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August 12, 1996

FILE COPY
ORIGINAL

Florida Public Service Commission
2540 Shumard Oak Boulevard
Gunter Building
Tallahassee, FL 32399-0580

VIA FEDERAL EXPRESS

Attn: Linda Williams, Division of Records and Reporting

Re: Filing For Approval Of Transfer Of Control Between ALD Communications, Inc.
and Brooks Fiber Properties, Inc.; Docket No. 960-906TI

Dear Ms. Williams:

On Saturday, August 10, 1996, a set of materials for approval of the transfer noted above was sent by Federal Express to your attention. This letter and the enclosed materials supplement that initial filing. Enclosed with this letter are additional exhibits to accompany the original application form, and a filing check in the amount of \$250.00 made payable to the Commission.

I very much appreciate your assisting me this afternoon with the information I needed to complete this filing. Please call with any questions.

Sincerely,

SCHATZ PAQUIN
LOCKRIDGE GRINDAL & HOLSTEIN P.L.L.P.

Christopher K. Sandberg

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.
Initials of person who forwarded check:
AS

CKS/sm
Enclosures

c: John Shapliegh
Mary Wand

215021-1

DOCUMENT NUMBER-DATE
08464 AUG 13 96
FPSC-RECORDS/REPORTING

GENERAL INFORMATION

On June 26, 1996, Brooks Fiber Properties, Inc. ("Brooks") and the shareholders of ALD Communications, Inc. ("ALD"), a certificated reseller of long distance telecommunications services in Florida, executed a Stock Purchase and Sale Agreement ("the Agreement") under which the stockholders agreed to sell all their interests in ALD to Brooks. ALD and Brooks, as purchaser and seller, have joined in the attached filing with the Florida Public Service Commission ("the Commission") to approve the Agreement and the purchase of ALD stock.

ALD is a California corporation registered to do business in Florida as a foreign corporation. ALD is authorized to provide interexchange service in a Florida. ALD is also authorized as a long distance reseller in Arizona, California, Illinois, Michigan, Minnesota, New York, Oregon, Texas, and Washington; ALD also provides interstate long distance services under a tariff on file with the Federal Communications Commission. Through a subsidiary, Tenant Network Services, Inc., ALD also operates as a private shared tenant services provider in San Francisco, California. ALD has sought and entered into the acquisition by Brooks due to ALD's present financial constraints. Brooks' financial resources and size will permit ALD to increase its operations and the number of competitively priced services available to ALD's customers.

Brooks is a diversified telecommunications holding company, headquartered in Missouri. Brooks is a leading full-service provider of competitive local communications services in selected markets in the United States. Brooks owns interests in competitive local access providers, competitive local carriers, and

interexchange carriers in several states, including Arkansas, Arizona, California, Connecticut, Michigan, Mississippi, Missouri, New Mexico, Nevada, Ohio, Oklahoma, Rhode Island, and Tennessee. Brooks has systems in operation in 18 cities and systems under construction in 8 other cities. Brooks has switches installed and operating in three cities and plans to offer competitive local exchange service in 25 of its markets by the end of 1996.

Brooks has no ownership interests in any telephone company or telecommunications carrier in Florida, and has no facilities in Florida. Brooks is a Delaware corporation, and is not registered to do business in Florida. Brooks is a publicly held corporation; its stock is traded on the NASDAQ National Market under the symbol "BFPT."

Under the Agreement, Brooks will pay cash for all outstanding shares of ALD stock, and will satisfy and discharge a number of ALD's outstanding obligations and liabilities. After the purchase, ALD will continue to operate under its existing name, as a wholly-owned subsidiary of Brooks. ALD has no employees in Florida; Brooks does not contemplate having any employees in the State in the foreseeable future. Brooks and ALD intend to close by August 15, 1996.

Brooks will continue the operations of ALD in the same manner as ALD currently operates, and will provide opportunities for growth and further development of the services provided to ALD's Florida customers.

QUESTION 18A

Brooks most recent 10Q report and its audited consolidated financial statements for the year ending December 31, 1995 are attached. Brooks is financially qualified to provide intrastate telecommunications services within Florida, with over \$97 million of plant dedicated to telecommunications operations. As illustrated by the attached information, Brooks is in a period of growth and expansion, and has reported a net loss of \$6.6 million for the quarter ended March 31, 1996; this is to be expected in a period of growth and construction.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1996

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-28036

BROOKS FIBER PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

43-1656187

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

425 Woods Mill Road South, Suite 300, St. Louis, Missouri

63017

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code 314-878-1616

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Shares of Voting Common Stock outstanding at May 15, 1996: 28,320,611 par value \$.01 per share.

Exhibit Index is on page 19.

