signals may be transmitted by means of multiple internal reflections to a receiver, which translates the message.

Hunting: Routes a call to an idle station line in a prearranged group when the called station line is busy.

In-Only: A service attribute that restricts outward dial access and routes incoming calls to a designated answer point.

Joint User: A person, firm or corporation that is designated by the Customer as a user of services furnished to the Customer by ACSI and to whom a portion of the charges for the service will be billed under a joint user arrangement as specified herein.

Kbps: Kilobits per second, denotes thousands of bits per second.

Last Number Redial: Enables a station line user to redial the last called number by use of an access code rather than dialing the entire number.

LATA: A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4.

Local Exchange Carrier or ("LEC"): Denotes any individual, partnership, association, joint-stock company, trust or corporation engaged in providing switched communication within an exchange.

Mbps: Megabits, denotes millions of bits per second.

Multi-Frequency or ("MF"): An inter-machine pulse-type used for signalling between telephone switches, or between telephone switches and PBX/key systems.

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment, that continue for the agreed upon duration of the service.

DEFINITIONS

Service Commencement Date: The first day following the date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service that does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and Customer may mutually agree on a substitute Service Commencement Date.

Service Order: The written request for Network Services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

Shared: A facility or equipment system or subsystem that can be used simultaneously by several Customers.

Speed Calling: Permits a station line user to dial selected numbers by using fewer digits than normally required. This is accomplished through the assignment of abbreviated codes to frequently called numbers. The speed calling list is customer-changeable.

System: Allows shared use of speed calling list. A control station will add, change or delete telephone numbers from the list for the group.

Station: Allows a station line user to add, change or delete telephone numbers from a speed calling list. The list is dedicated to the individual station line user.

Three-Way Calling: Allows a station line user to add a third party to an existing conversation.

Two Way: A service attribute that includes outward dial capabilities for outbound calls and can also be used to carry inbound calls to a central point for further processing.

User or End User: A Customer, Joint User, or any other person authorized by a Customer to use service provided under this tariff.

REGULATIONS

REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service pursuant to the terms of this tariff in connection with one-way and/or two-way information transmission between points within the State of Florida.

Customers and users may use services and facilities provided under this tariff to obtain access to services offered by other service providers. The Company is responsible under this tariff only for the services and facilities provided hereunder, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own customers.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.2 Shortage of Equipment or Facilities

A) The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.

B) The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions

A) Service is provided on the basis of a minimum period of at least one month, 24-hours per day. For the purpose of computing charges in this tariff, a month is considered to have 30 days.

B) Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.

C) At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month-to-month basis at the then current rates unless terminated by either party upon 30 days' written notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.

D) In any action between the parties to enforce any provision of this tariff, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions (Cont'd)

E) Service may be terminated upon written notice to the Customer if.

1) the Customer is using the service in violation of this tariff; or

2) the Customer is using the service in violation of the law.

F) This tariff shall be interpreted and governed by the laws of the State of Florida regardless of its choice of laws provision.

G) BellSouth Telephone Company must not interfere with the right of any person or entity to obtain service directly from the Company. No person or entity shall be required to make any payment, incur any penalty, monetary or otherwise, or purchase any services in order to have the right to obtain service directly from the Company.

H) To the extent that either the Company or any other telephone company exercises control over available cable pairs, conduit, duct space, raceways, or other facilities needed by the other to reach a person or entity, the party exercising such control shall make them available to the other on terms equivalent to those under which the Company makes similar facilities under its control available to its customers. At the reasonable request of either party, the Company and the other telephone company shall join the attempt to obtain from the owner of the property access for the other party to serve a person or entity.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company

A) The liability of the Company for damages arising out of the furnishing of its Services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts or omission, shall be limited to the extension of allowances for interruption as set forth in 2.6. The extension of such allowances for interruption shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages to Customer as a result of any Company service, equipment or facilities, or the acts or omissions or negligence of the Company's employees or agents.

B) The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority; national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials; or strikes, lock-outs, work stoppages, or other labor difficulties.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

C) The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers facilities or equipment used for or with the services the Company offers.

D) The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer-provided equipment or facilities.

E) The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer indemnities and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal presence, condition, location, or use of any installation so provided. The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this section 2.1.4(E) as a condition precedent to such installations.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

F) The Company is not liable for any defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees.

G) The Company shall be indemnified, defended and held harmless by the Customer against any claim, loss or damage arising from Customer's use of services, involving claims for libel, slander, invasion of privacy, or infringement of copyright arising from the Customer's own communications.

H) The entire liability for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid the Company by the Customer for the specific services giving rise to the claim. No action or proceeding against the Company shall be commenced more than one year after the service is rendered.

L) **THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH HEREIN.**

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

REGULATIONS

2.4 Customer Equipment and Channels (Cont'd)

2.4.4 Inspections

A) Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in Section 2.4.2(B) for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.

B) If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.

REGULATIONS

2.4 Customer Equipment and Channels (Cont'd)

2.4.3 Interconnection of Facilities

A) Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communication Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

B) Communication Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers that are applicable to such connections.

C) Facilities furnished under this tariff may be connected to Customer-provided terminal equipment in accordance with the provisions of this tariff. All such terminal equipment shall be registered by the Federal Communications Commission pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User-provided wiring shall be installed and maintained in compliance with those regulations.

D) Users may interconnect communications facilities that are used in whole or in part for interstate communications to services provided under this tariff only to the extent that the user is an is "End User" as defined in Section 69.2(m), Title 47, Code of Federal Regulations (1992 edition).

REGULATIONS

2.4 Customer Equipment and Channels

2.4.1 General

A User may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in this tariff. A User may transmit any form of signal that is compatible with the Company's equipment, but the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication except as specifically stated in this tariff.