BROOKS FIBER PROPERTIES, INC. AND SUBSIDIARIES

PART I - Financial Information

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**BROOKS FIBER PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS**

	March 31, 1996 (Unaudited)	December 31, 1995
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 253,795,955	\$ 59,912,554
Marketable securities	25,158,956	-
Accounts receivable, net	3,866,982	2,002,930
Other current assets	3,822,058	1,183,183
Total current assets	286,643,951	63,098,667
NETWORKS AND EQUIPMENT, net	97,777,465	50,042,235
OTHER ASSETS, net	64,713,475	33,469,017
	\$ 449,134,891	\$ 146,609,919
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	21,871,597	5,186,395
Total current liabilities	21,871,597	5,186,395
LONG-TERM DEBT	298,529,107	43,977,091
MINORITY INTERESTS	3,469,764	3,992,610
COMMON STOCK, subject to redemption, \$.01 par value, 2,240,000 and 0 shares issued and outstanding	28,000,000	-
SHAREHOLDERS' EQUITY:		
Preferred stock, 1,040,012 shares authorized:		
Convertible preferred stock, Series A-1, \$.01 par value; 489,600 shares authorized; 389,650 and 396,000 shares issued and outstanding	38,965,000	39,600,000
Convertible preferred stock, Series A-2, \$.01 par value; 439,927 shares authorized; 419,704 and 419,705 shares issued and outstanding	65,592,647	65,596,092
Convertible preferred stock, Series B-1, \$.01 par value; 12,000 shares authorized; 12,000 and 12,000 shares issued and outstanding	1,200,000	1,200,000
Convertible preferred stock, Series B-2, \$.01 par value; 4,545 shares authorized; 4,545 and 4,545 shares issued and outstanding	711,029	711,029
Common stock, \$.01 par value, 50,000,000 shares authorized, 2,167,360 and 1,162,800 shares issued and outstanding	11,100,693	11,378
Accumulated deficit	(20,304,946)	(13,664,676)
Total shareholders' equity	97,264,423	93,453,823
	\$ 449,134,891	\$ 146,609,919

See notes to consolidated financial statements

BROOKS FIBER PROPERTIES, INC.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended	
	March 31, 1996	March 31, 1995
Revenues	\$ 6,795,413	\$ 3,022,854
Expenses:		
Service costs	2,867,625	1,665,651
Selling, general and administrative expenses	6,620,822	2,256,340
Depreciation and amortization	2,427,534	745,226
	11,915,981	4,667,217
Loss from operations	(5,120,568)	(1,644,363)
Other income (expense):		
Interest income	1,792,610	107,329
Interest expense	(3,835,157)	(819,043)
Loss before minority interests	(7,163,115)	(2,356,077)
Minority interests in share of loss	522,845	142,009
Net loss	\$ (6,640,270)	\$ (2,214,068)
Pro forma loss per common and common equivalent	\$ (0.34)	\$ (0.11)
Pro forma weighted average number of shares outstanding	19,523,584	19,523,584

See notes to consolidated financial statements

BRJOKS FIBER PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD ENDED MARCH 31, 1996
(Unaudited)

	Convertible Preferred Stock				Convertible Preferred Stock				Common Stock		Accumulated Deficit	Total Shareholders' Equity
	Series A-1		Series A-2		Series B-1		Series B-2		Shares	Amount		
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 1995	396,000	\$ 39,600,000	419,705	\$ 65,596,092	12,000	\$ 1,200,000	4,545	\$ 711,029	1,162,800	\$ 11,378	\$ (13,664,676)	\$ 93,453,823
Merger with BTC												
- issuance of common stock	.	.	.	.	.	.	.	.	756,340	9,454,250	.	9,454,250
- conversion of preferred stock to common stock	(6,350)	(633,000)	(6,061)	(1,000,065)	.	.	.	.	248,220	1,635,765	.	.
Issuance of Series A-2 Preferred Stock	.	.	6,060	996,620	.	.	.	.	.	.	.	996,620
Net Loss	.	.	.	.	.	.	.	.	.	.	(6,640,270)	(6,640,270)
Balance, March 31, 1996	389,650	\$ 38,965,000	419,704	\$ 65,592,647	12,000	\$ 1,200,000	4,545	\$ 711,029	2,167,360	\$ 11,100,693	\$ (20,304,946)	\$ 87,264,423

See notes to consolidated financial statements

BROOKS FIBER PROPERTIES, INC.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March 31, 1996	March 31, 1995
Cash flows from operating activities:		
Net loss	\$ (6,640,270)	\$ (2,214,069)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,427,534	745,226
Non-cash interest expense	3,753,932	817,302
Minority interests	(522,845)	(142,009)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(381,983)	(51,341)
Other, net	(1,829,888)	46,978
Accounts payable and accrued expenses	1,253,052	(385,973)
Net cash from operating activities	(1,940,468)	(1,183,886)
Cash flows from investing activities:		
Purchase of networks and equipment	(15,577,086)	(4,219,095)
Purchase of marketable securities	(25,152,206)	-
Increase in other assets	(2,159,236)	(140,112)
Payment for acquisitions, net of cash acquired	1,284,813	(13,940,819)
Net cash used in investing activities	(41,603,715)	(18,300,026)
Cash flows from financing activities:		
Issuance of preferred stock and subscriptions receivable payments, net	996,620	17,800,030
Proceeds from long-term debt, net	249,917,000	2,322,590
Repayment of long-term debt and capital leases	(3,233,131)	-
Other financing activities	(10,252,905)	(1,298,338)
Net cash provided by financing activities	237,427,584	18,824,282
Net increase in cash	193,883,401	(659,630)
Cash, beginning of period	59,912,554	8,794,566
Cash, end of period	\$ 253,795,955	\$ 8,134,936
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 58,333	\$ 129,096

See notes to consolidated financial statements

BROOKS FIBER PROPERTIES, INC.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated balance sheet of Brooks Fiber Properties, Inc. ("BFP" or the "Company") at December 31, 1995 was obtained from the Company's audited balance sheet as of that date. All other financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. Operating results for the three months ended March 31, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. The Company's accounting policies and certain other disclosures are set forth in the notes to the Company's audited consolidated financial statements as of and for the year ended December 31, 1995 included in the Company's Prospectus dated May 2, 1996 (File No. 333-1924).

2. Marketable Securities

Marketable securities consist of treasury bills, commercial paper, and repurchase agreements which are stated at cost, adjusted for discount accretion and premium amortization. The securities in the Company's portfolio are short-term in nature and are classified as "held to maturity," as management has the intent and ability to hold those securities to maturity.

3. Acquisitions

Pursuant to an Agreement and Plan of Merger between Brooks Telecommunications Corporation (BTC) and the Company, BTC was merged into the Company on January 2, 1996, and the securities of the Company held by BTC were cancelled. Following the merger, the former holders of BTC's common stock, preferred stock, convertible notes, options and warrants received shares of the Company's common stock, options, and warrants. After the consideration of the shares and warrants of BFP held by BTC at the time of acquisition, the Company issued an additional 756,340 shares of common stock valued at \$12.50 per share and certain options and warrants (see Note 7). Intangible assets of approximately \$6.1 million were recorded as a result of this acquisition.

On January 31, 1996, the Company signed a definitive agreement with an unrelated party to acquire City Signal, Inc., a provider of competitive access and local exchange services in Michigan and Ohio, and certain assets of a related entity. In connection with the acquisition, the Company agreed to issue approximately 2.2 million shares of common stock and to assume certain specified liabilities. In addition, the Company has provided the seller with the option to require the Company to repurchase any or all shares at a price of \$12.50 per share on or before February 1, 1998. Intangible assets of approximately \$13.1 million were recorded as a result of this acquisition.

The above acquisitions were accounted for using the purchase method of accounting and, accordingly, the results of operations of the acquired companies have been included in the Company's consolidated financial statements since the effective dates of acquisition. The aggregate purchase price for these acquisitions was allocated based on fair values as follows:

Fair value of tangible assets acquired	\$ 36,968,631
Fair value of intangible assets acquired	19,212,314
Liabilities assumed	<u>(20,011,507)</u>
Purchase price, net of cash acquired	<u>\$ 36,169,438</u>

4. Networks and Equipment, Net

Networks and equipment consist of the following:

	March 31 <u>1996</u>	December 31 <u>1995</u>
Telecommunications networks	\$41,516,678	\$30,158,000
Electronic and related equipment	42,573,261	20,174,000
Land and Buildings	4,480,049	-
Leasehold improvements	1,565,086	232,000
Furniture and office equipment	12,303,078	2,435,000
Motor vehicles	<u>320,040</u>	<u>173,000</u>
	102,758,192	53,172,000
Less accumulated depreciation	<u>4,980,727</u>	<u>3,130,000</u>
	<u>\$97,777,465</u>	<u>\$50,042,000</u>

As of March 31, 1996 and December 31, 1995, networks and equipment include \$6,541,063 and \$4,469,000 of networks in progress that are not in service and, accordingly, have not been depreciated.

5. Other Assets, Net

Other assets consist of the following:

	March 31 <u>1996</u>	December 31 <u>1995</u>
Goodwill	\$48,370,603	\$29,129,000
Debt issuance costs	11,758,557	1,559,000
Organization, development, and pre- operating costs	4,008,831	2,341,000
Interest rate cap arrangements	1,511,000	1,511,000
Rights-of-way	303,646	283,000
Other	<u>1,055,462</u>	<u>298,000</u>
	67,008,099	35,121,000
Less accumulated amortization	<u>2,294,624</u>	<u>1,652,000</u>
	<u>\$64,713,475</u>	<u>\$33,469,000</u>

6. Shareholder's Equity:

On January 2, 1996, the Company's Board of Directors authorized a 20-for-1 split for each share of common stock and adjusted all outstanding common stock options and warrants accordingly. All share data presented within the consolidated financial statements have been revised to effect for the stock split.

7. Stock Options and Warrants

The Company's 1993 Stock Option Plan (the Plan) authorizes the granting of options and stock appreciation rights covering up to 3,400,000 shares of common stock. The options generally vest over a period of three years from the date of grant.

Stock option activity for the Plan for the three months ended March 31, 1996 is as follows:

	<u>Number</u>	<u>Price per Share</u>
Balance, December 31, 1995	1,651,660	\$4.00 - \$6.60
Granted	702,000	\$12.50
Cancelled	<u>(52,000)</u>	\$ 6.60
Balance, March 31, 1996	<u>2,301,660</u>	<u>\$4.00 - \$12.50</u>

Also, in connection with the Agreement and Plan of Merger between the Company and BTC, the Company issued options and warrants to certain of the shareholders and employees of BTC for the purchase of 1,134,840 shares of the Company's Common Stock at prices of \$11.35 to \$31.04 per share. The warrants expire at various dates from March 31, 1997 to December 21, 1999. The options generally vest over a three year period from the dates of original grant.