2.4.2 Station Equipment

A) Terminal equipment on the User's Premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company Point of Connection.

B) The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

REGULATIONS

2.3 Obligations of the Customer (Cont'd)

2.3.2 Claims

With respect to any service or facility provided by the Company, Customers shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees for:

A) any loss, destruction or damage to the property of the Company or any third party, or death or injury to persons, including, but not limited to, employees or invitees of either party, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer, its employees, agents, representatives or invitees; or

B) any claim, loss, damage, expense or liability for infringement of any copyright, patent, trade secret, or any proprietary or intellectual property right of any third party, arising from any act or omission by the Customer, including, without limitation, use of the Company's services and facilities in a manner not contemplated by the agreement between the Customer and the Company.

REGULATIONS

2.3 Obligations of the Customer (Cont'd)

2.3.1 General (Cont'd)

F) complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company facilities and equipment in any Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1(D); and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;

G) not creating, or allowing to be placed, any liens or other encumbrances on the Company's equipment or facilities; and

H) making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

REGULATIONS

2.3 Obligations of the Customer (Cont'd)

2.3.1 General (Cont'd)

D) obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduits necessary for installation of fiber optic cable and associated equipment used to provide Communication Services to the Customer from the cable building entrance or property line to the location of the equipment space described in 2.3.1(C). Any and all costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;

E) providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. friable asbestos) prior to any construction or installation work;

REGULATIONS

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

A) the payment of all applicable charges pursuant to this tariff;

B) damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;

C) providing at no charge, as specified from time to time by the Company, any needed personnel, equipment space and power to operate Company facilities and equipment installed on the premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;

REGULATIONS

2.2 Prohibited Uses

A) The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.

B) The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and Florida Public Service Commission regulations, policies, orders, and decisions.

C) The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.

D) A customer, joint user, or authorized user may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated communications services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this tariff will apply.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.8 Special Construction

Subject to the agreement of the Company and to all of the regulations contained in this tariff, special construction of facilities may be undertaken on a reasonable efforts basis at the request of the Customer. Special construction is that construction undertaken:

A) where facilities are not presently available, and there is no other requirement for the facilities so constructed;

B) of a type other than that which the Company would normally utilize in the furnishing of its services;

C) over a route other than that which the Company would normally utilize in the furnishing of its services;

D) in a quantity greater than that which the Company would normally construct;

E) on an expedited basis;

F) on a temporary basis until permanent facilities are available;

G) involving abnormal costs; or

H) in advance of its normal construction.

2.1.9 Ownership of Facilities

Title to all facilities provided in accordance with this tariff remains in the Company, its agents or contractors.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.7 Non-routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.6 Provision of Equipment and Facilities (Cont'd)

E) The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the Premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

G) The Company shall not be responsible for the installation, operation, or maintenance of any Customer-provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:

1) the transmission of signals by Customer-provided equipment or for the quality of, or defects in, such transmission; or

2) the reception of signals by Customer-provided equipment.

REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.6 Provision of Equipment and Facilities

A) The Company shall use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.

B) The Company shall use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer may not, nor may the Customer permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.

C) The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the service provided the Customer.

D) Equipment the Company provides or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which it was provided by the Company.

EXCHANGE ACCESS SERVICE

5.7 Centrex Service

Centrex Service provides the Customer with multiple individual voice-grade telephone communications channels, each of which can be used to place or receive one call at a time. Centrex Station Lines are provided for connection of Centrex-compatible Customer-provided station sets to the public switched telecommunications network. Centrex Service standard and optional features are described in Section 1 of this tariff. Centrex Service is provided with a minimum of five Centrex Station Lines. Each Centrex Station Line is provided in combination with other Company-provided services. Centrex Services are offered as Centrex Basic and Centrex Select.

5.7.1 Centrex Basic

The standard features are as follows:

Touch Tone
Call Transfer
Call Hold
Three-Way Conference Calling

* Some features may not be available in all locations.

5.7.2 Centrex Select

The standard features are as follows:

Touch Tone
Call Transfer
Call Hold
Three-Way Conferencing
Call Forward/Busy
Call Forward/Don't Answer
Call Forward/Variable
System Speed Dial
Call Pick-up
Call Hunting
Call Waiting

* Some features may not be available in all locations.

Additional non-recurring and monthly recurring Centrex Service charges are listed in Section 5.7.5.

REGULATIONS

2.5 Payment Arrangements

2.5.1 Payment for Service

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Users authorized by the Customer, regardless of whether those services are used by the Customer itself or are resold to or shared with other persons.

A) Taxes

The Customer is responsible for payment of any sales, use, gross receipts, exise, access or other local, state and federal taxes, charges or surcharges (however designated) (excluding taxes on Company's net income) imposed on or based upon the provision, sale or use of Network Services.

2.5.2 Billing and Collection of Charges

A) Non-recurring charges are due and payable from the customer within 30 days after the invoice date, unless otherwise agreed to in advance.

B) The Company shall present invoices for Recurring Charges monthly to the Customer, in advance of the month in which service is provided, and Recurring Charges shall be due and payable within 30 days after the invoice date. When billing is based on customer usage, charges will be billed monthly for the preceding billing periods.

C) When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.

REGULATIONS

2.5 Payment Arrangements (Cont'd)

2.5.2 Billing and Collection of Charges (Cont'd)

D) Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

E) If any portion of the payment is received by the Company after the date due, or if any portion of the payment is received by the Company in funds that are not immediately available, then a late payment penalty shall be due to the Company. The late payment penalty shall be the portion of the payment not received by the date due, multiplied by the lesser of the highest percentage allowable by the Florida Public Service Commission or a late factor of 1.5% per month.

F) The Customer will be assessed a charge of twenty-five dollars ($25.00) for each check submitted by the Customer to the Company that a financial institution refused to honor.