8. Long-Term Debt:

On February 26, 1996, the Company completed the issuance and sale of \$425.0 million aggregate principal amount of 10 7/8% Senior Discount Notes due March 1, 2006, for which gross proceeds of approximately \$250.0 million were received. No cash payments of interest are required prior to September 1, 2001. Commencing at such time, the Company will be required to make semi-annual interest payments on the Senior Discount Notes, totaling approximately \$46.2 million annually.

9. Pro Forma Loss Per Share:

Pro forma loss per share has been computed using the number of shares of Common Stock and Common Stock equivalents outstanding. The number of shares used in computing pro forma loss per share was 19,532,584. Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, shares issued and stock options and warrants granted at prices below the initial public offering price of \$27.00 per share during the twelve-month period preceding the date of the Company's initial filing of the Registration Statement related to such initial public offering have been included in the calculation of common stock equivalent shares, using the treasury stock method, as if they were outstanding for all of 1995 and for the first quarter of 1996.

10. Commitments and Contingencies:

During September 1995, GST Tucson Lightwave, Inc. (Lightwave) was permitted to intervene in litigation originally filed by Brooks Fiber Communications of Tucson, Inc. a wholly-owned subsidiary of BFP (BFC Tucson). Lightwave filed a counterclaim against BFC Tucson, BFP, and Tucson Electric Power Company (TEP) charging BFC Tucson, BFP, and TEP with violations of antitrust laws, all of which stem from an agreement between BFC Tucson and TEP that allowed BFC Tucson exclusive rights, for one year, to utilize certain of TEP's rights-of-way. The original causes of the action have been settled, however, the counterclaim by Lightwave is currently still pending. The Company believes the claim to be without merit and intends to vigorously defend against this action. The Company believes that resolution of the matter will not have a material adverse effect on the financial condition or results of operations of the Company.

11. Subsequent Event:

On May 2, 1996, the Company completed the sale of 7,385,331 shares of Common Stock at a price of \$27.00 per share in an initial public offering, for gross proceeds of approximately \$199.4 million and proceeds net of underwriting discounts and advisory fees of approximately \$186.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's condensed Consolidated Financial Statements and Notes thereto included herewith, and with the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations and audited consolidated financial statements and notes thereto included in the Company's prospectus dated May 2, 1996, filed with the Securities and Exchange Commission (File No. 333-1924).

Overview

The Company is a leading full-service provider of competitive local telecommunications services in selected markets in the United States. The Company acquires and constructs its own state-of-the-art fiber optic networks and facilities and leases network capacity from others to provide interexchange carriers ("IXCs") and business, government and institutional end users with an alternative to the local exchange carriers ("LECs") for a broad array of high quality voice, data and other telecommunications services.

The Company's goal is to become the primary full-service provider of competitive local telecommunications services to IXCs and business, government and institutional end-users in selected cities by offering superior products with excellent customer service at prices below those charged by the LECs. The Company currently has systems in 25 cities, consisting of systems in operation in 13 cities and under construction in 12 cities. The Company plans to expand its network operations to have systems in operation or under construction in a total of 30 cities by the end of 1996 and a total of 50 cities by the end of 1998. The Company has recently installed switches in its networks in Sacramento, California and Hartford, Connecticut and, in connection with the Company's recent acquisition of City Signal, Inc., obtained a fully-operational switch serving Grand Rapids, Michigan, and subject to regulatory approvals, plans to have switching, frame relay and asynchronous transfer mode ("ATM") based packet transport capabilities in 20 of its operating networks by the end of 1996.

On January 31, 1996, the Company completed the acquisition of City Signal, Inc., which included networks in operation or under construction in four cities in Michigan and Ohio, including an installed switch in Grand Rapids, Michigan. At the date of acquisition, the acquired networks had approximately 208 route miles of fiber, 30,456 in voice grade equivalent circuits ("VGEs"), and 226 buildings connected. In addition, effective January 2, 1996, Brooks Telecommunications Corporation ("BTC"), a founding stockholder of the Company and the previous owner of GLA International ("GLA"), was merged into the Company. GLA, a wholly-owned subsidiary of the Company, offers a full range of consulting, management, engineering and information system solutions for telecommunications companies. GLA's capabilities also serve as an internal source for the telecommunications infrastructure support needed to facilitate the Company's network growth and penetration of the competitive local exchange company ("CLEC") business.

Results of Operations

Three Months Ended March 31, 1996 and 1995

Revenue

The Company's revenues for the first quarter of 1996 increased 125% as compared to the first quarter of 1995 to \$6.8 million for the three months ended March 31, 1996 as compared with revenues of \$3.0 million for the three months ended March 31, 1995. Network capacity as reflected in VGEs in service increased to 165,122 VGEs as of March 31, 1996 as compared with 84,384 VGEs as of March 31, 1995. These increases reflect the impact of the Company's acquisition and development activities as well as increased utilization of the Company's network facilities arising from the sales of additional services to current and new customers. A significant contributor to the Company's revenue growth for the first quarter of 1996 relates to the Company's entry into switched services in Grand Rapids, Michigan via the Company's City Signal acquisition. Switched services revenues for the quarter ended March 31, 1996, representing two months' revenues from the Company's switched services activities in Grand Rapids, totaled \$754,000 or \$4.5 million on an annualized basis.

Costs and Expenses

Service costs increased to \$2.9 million for the three months ended March 31, 1996 from \$1.7 million for the three months ended March 31, 1995. Service costs consist of costs associated directly with the operation of the Company's networks, facilities management services, and consulting and system support activities for third parties including technical salaries and benefits, rights-of-way fees, and local and long distance service costs. Service costs as a percentage of telecommunications services revenues declined to approximately 42% for the three months ended March 31, 1996 as compared to approximately 55% for the three months ended March 31, 1995.

The Company's selling, general and administrative expenses ("SG&A") for the three months ended March 31, 1996 were \$6.6 million, as compared with SG&A expenses of \$2.3 million for the three months ended March 31, 1995. The increase was principally due to the increasing number and continued expansion of the Company's competitive access networks, including the introduction of switched services, and related marketing activities. There is typically a period of higher SG&A expense and a lag time in the generation of revenues following the acquisition and development of a competitive access network. Management expects SG&A expenses to continue to increase during the remainder of 1996 as the Company continues to expand its networks, services and marketing activities.

Depreciation and amortization expense increased to \$2.4 million for the three months ended March 31, 1996, from \$745,000 for the three months ended March 31, 1995 as a result of the Company's acquisitions and the continued expansion of the Company's networks.

Interest Income (Expense)

Interest expense totaling \$3.8 million was recorded during the three months ended March 31, 1996, as compared to interest expense of \$819,000 for the three months ended March 31, 1995. The primary contributor to the substantial increase in interest expense as compared to the comparable period in the prior year is interest totaling \$2.6 million attributable to the senior discount notes offering (see "Liquidity and Capital Resources") which was completed by the Company on February 26, 1996. For the quarters ended March 31, 1996 and 1995, interest income totaling \$1.8 million and \$107,000, respectively, was derived from the Company's available cash and cash equivalents and marketable securities.

Net Loss

For the reasons stated above, the Company's net loss before minority interest increased to \$7.2 million for the quarter ended March 31, 1996, from \$2.4 million for the quarter ended March 31, 1995. Minority interests in net losses, representing minority investors' interests in certain of the Company's subsidiaries, totaled \$523,000 and \$142,000 for the quarters ended March 31, 1996 and 1995, respectively. As a result, the Company's net loss for the quarter ended March 31, 1996 was \$6.6 million as compared to a net loss of \$2.2 million for the quarter ended March 31, 1995.

EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to (\$2.7) million for the three months ended March 31, 1996, from (\$899,000) for the three months ended March 31, 1995, a decrease of \$1.8 million. The decrease reflects the increasing operating and SG&A expenses noted above resulting from the acquisition, development and expansion of the Company's networks and the introduction of switch services in certain of the Company's markets.

EBITDA is a measure commonly used in the telecommunications industry and is presented to assist in an understanding of the Company's operating results and is not intended to represent cash flow or results of operations in accordance with generally accepted accounting principles.

Liquidity and Capital Resources *March 31, 1996 and December 31, 1995*

The Company's total assets increased from \$146.6 million as of December 31, 1995 to \$449.1 million at March 31, 1996. The Company's current assets of \$286.6 million at March 31, 1996, including cash and cash equivalents and marketable securities of \$279.0 million, exceeded current liabilities of \$21.9 million, providing working capital of \$264.7 million. Network and

equipment totaled \$97.8 million at March 31, 1996 as compared to \$50.0 million at December 31, 1995. Other assets, principally goodwill, net of accumulated amortization, increased to \$64.7 million at March 31, 1996 from \$33.5 million at December 31, 1995, primarily as a result of the Company's acquisitions of both City Signal, Inc. and BTC, and debt issuance costs associated with the Company's recent \$250 million gross proceeds from the 10 7/8% senior discount note offering.

In connection with the City Signal acquisition, the seller received an option to require the Company to repurchase any or all of the 2,240,000 shares of the Company's common stock issued in the City Signal acquisition at a price of \$12.50 per share on or before January 31, 1997 or the date of an initial public equity offering by the Company, whichever occurs first, which option is subject to extension to February 1, 1998 under certain circumstances.

On February 26, 1996, the Company sold \$425.0 million aggregate principal amount of 10 7/8% Senior Discount Notes, providing gross proceeds of approximately \$250 million, and proceeds net of underwriting fees of approximately \$241 million. No cash payments of interest are required on the Senior Discount Notes until September 1, 2001.

On May 2, 1996, the Company sold 7,385,331 shares of the Company's common stock in an initial public offering at a price of \$27.00 per share. Gross proceeds from this offering totaled approximately \$199.4 million and proceeds net of underwriting discounts and advisory fees totaled approximately \$186.4 million.