G) Customers have up to 90 days (commencing 5 days after remittance of the bill) to initiate a dispute over charges or to receive credits.

H) If service is disconnected by the Company in accordance with section 2.5.5 following and later restored, restoration of service will be subject to all applicable installation charges

REGULATIONS

2.5 Payment Arrangements (Cont'd)

2.5.3 Advance Payments

To safeguard its interests, the Company may require a Customer to make an advance payment before services and facilities are furnished. The advance payment will not exceed an amount equal to the non-recurring charge(s) and one month's charges for the service or facility. In addition, where special construction is involved, the advance payment may also include an amount equal to the estimated non-recurring charges for the special construction and recurring charges (if any) for a period to be set between the Company and the Customer. The advance payment will be credited to the Customer's initial bill. An advance payment may be required in addition to a deposit.

REGULATIONS

2.5 Payment Arrangements (Cont'd)

2.5.4 Deposits

A) To safeguard its interests, the Company may require a Customer to make a deposit to be held as a guarantee for the payment of charges. A deposit does not relieve the Customer of the responsibility for the prompt payment of bills on presentation. The deposit will not exceed an amount equal to:

1) two month's charges for a service or facility that has a minimum payment period of one month; or

2) the charges that would apply for the minimum payment period for a service or facility that has a minimum payment period of more than one month; except that the deposit may include an additional amount in the event that a termination charge is applicable.

B) A deposit may be required in addition to an advance payment.

C) When a service or facility is discontinued, the amount of a deposit, if any, will be applied to the Customer's account and any credit balance remaining will be refunded. Before the service or facility is discontinued, the Company may, at its option, return the deposit or credit it to the Customer's account.

D) Deposits held will accrue interest at a rate determined by the Company without deductions for any taxes on such deposits. Interest will not accrue on any deposit after the date on which reasonable effort has been made to return it to the Customer.

REGULATIONS

2.5 Payment Arrangements (Cont'd)

2.5.5 Discontinuance of Service

A) Upon nonpayment of any amounts owing to the Company, the Company may, by giving 24 hours prior written notice to the Customer, discontinue or suspend service without incurring any liability.

B) Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving 30 days' prior notice in writing to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.

C) Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

REGULATIONS

2.5 Payment Arrangements (Cont'd)

2.5.6 Cancellation of Application for Service

A) Applications for service cannot be canceled without the Company's agreement. Where the Company permits a Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

B) Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs incurred by the Company, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service commenced (all discounted to present value at six percent).

C) Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred by the Company, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.

D) The special charges described in 2.5.6(A) through 2.5.6(C) will be calculated and applied on a case-by-case basis.

REGULATIONS

2.5 Payment Arrangements (Cont'd)

2.5.7 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

2.6 Allowances for Interruptions in Service

Interruptions in service that are not due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth in 2.6.1 for the part of the service that the interruption affects.

2.6.1 Credit for Interruptions

A) A credit allowance will be made when an interruption occurs because of a failure of any component furnished by the Company under this tariff. An interruption period begins when the Customer reports a service, facility or circuit to be interrupted and releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative. If the Customer reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but not interrupted.

B) For calculating credit allowances, every month is considered to have 30 days. A credit allowance for fixed recurring fees only is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.

REGULATIONS

2.6 Allowances for Interruptions in Service (Cont'd)

2.6.1 Credit for Interruptions (Cont'd)

C) A credit allowance will be given for interruptions of 30 minutes or more. Credit allowances shall be calculated as follows:

Interruptions of 24 Hours or Less

Length of Interruption	Interruption Period To Be Credited
Less than 30 minutes	None
30 minutes up to but not including 3 hours	1/10 Day
3 hours up to but not including 6 hours	1/5 Day
6 hours up to but not including 9 hours	2/5 Day
9 hours up to but not including 12 hours	3/5 Day
12 hours up to but not including 15 hours	4/5 Day
15 hours up to but not including 24 hours	One Day

Two or more interruptions of 15 minutes or more during any one 24-hour period shall be considered as one interruption.

REGULATIONS

2.6 Allowances for Interruptions in Service (Cont'd)

2.6.1 Credit for Interruptions (Cont'd)

C) (Cont'd)

Over 24 Hours and Less Than 72 Hours. Interruptions over 24 hours and less than 72 hours will be credited 1/5 day for each 3-hour period or fraction thereof. No more than one full day's credit will be allowed for any period of 24 hours.

Interruptions Over 72 Hours. Interruptions over 72 hours will be credited 2 days for each full 24-hour period. No more than 30 days' credit will be allowed for any one month period.

REGULATIONS

2.6 Allowances for Interruptions in Service (Cont'd)

2.6.2 Limitations on Allowances

No credit allowance will be made for:

A) interruptions due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer, authorized user, joint user, or other common carrier providing service connected to the service of the Company;

B) interruptions due to the negligence of any person other than the Company, including but not limited to the Customer or other common carriers connected to the Company's facilities;

C) interruptions due to the failure or malfunction of non-Company equipment;

D) interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;

E) interruptions of service during a period in which the Customer continues to use the service on an impaired basis;

F) interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements; and

G) interruption of service due to circumstances or causes beyond the control of Company.

REGULATIONS

2.6 Allowances for Interruptions in Service (Cont'd)

2.6.3 Cancellation For Service Interruption

Cancellation or termination for service interruption is permitted only if any circuit experiences a single continuous outage of 8 hours or more or cumulative service credits equalling 16 hours in a continuous 12-month period. The right to cancel service under this provision applies only to the single circuit that has been subject to the outage or cumulative service credits.