The competitive local telecommunications services business is a capital-intensive business. The Company's operations have required and will continue to require substantial capital investment for (i) the installation of electronics for switched services in the Company's operating networks; (ii) the expansion and improvement of the Company's operating systems, including the installation of capabilities to provide other enhanced services; and (iii) the acquisition, design, construction and development of additional networks. For the three months ended March 31, 1995 and 1996, the Company made expenditures, including the assumption of indebtedness and issuance of shares, for the acquisition, design, construction and development of systems totaling \$59.3 million and \$18.9 million, respectively.

The Company plans to continue to make substantial capital investments in connection with the entry into new markets and the continued development of its existing systems, including the capital required to provide switched and other enhanced services as technology and regulations permit. The Company currently intends to use the net proceeds from the Company's recent equity offering, together with the remaining net proceeds from its 10 7/8% senior discount note offering and minority investments in individual networks, to fund the Company's expansion as well as initial operating losses. The Company estimates that it will spend approximately \$290 million during 1996 and 1997 to fund the Company's expansion to 30 networks that are expected to be in operation or under construction by the end of 1996 and the installation of switching electronics and other enhanced capabilities in these networks. The Company's strategic plan calls for having systems in operation or under development in a total of 50 cities by the end of 1998, which will require substantial additional capital. The Company expects its expansion into

additional cities will be accomplished by the acquisition of existing networks as well as the construction of new networks. The Company will continue to evaluate additional revenue opportunities in its existing markets and, as such opportunities may develop, the Company may determine to make additional capital investments in its networks that may be required to pursue such opportunities, such as costs required to extend a network or install additional electronics to meet customer requirements. Due to the number and variability of the factors which could affect the amount of capital that will be required for such purposes, the Company cannot provide a reasonable estimate of such additional capital needs. For example, the size of a particular network to be developed or acquired and the types of electronics installed can impact significantly the amount of capital required. Similarly, the potential cost of acquiring additional networks is not determinable, and it is possible that the Company could acquire existing networks using a variety of financing alternatives. The Company expects to meet such additional capital needs with the proceeds from its recent equity offering, the proceeds from existing and future credit facilities and other borrowings, and the proceeds from sales of additional equity securities and joint ventures. The Company's expectations of required future capital expenditures are based on the Company's current estimates and the current state and federal regulatory environment. There can be no assurance that actual expenditures will not be significantly higher or lower. In addition, there can be no assurance that the Company will be able to raise or generate sufficient funds to enable it to meet its strategic objectives or that such funds, if available at all, will be available on a timely basis or on terms that are acceptable to the Company.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a)	<u>Exhibit No.</u> <u>(Reference to Item 601(b)</u> <u>of Regulation S-K)</u>	<u>Description</u>	<u>Sequential</u> <u>Page</u> <u>Number</u>
	3.2	By-Laws	23
	11	Statement regarding Computation of Per Share Earnings	16
	27	Financial Data Schedule (furnished to the Securities and Exchange Commission for Electronic Data Gathering, Analysis, and Retrieval [EDGAR] purposes only)	17

(b) Reports on Form 8-K

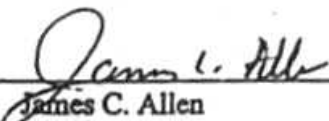
There were no reports on Form 8-K filed during the quarter for which this report is filed.

SIGNATURES

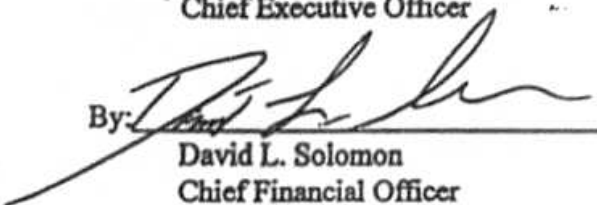
Pursuant to the requirements of Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BROOKS FIBER PROPERTIES, INC.
(Registrant)

Date: May 15, 1996

By: 
James C. Allen
Chief Executive Officer

Date: May 15, 1996

By: 
David L. Solomon
Chief Financial Officer

KPMG

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 1995 and 1994

(With Independent Auditors' Report Thereon)

KPMG Peat Marwick LLP

1010 Market Street
St. Louis, MO 63101-2085

Independent Auditors' Report

The Board of Directors
Brooks Fiber Properties, Inc.:

We have audited the accompanying consolidated balance sheets of Brooks Fiber Properties, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 1995 and the period from November 10, 1993 (date of inception) to December 31, 1993. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brooks Fiber Properties, Inc. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 1995 and the period from November 10, 1993 (date of inception) to December 31, 1993, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

January 26, 1996

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1995 and 1994

<u>Assets</u>	<u>1995</u>	<u>1994</u>
Current assets:		
Cash and cash equivalents	\$ 59,913,000	8,795,000
Accounts receivable, net	2,003,000	1,116,000
Other current assets	1,183,000	135,000
Subscriptions receivable	-	<u>10,050,000</u>
Total current assets	<u>63,099,000</u>	20,096,000
Subscriptions receivable - restricted	-	7,750,000
Networks and equipment, net of accumulated depreciation	50,042,000	20,720,000
Other assets, net	<u>33,469,000</u>	<u>22,759,000</u>
	<u>\$ 146,610,000</u>	<u>71,325,000</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable	4,397,000	3,545,000
Accrued expenses	<u>789,000</u>	<u>689,000</u>
Total current liabilities	<u>5,186,000</u>	<u>4,234,000</u>
Long-term debt	43,977,000	29,403,000
Minority interests	3,992,000	989,000
Shareholders' equity:		
Preferred stock, 1,040,012 shares authorized:		
Convertible preferred stock, Series A-1, \$.01 par value; 489,600 shares authorized, 396,000 and 223,234 shares issued and outstanding	39,600,000	39,600,000
Convertible preferred stock, Series A-2, \$.01 par value; 433,867 shares authorized, 419,705 and 0 shares issued and outstanding	65,596,000	-
Convertible preferred stock, Series B-1, \$.01 par value; 12,000 shares authorized, 12,000 and 6,766 shares issued and outstanding	1,200,000	1,200,000
Convertible preferred stock, Series B-2, \$.01 par value; 4,545 shares authorized, 4,545 and 0 shares issued and outstanding	711,000	-
Common stock, \$.01 par value; 50,000,000 shares authorized, 1,162,800 shares issued and outstanding	12,000	12,000
Accumulated deficit	<u>(13,664,000)</u>	<u>(4,113,000)</u>
Total shareholders' equity	<u>93,455,000</u>	<u>36,699,000</u>
	<u>\$ 146,610,000</u>	<u>71,325,000</u>

See accompanying notes to consolidated financial statements.

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 1995 and 1994 and the
period from inception to December 31, 1993

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Revenues	\$ <u>14,160,000</u>	<u>2,809,000</u>	<u>2,000</u>
Expenses:			
Operating expenses	7,177,000	1,557,000	-
Selling, general and administrative expenses	11,405,000	3,966,000	206,000
Depreciation and amortization	<u>4,118,000</u>	<u>663,000</u>	<u>3,000</u>
	<u>22,700,000</u>	<u>6,186,000</u>	<u>209,000</u>
Loss from operations	(8,540,000)	(3,377,000)	(207,000)
Other income (expense):			
Interest income	1,608,000	95,000	2,000
Interest expense	<u>(3,704,000)</u>	<u>(693,000)</u>	<u>-</u>
Loss before minority interests	(10,636,000)	(3,975,000)	(205,000)
Minority interests in share of loss	<u>1,085,000</u>	<u>78,000</u>	<u>-</u>
Net loss	\$ <u>(9,551,000)</u>	<u>(3,897,000)</u>	<u>(205,000)</u>

See accompanying notes to consolidated financial statements.

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 1995 and 1994 and the
period from inception to December 31, 1993

	<u>Convertible Preferred Stock</u>				<u>Convertible Preferred Stock</u>				<u>Common stock</u>		<u>Subscrip- tions receivable</u>	<u>Accumulated deficit</u>	<u>Total shareholders' equity</u>
	<u>Series A-1</u>		<u>Series A-2</u>		<u>Series B-1</u>		<u>Series B-2</u>		<u>Shares</u>	<u>Amount</u>			
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Issuance of common stock, November 10, 1993	-	\$ -	-	\$ -	-	\$ -	-	\$ -	1,162,800	\$ 12,000	-	(11,000)	1,000
Issuance and subscription of Series A preferred stock	396,000	39,600,000	-	-	-	-	-	-	-	-	(39,018,000)	-	582,000
Issuance and subscription of Series B preferred stock	-	-	-	-	12,000	1,200,000	-	-	-	-	(1,182,000)	-	18,000
Subscriptions receivable, payments and reclassifications	-	-	-	-	-	-	-	-	-	-	4,450,000	-	4,450,000
Net loss	-	-	-	-	-	-	-	-	-	-	-	(205,000)	(205,000)
Balance, December 31, 1993	396,000	39,600,000	-	-	12,000	1,200,000	-	-	1,162,800	12,000	(35,750,000)	(216,000)	4,846,000
Subscriptions receivable, payments and reclassifications	-	-	-	-	-	-	-	-	-	-	35,750,000	-	35,750,000
Net loss	-	-	-	-	-	-	-	-	-	-	-	(1,897,000)	(1,897,000)
Balance, December 31, 1994	396,000	39,600,000	-	-	12,000	1,200,000	-	-	1,162,800	12,000	-	(4,113,000)	36,699,000
Issuance of Series A-2 preferred stock	-	-	419,705	65,596,000	-	-	-	-	-	-	-	-	65,596,000
Issuance of Series B-2 preferred stock	-	-	-	-	-	-	4,545	711,000	-	-	-	-	711,000
Net loss	-	-	-	-	-	-	-	-	-	-	-	(9,551,000)	(9,551,000)
Balance, December 31, 1995	<u>396,000</u>	<u>\$ 39,600,000</u>	<u>419,705</u>	<u>\$ 65,596,000</u>	<u>12,000</u>	<u>\$ 1,200,000</u>	<u>4,545</u>	<u>\$ 711,000</u>	<u>1,162,800</u>	<u>\$ 12,000</u>	<u>-</u>	<u>(13,664,000)</u>	<u>93,455,000</u>

See accompanying notes to consolidated financial statements.