REGULATIONS

2.7 Use of Customer's Service by Others

2.7.1 Resale and Sharing

Any service provided under this tariff may be resold to or shared with other persons at the option of the Customer, subject to compliance with any applicable laws or Florida Public Service Commission regulations governing such resale or sharing. The Customer remains solely responsible for all use of services ordered by it or billed to its telephone number(s) pursuant to this tariff, for determining who is authorized to use its services, and for notifying the Company of any unauthorized use.

2.7.2 Joint Use Arrangements

Joint use arrangements will be permitted for all services provided under this tariff. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. The Company will accept orders to start, rearrange, relocate, or discontinue service only from the designated Customer. Without affecting the Customer's ultimate responsibility for payment of all charges for the service, each joint user shall be responsible for the payment of the charges billed to it.

REGULATIONS

2.8 Cancellation of Service

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in Section 2.6.1 above), the Customer agrees to pay to the Company termination liability charges, as defined below. These charges shall become due and owing as of the effective date of the cancellation or termination and be payable within the period, set forth in Section 2.5.2.

The Customer's termination liability for cancellation of service shall be equal to:

A) all unpaid Non-Recurring charges reasonably expended by the Company to establish service to the Customer; plus

B) any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of the Customer; plus

C) all Recurring Charges specified in the applicable Service Order Tariff for the balance of the then current term discounted at the prime rate announced in the Wall Street Journal on the third business day following the date of cancellation; minus

D) a reasonable allowance for costs avoided by the Company as a direct result of the Customer's cancellation.

2.9 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties:

A) to any subsidiary, parent company or affiliate of the Company; or

B) pursuant to any sale or transfer of substantially all the assets of the Company; or

C) pursuant to any financing, merger or reorganization of the Company.

REGULATIONS

2.10 Notices and Communications

A) The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that the Customer may also designate a separate address to which the Company's bills for service shall be mailed.

B) The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

C) All notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.

D) The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

REGULATIONS

2.11 Operator Services Rules

A) The Company will enforce the following operator service rules.

A provider of intrastate operator assisted communications services must:

1) identify itself at the time the end-user accesses its services;

2) upon request, quote all rates and charges for its services to the end-user accessing its system;

3) arrange to have posted in plain view at each telephone location which automatically accesses the operator service provider's network and where its services are made available to the public or transient end-users:

(a) the operator service provider's name and address;

(b) bill and service dispute calling information including the operator service provider's dispute resolution phone number;

(c) clear and specific instructions informing the end-user how to access a local exchange telephone company operator as an alternative available to the end-user; and

(d) notice concerning any and all amounts to be billed by the operator services provider on behalf of any host location or third party that will appear on the operator service provider's bill for services rendered.

REGULATIONS

2.11 Operator Services Rules (Cont'd)

A) (Cont'd)

4) in instances when the provider is unable to complete the call and it requires transfer to another telephone corporation that may affect the rates and charges applicable to the telephone bill, inform the caller of the transfer and its possible effect on the applicable rates and charges, before any charges are incurred; and

5) in the case of such transfer, the telephone corporation or provider to which the call is transferred shall identify itself and inform the caller of the transfer's effect on the applicable rates and charges, before any charges are incurred.

B) The Company will comply with the following provisions:

1) Providers of intrastate operator assisted communications services shall not take any, action or enter into any arrangement that restricts end-user selection among competing interexchange telephone corporations or end-users access to competing providers of intrastate operator assisted communications services, or pay any commissions or other compensation to any entity engaged in such action or arrangement.

APPLICATION OF RATES

APPLICATION OF RATES

3.1 Introduction

The regulations set forth in this section govern the application of rates for services contained in other sections of this tariff.

3.2 Charges Based on Duration of Use

Where charges for a service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

A) Calls are measured in durational increments identified for each service. All calls that are fractions of a measurement increment are rounded-up to the next whole unit.

B) Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s). Timing for operator service person-to-person calls start with completion of the connection to the person called or an acceptable substitute, or to the PBX station called.

C) Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.

D) Calls originating in one time period and terminating in another will be billed in proportion to the rates in effect during different segments of the call.

E) All times refer to local time.

APPLICATION OF RATES

3.3 Rates Based Upon Distance

Where charges for a service are specified based upon distance, the following rules:

A) Distance between two points is measured as airline distance between the rate centers of the originating and terminating telephone lines. The rate center is a set of geographic coordinates, as referenced in the Local Exchange Routing Guide issued by Bellcore, associated with each NPA-NXX combination (where NPA is the area code and NXX is the first three digits of a seven-digit telephone number). Where there is no telephone number associated with an access line on the Company's network (such as a dedicated 800 or WATS access line), the Company will apply the rate center of the Customer's main billing telephone number.

APPLICATION OF RATES

3.3 Rates Based Upon Distance (Cont'd)

B) The airline distance between any two rate centers is determined as follows:

1) Obtain the "V" (vertical) and "H" (horizontal) coordinates for each rate center from the Bellcore Local Exchange Routing guide referenced in Section 3.3(A).

2) Compute the difference between the "V" coordinates of the two rate centers, and the difference between the two "H" coordinates.

3) Square each difference obtained in step (2) above.

4) Add the square of the "V" difference and the square of the "H" difference obtained in step (3) above.

5) Divide the sum of the squares by 10. Round to the next higher whole number if any fraction is obtained.

6) Obtain the square root of the whole number result obtained above. Round to the next higher whole number if any fraction is obtained. This is the airline mileage.

7) FORMULA =

$$\sqrt{\frac{(V1-V2)^2+(H1-H2)^2}{10}}$$

SERVICE AREAS

SERVICE AREAS

4.1 Exchange Access Service Areas

Exchange Access Service Areas (EASA) are provided (pursuant to Section 5.1) in limited geographic areas. Exchange Access Services bearing the following NPA-NXX designations are provided in the following areas:

NPA-NXX	Geographic Areas In Which Full Service Is Available[1]

Exchange Access NPA-NXXs And Boundaries Are To Be Determined.

[1] Full service versions of the Company's Exchange Access Services will be provided to Customers, at Customer premises located in these areas pursuant to this, the Southern Bell Telephone and Telegraph Company Georgia, General Subscriber Service Tariff to the extent that: (a) the Company has in place and available network facilities extending to such premises; or (b) the Customer's premises is served by Southern Bell Telephone and Telegraph Company Georgia wire center at which the Company maintains a collocation arrangement and is able to reasonably employ such arrangement to interconnect to unbundled exchange link facilities that the Company, in its sole discretion, judges to be of a type, grade, technical specification, quality and quantity sufficient to, and offered under conditions consistent with, the delivery of such services.

SERVICE AREAS

4.2 Calling Areas

Geographically-defined Local Calling Areas[1] are associated with each Exchange Access Service provided pursuant to Section 5.1. Exchange Access Services bearing the following NPA-NXX designations shall have the following Local and IntraLATA Calling Areas:

NPA-NXX	Local Calling Area Or IntraLATA Calling Area

Local Calling Areas and IntraLATA Calling Areas Are To Be Determined.

[1] Rates and rate plans for Local and IntraLATA Calling Area calls placed over Company-provided Exchange Access Services are set forth in Section 8.

EXCHANGE ACCESS SERVICE

EXCHANGE ACCESS SERVICE

5.1 General

Exchange Access Service provides a Customer with a telephonic connection to, and a unique telephone number address on the public switched telecommunications network. Each Exchange Access Service enables users to:

A) receive calls from other stations on the public switched telecommunications network;

B) access other services offered by the Company as set forth in this tariff;

C) access certain interstate and international calling services provided by the Company;

D) access (at no additional charge) the Company's operators and business office for service related assistance;

E) access (at no additional charge) emergency services by dialing 0- or 9-1-1; and

F) access services provided by other common carriers that purchase the Company's Switched Access services as provided under the Company's Federal and State tariffs, or that maintain other types of traffic exchange arrangements with the Company.

Each Exchange Access Service is available on a "Full" service basis, whereby service is delivered to a demarcation/connection block at the customer's premises.

The following Exchange Access Services are offered:

Basic Line Service
Key Line Service
Basic Trunk Service
DID Trunk Service
Digital Trunk Service
Centrex Service

EXCHANGE ACCESS SERVICE

5.2 Basic Line Service

Basic Line Service provides a Customer with a single, voice-grade telephonic communications channel that can be used to place or receive one call at a time. Basic Lines are provided for connection of Customer-provided single station sets or facsimile machines to the public switched telecommunications network. Each Basic Line may be configured into a hunt group with other Company-provided Basic Lines. Each Basic Line is provided with the following standard features which can be deleted at the Customer's option:

Touch Tone
Call Waiting
Call Forwarding
Three-Way Conference Calling

Non-recurring and monthly recurring rates per Basic Line apply as follows:

	Non-Recurring	Monthly Recurring
Basic Local Exchange Service -Each Line	$X.XX	$X.XX
Expanded Local Exchange Service -Each Line	$X.XX	$X.XX

EXCHANGE ACCESS SERVICE

5.3 Key Line Service

Key Line Service provides a Customer with a single, voice-grade telephonic communications channel that can be used to place or receive one call at a time. Key Lines are provided for connection of Customer-provided key systems to the public switched telecommunications network. Each Key Line is provided with the following standard features which can be deleted at the Customer's option:

Touch Tone
Call Waiting
Call Forwarding
Three-Way Conference Calling
Extension Dialing
Call Hunting

Non-recurring and monthly recurring rates per Key Line apply as follows:

	Non-Recurring	Monthly Recurring
Basic Local Exchange Service -Each Line	$X.XX	$X.XX
Expanded Local Exchange Service -Each Line	$X.XX	$X.XX

EXCHANGE ACCESS SERVICE

5.4 Basic Trunk Service

Basic Trunk Service provides a Customer with a single, voice-grade telephonic communications channel that can be used to place or receive one call at a time. Basic Trunks are provided for connection of Customer-provided private branch exchanges (PBX) to the public switched telecommunications network. Each Basic Trunk is provided with touch tone signalling and may be configured into a hunt group with other Company-provided Basic Trunks.

Basic Trunks may be equipped with Analog Direct Inward Dial (DID) capability and DID number blocks for additional charges, as set forth in Sections 5.5 and 5.6.

	Non-Recurring	Monthly Recurring
Basic Local Exchange Service -Per Trunk	$X.XX	$X.XX
Expanded Local Exchange Service -Per Trunk	$X.XX	$X.XX

EXCHANGE ACCESS SERVICE

5.5 DID Trunk Service

DID Trunk Service provides a Customer with a single, voice-grade telephonic communications channel that can be used to receive incoming calls one call at a time. DID Trunk Service transmits the dialed digits for all incoming calls allowing the Customer's PBX to route incoming calls directly to individual stations corresponding to each individual DID number. Charges for DID number blocks apply in addition to the DID Trunk charges listed below.

Non-recurring and monthly recurring rates per DID Trunk, apply as follows:

	Non-Recurring	Monthly Recurring
Basic Local Exchange Service -Each Line	$X.XX	$X.XX
Expanded Local Exchange Service -Each Line	$X.XX	$X.XX

EXCHANGE ACCESS SERVICE

5.6 Digital Trunk Service

Digital Trunk Service provides a Customer with a digital connection operating at 1.544 Mbps that is time division multiplexed into 24 individual voice-grade telephonic communications channels, each of which can be used to place or receive one call at a time. Digital Trunks are provided for connection of compatible Customer-provided private branch exchanges (PBX) to the public switched telecommunications network. Each Digital Trunk is provided with dual tone multi-frequency (DTMF) or multi-frequency (MF) signalling, as specified by the Customer. Digital Trunks may be configured into hunt groups with other Company-provided Digital Trunks. The terminal interface for each Digital Trunk Service is a DSX-1 panel.

Non-recurring and monthly recurring rates per Digital Trunk per point, apply as follows:

	Non-Recurring	Monthly Recurring
Per Trunk	$X.XX	$X.XX

EXCHANGE ACCESS SERVICE

5.7 Centrex Service (Cont'd)

5.7.3 Station Line Charges

The Centrex Station Lines are charged on a monthly recurring and non-recurring basis

	Non-Recurring	Monthly Recurring
Centrex Basic -Per Station Line	$X.XX	$X.XX
Centrex Select -Per Station Line	$X.XX	$X.XX

5.7.4 Usage Charges

A) Local Service Rates

Refer to the Rate Schedule located in Section 8.

B) IntraLATA Rates

Refer to the Rate Schedule located in Section 9.3.

EXCHANGE ACCESS SERVICE

5.7 Centrex Service (Cont'd)

5.7.5 Rate Elements

The following Rate Elements are in addition to the standard features located in Section 5.7.1 and 5.7.2. These rates are applied on a non-recurring and monthly recurring basis.

	Rate
Number Retention	
-Per Number	
Recurring	$X.XX
Non-Recurring	$X.XX
Order Processing Charge	
-Per Order	
Non-Recurring	$X.XX
Additional Directory Listing	
-Per Listing	
Recurring	$X.XX
Remote Call Forwarding	
-Per Path	
Recurring	$X.XX
Account Codes	
-Per Line	
Recurring	$X.XX

EXCHANGE ACCESS SERVICE

5.7 Centrex Service (Cont'd)

5.7.5 Rate Elements (Cont'd)

	Rate
Service Establishment Charge	
-Per Order	
Non-Recurring	$X.XX
Vanity Number	
-Per Number	
Recurring	$X.XX
Vanity Number Retention	
-Per Number	
Recurring	$X.XX
Non-Recurring	$X.XX

EXCHANGE ACCESS OPTIONAL FEATURES

EXCHANGE ACCESS OPTIONAL FEATURES

6.1 Directory Listings

For each Customer of Company-provided Exchange Access Service(s), the Company shall arrange for the listing of the Customer's main billing telephone number[1] in the directory(ies) published by the dominant Local Exchange Carrier in the area at no additional charge. At a Customer's option, the Company will arrange for additional listings at the following rates:

	Non-Recurring	Monthly Recurring
Each Additional Listing:	N/A	$X.XX

[1] For Customers with multiple premises served by the Company, the Company will arrange for a listing of the main billing telephone number at each premise.

EXCHANGE ACCESS OPTIONAL FEATURES

6.2 Direct Inward Dial (DID) Service

DID service is an optional feature which can be purchased in conjunction with Company-provided Basic Trunks or Digital Trunks. DID service transmits the dialed digits for all incoming calls allowing the Customer's PBX to route incoming calls directly to individual stations corresponding to each individual DID number. Charges for DID capability and DID number blocks apply in addition to charges specified for Basic Trunks or Digital Trunks in Sections 5.2, 5.4 and 5.6, respectively.

One DID Additive charge applies for each DID-equipped Basic Trunk or DID-equipped channel on a Digital Trunk. The Customer is required to purchase at least one DID number block for each DID-equipped trunk or trunk group, or DID-equipped channel or channel group.[1]

	Non-Recurring	Monthly Recurring
DID Additive	$X.XX	$X.XX
Block of 20 DID Numbers	$X.XX	$X.XX

[1] A "group" is a set of Basic Trunks or Digital Trunk channels which have been configured into a hunt group.

EXCHANGE ACCESS OPTIONAL FEATURES

6.3 Main Number Retention

6.3.1 Description

Main Number Retention is an optional feature by which a new Customer, who was formally a customer of another certificated local exchange carrier at the same premises location, may retain its main telephone numbers and main fax numbers for use with the Company-provided Exchange Access Services. Main Number Retention service is only available in areas where the Company maintains some form of number retention arrangement with the Customer's former local exchange carrier.

Monthly recurring and non-recurring charges apply per retained number. Rates for retained numbers may vary from area to area.

6.3.2 Rates

	Non-Recurring	Monthly Recurring
per retained number	$X.XX	$X.XX
per retained vanity number	$X.XX	$X.XX

EXCHANGE ACCESS OPTIONAL FEATURES

6.4 Accounting Codes

Accounting Codes provide customers with a means of restricting calls or itemizing calls, according to specific digits that must be dialed at the end of a long distance telephone number. The length of Accounting Codes may vary from 2 to 6 digits, however, the length must be consistent for each customer location.

Offered are packages of codes that are verified against a specific list of valid numbers, for call restriction, or unverified packages of 2-6 digits in length for cataloging by code the calls made

Charge Per Customer Location	Monthly Recurring	Non-Recurring
Verified Packages	**$XX.XX**	**$XX.XX**
Unverified Packages	**$ X.XX**	**$XX.XX**

EXCHANGE ACCESS OPTIONAL FEATURES

6.5 Authorization Codes

This option restricts calls from being made unless the correct accounting code is entered. Only customer specified codes will be accepted. The customer then may use these codes to track calling for cost analysis and bill-back purposes.

Non-Recurring	Monthly Recurring
$X.XX	$X.XX

EXCHANGE ACCESS OPTIONAL FEATURES

6.6 Vanity Number Service

6.6.1 Description

Vanity Number Service is an optional feature by which a new Customer may request a specific or unique telephone number and fax number for use with the Company provided Exchange Access Services. This service provides for the assignment of a customer requested telephone number other than the next available number from the assignment control list.

Vanity Number Service is furnished subject to the availability of facilities and the requirements of Exchange Access Service as defined by the Company. The Company reserves all rights to the Vanity Numbers assigned to customers and may, therefore, change them if required.

Monthly recurring charges apply per Vanity number.

6.6.2 Rates

	Non-Recurring	Monthly Recurring
Per Vanity Number	$X.XX	$X.XX

RESERVED FOR FUTURE USE

LOCAL CALLING SERVICE

LOCAL CALLING SERVICE

8.1 Description

Local Calling Service provides a Customer with the ability to originate calls from a Company-provided access line to all other stations on the public switched telephone network[1] bearing the designation of any central office exchanges, areas, and zones included in the Customer's local calling area.

8.1.1 Basic Local Exchange Service - This calling service allows the Customer unlimited access to all other stations on the public switched telephone network within the customer's Basic Local Calling Area.[2] All calls to destinations outside the Basic Local Calling Area but within the same state and LATA will be charged the IntraLATA rates as specified in Section 9.3 following.

8.1.2 Expanded Local Exchange Service - This calling service allows the Customer limited access to all other stations on the public switched telephone network within the Customer's Basic Local Calling Area. Additional calls to the Basic Local Calling Area will be charged as specified in Section 8.2.1(A) following. All calls to the Expanded Local Calling Area[2] will be charged a per call setup and per minute access charge as specified in Section 8.2.1(B) following. All calls to destinations outside the Expanded Local Calling Area but within the same state and LATA will be charged the IntraLATA rates as specified in Section 9.3 following.

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[1] Except calls to other telephone companies' caller paid information services (e.g. NPA 900, NXX 976, etc.). Calls to those numbers and other numbers used for caller-paid information services will be blocked by the Company's centralized switching facility.

[2] As specified in the BellSouth Telecommunications,Inc., Florida, General Subscriber Service Tariff, Local Calling Area Exchanges, in effect and as amended from time-to-time.

LOCAL CALLING SERVICE

8.1 Description (Cont'd)

8.1.2 Expanded Local Exchange Service (Cont'd)

A) Time Periods

Day and Night/Weekend rates apply as follows:

Rates	From	To But Not Including	Days Applicable
Day	9:00 A.M.	9:00 P.M.	Mon. - Fri.
Night/Weekend	All other days, times, and holidays.		

Holidays include New Year's Day (January 1), Independence Day (July 4), Labor Day (the first Monday in September), Thanksgiving Day (the fourth Thursday in November), and Christmas Day (December 25).

LOCAL CALLING SERVICE

8.2 Rates

The rates set forth in this section apply to all direct dialed local calls. For operator-assisted local calls, the operator charges listed in Section 12.1.3 apply in addition to the charges listed below.

8.2.1 Usage Charges - Per minute charges apply for each call. Timing is in whole minute increments, with a minimum charge of one minute per call.

A) Monthly Message Allowance

Type of Service	Basic Calling Area	Extended Calling Area
Basic Local Exchange Service	TBD	TDB[1]
Expanded Local Exchange Service	TBD	TDB

*Additional message charge of $0.12 for each message over monthly allowance.

B) Expanded Calling Area - The following usage charges apply to points in the Customer's Expanded Calling Area.

MILEAGE	SETUP PER CALL	PEAK	OFF-PEAK
0 - 10	$X.XX	$X.XX	$X.XX
11 - 22	$X.XX	$X.XX	$X.XX
23 - 40	$X.XX	$X.XX	$X.XX
41 +	$X.XX	$X.XX	$X.XX

[1] Customers of Basic Local Exchange Service are billed IntraLATA rates for calls to destinations within the state and LATA but outside the Basic Local Calling Area.

INTRALATA CALLING SERVICE

INTRALATA CALLING SERVICE

9.1 Description

IntraLATA calling service provides a Customer with the ability to originate calls from a Company-provided access line to all other stations on the public switched telephone network[1] bearing the designation of any central office exchanges, areas, and zones outside of the Customer's Basic Calling Area but within the same state and LATA.

9.2 Time Periods

Day, Evening and Night/Weekend rate periods are shown below. On holidays, Evening rates will apply unless a lower rate will normally apply.

Rates	From	To But Not Including	Days Applicable	Discount Applicable
Day	8:00 A.M.	12:00 P.M.	Mon. - Fri.	0%
	1:00 P.M.	5:00 P.M.	Mon. - Fri.	0%
Evening	5:00 P.M.	11:00 P.M.	Mon. - Fri.	25%
Night/Weekend		All other times.		50%

Holidays include New Year's Day (January 1), Independence Day (July 4), Labor Day (the first Monday in September), Thanksgiving Day (the fourth Thursday in November), and Christmas Day (December 25).

[1] Except calls to other telephone companies' caller paid information services (e.g. NPA 900, NXX 976, etc.). Calls to those numbers and other numbers used for caller-paid information services will be blocked by the Company's centralized switching facility.

INTRALATA CALLING SERVICE

9.3 Rates

MILEAGE	FIRST MINUTE	ADDITIONAL MINUTE
0 - 10	$X.XX	$X.XX
11 - 16	$X.XX	$X.XX
17 - 22	$X.XX	$X.XX
23 - 30	$X.XX	$X.XX
31 - 40	$X.XX	$X.XX
41 - 55	$X.XX	$X.XX
56 - 70	$X.XX	$X.XX
71 +	$X.XX	$X.XX

MISCELLANEOUS SERVICES

MISCELLANEOUS SERVICES

10.11 Operator Services

10.1.1 Description

Operator Handled Calling Services are provided to Customers and Users of Company-provided Exchange Access Services, and to Customers and Users of exchange access lines.

10.1.2 Definitions

Person--Person: Calls completed with the assistance of a Company operator to a particular person, station, department, or PBX extension specified by the calling party. Charges may be billed to the Customer's commercial credit card and/or LEC calling card, calling station, called station, or a designated third-party station. Calls may be dialed with or without the assistance of a Company operator.

Station-to-Station: Refers to calls other than person-to-person calls billed to either the end user's commercial credit card and/or nonproprietary calling card. Calls may be dialed with or without the assistance of a Company operator. Collect calls to coin telephones and transfers of charges to third telephones which are coin telephones will not be accepted.

Operator Dialed Charge: The end user places the call without dialing the destination number, although the capability to do it himself exists. The end user will dial "0" for local calls and "00" for long distance calls and then request the operator to dial the called station.

Billed to Non-Proprietary Calling Card: Refers to calls that are dialed by the customer in accordance with standard dialing instructions and billed to a non-proprietary calling card issued by another carrier.

MISCELLANEOUS SERVICES

10.1 Operator Services (Cont'd)

10.1.3 Rates

Local exchange and IntraLATA calls may be placed on an Operator Assisted basis. Usage charges for Operator Assisted calls are the same as those set forth in Sections 8 and 9, preceding. For Operator Assisted calls to Busy Line Verification and Interrupt, or Directory Assistance, the surcharges specified in Section 11.2.3 and Section 11.1.3 will apply in addition to any applicable Operator charges.

In addition to the usage charges identified above, the following operator-assisted charges will apply:

Per Call Charges	IntraLATA	InterLATA
Person-to-Person (Customer Dialed)	$X.XX	$X.XX
Station-to-Station (Customer Dialed)	$X.XX	$X.XX
Operator Dialed Charge (applies in addition to other operator charges)	$X.XX	$X.XX
Billed to Non-Proprietary Calling Card (additional surcharge)	$X.XX	$X.XX
Directory Assistance	$X.XX	$X.XX

MISCELLANEOUS SERVICES

10.2 Busy Line Verify and Line Interrupt Service

10.2.1 Description

Upon request of a calling party the Company will verify a busy condition on a called line.

A) The operator will determine if the line is clear or in use and report to the calling party.

B) The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.

10.2.2 Regulations

A) A charge will apply when:

1) The operator verifies that the line is busy with a call in progress.

2) The operator verifies that the line is available for incoming calls.

3) The operator verifies that the called number is busy with a call in progress and the customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.

MISCELLANEOUS SERVICES

10.2 Busy Line Verify and Line Interrupt Service (Cont'd)

10.2.2 Regulations (Cont'd)

B) No charge will apply:

1) When the calling party advises that the call is to or from an official public emergency agency.

2) Under conditions other than those specified in 11.2.2(A) preceding.

C) Busy Verification and Interrupt Service is furnished where and to the extent that facilities permit.

D) The Customer shall identify and hold the Company harmless against all claims that may arise from either party to the interrupted call or any person.

10.2.3 Rates

Busy Line Verify Service (each request)	$X.XX
Busy Line Verify and Busy Line Interrupt Service (each request)	$X.XX

MISCELLANEOUS SERVICES

10.5 Service Implementation

10.5.1 Description

Absent a promotional offering, service implementation charges will apply to new service orders or to orders to change existing service.

10.5.2 Rates

	Non-Recurring
per service order	$XX.XX

10.6 Restoration of Service

10.6.1 Description

A restoration charge applies to the re-establishment of service and facilities suspended because of nonpayment of bills and is payable at the time that the re-establishment of the service and facilities suspended is arranged for. The restoration charge does not apply when, after disconnection of service, service is later re-established.

10.6.2 Rates

	Non-Recurring
per occasion	$X.XX

SPECIAL ARRANGEMENTS

SPECIAL ARRANGEMENTS

11.1 Special Construction

11.1.1 Basis for Charges

Where the Company furnishes a facility or service for which a rate or charge is not specified in the Company's tariffs, charges will be based on the costs incurred by the Company and may include:

A) non-recurring type charges;

B) recurring type charges;

C) termination liabilities; or

D) combinations thereof.

11.1.2 Termination Liability

To the extent that there is no other requirement for use by the Company, a termination liability may apply for facilities specially constructed at the request of the customer.

A) The termination liability period is the estimated service life of the facilities provided.

B) The amount of the maximum termination liability is equal to the estimated amounts for:

SPECIAL ARRANGEMENTS

11.1 Special Construction (Cont'd)

11.1.2 Termination Liability (Cont'd)

B) (Cont'd)

1) Cost installed of the facilities provided including estimated costs for rearrangements of existing facilities and/or construction of new facilities as appropriate, less net salvage. Cost installed includes the cost of:

(a) equipment and materials provided or used,

(b) engineering, labor and supervision,

(c) transportation, and

(d) rights-of-way;

2) license preparation, processing, and related fees,

3) tariff preparation, processing, and related fees;

4) cost of removal and restoration, where appropriate; and

5) any other identifiable costs related to the specially constructed or rearranged facilities.

C) The applicable termination liability method for calculating the unpaid balance of a term obligation. The amount of such charge is obtained by multiplying the sum of the amounts determined as set forth in Section 1 3.1.3(B) preceding by a factor related to the unexpired period of liability and the discount rate for return and contingencies. The amount determined in section 13.1.3(B) preceding shall be adjusted to reflect the redetermined estimate net salvage, including any reuse of the facilities provided. This product is adjusted to reflect applicable taxes.

SPECIAL ARRANGEMENTS

11.2 Individual Case Basis (ICB) Arrangements

Arrangements will be developed on a case-by-case basis in response to a bona fide request from a Customer or prospective Customer to develop a competitive bid for a service offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such services in this tariff. ICB rates will be offered to the Customer in writing and on a non-discriminatory basis.

SPECIAL ARRANGEMENTS

11.3 Temporary Promotional Programs

The Company may establish temporary promotional programs wherein it may waive or reduce non-recurring or recurring charges, to introduce present or potential Customers to a service not previously received by the Customers.