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 1995 and 1994 and the
period from inception to December 31, 1993

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Cash flows from operating activities:			
Net loss	\$ (9,551,000)	(3,897,000)	(205,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,117,000	663,000	3,000
Non-cash interest expense	3,814,000	135,000	-
Minority interests	(1,085,000)	(78,000)	-
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(593,000)	(576,000)	(2,000)
Other current assets	115,000	(133,000)	(91,000)
Accounts payable and accrued expenses	<u>623,000</u>	<u>3,955,000</u>	<u>154,000</u>
Net cash provided by (used in) operating activities	<u>(2,560,000)</u>	<u>(69,000)</u>	<u>(141,000)</u>
Cash flows from investing activities:			
Purchase of networks and equipment	(27,577,000)	(6,693,000)	-
Increase in other assets	(2,026,000)	(769,000)	-
Payment for acquisitions, net of cash acquired	<u>(13,941,000)</u>	<u>(35,669,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(43,544,000)</u>	<u>(43,131,000)</u>	<u>-</u>
Cash flows from financing activities:			
Issuance of preferred stock and subscriptions receivable payments, net	84,107,000	21,781,000	1,219,000
Proceeds from minority interests	4,088,000	1,067,000	-
Proceeds from long-term debt, net	10,760,000	29,268,000	-
Other financing activities	<u>(1,733,000)</u>	<u>(1,337,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>97,222,000</u>	<u>50,779,000</u>	<u>1,219,000</u>
Net increase in cash	51,118,000	7,717,000	1,078,000
Cash, beginning of period	<u>8,795,000</u>	<u>1,078,000</u>	<u>-</u>
Cash, end of period	\$ <u><u>59,913,000</u></u>	<u><u>8,795,000</u></u>	<u><u>1,078,000</u></u>
Supplemental disclosure of cash flow information - cash paid during the period for interest	\$ <u><u>132,000</u></u>	<u><u>408,000</u></u>	<u><u>-</u></u>

See accompanying notes to consolidated financial statements.

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1995 and 1994

(1) Organization and Description of Business

The consolidated financial statements include the accounts of Brooks Fiber Properties, Inc. (BFP) and its majority-owned subsidiaries (the Company). The Company, through its subsidiaries, is a leading provider of competitive local telecommunications services in selected markets in the United States.

The Company was founded on November 10, 1993 by Brooks Telecommunications Corporation (BTC) and a group of venture capital investors who, along with BTC and management of the Company, provided initial equity capital of \$40.8 million. As the Company's founding shareholder, BTC received 1,162,800 founder's shares of the Company's common stock and founder's warrants to purchase an additional 81,600 shares of the Company's preferred stock (convertible into 1,632,000 shares of common stock).

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

(c) Concentration of Credit Risk

For purposes of segment reporting, management believes the Company operates in the telecommunications industry. The Company's primary customers are long distance carriers and businesses within the Company's markets. The Company has no significant credit risk concentration. One long distance carrier accounted for 25% of total revenues for the year ended December 31, 1995.

(d) Networks and Equipment

Networks and equipment are stated at cost. Costs of construction are capitalized, including direct interest costs related to the construction. Leasehold improvements are amortized using the straight-line method over their useful life or lease term, whichever is shorter. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Telecommunications networks	8-25
Electronic and related equipment	8
Furniture and office equipment	7
Motor vehicles	<u>3</u>

(Continued)

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(e) Other Assets

Goodwill is being amortized using the straight-line method over 25 years from the dates of acquisition. The Company reviews the carrying amount of goodwill periodically to determine whether any impairment has occurred in the value of such assets. Based upon the anticipated future income and cash flows from operating activities, in the opinion of management, no impairment has occurred as of December 31, 1995.

Costs incurred in the organization and development of new networks, including the costs associated with negotiating rights-of-way, obtaining legal/regulatory authorizations, and developing network design are deferred and amortized over five years. Preoperating costs represent substantially all nondevelopment costs incurred during the preoperating phase of a newly constructed network and are amortized over five-year periods commencing with the start of operations.

Costs of the Company's interest rate cap arrangements purchased under the terms of debt facilities are deferred and amortized over the contractual period of the underlying interest rate cap arrangements.

Costs incurred in connection with securing the Company's debt facilities, including commitment, legal, and other such costs, are deferred and amortized over the term of the financing.

(f) Revenue Recognition

The Company recognizes revenue on local competitive access services in the month such services are provided. Revenues and associated costs of facilities management services are recognized as services are provided.

(g) Income Taxes

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. SFAS No. 109 utilizes the asset/liability method and deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws.

(h) Reclassifications

Certain 1994 amounts have been reclassified to conform with the 1995 presentation.

(i) Fair Value of Financial Instruments

The Company discloses estimated fair values for its financial instruments. A financial instrument is defined as cash or a contract that both imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity and conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity.

(Continued)

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(j) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities in the preparation of financial statements. Actual results could differ from these estimates.

(k) Effect of New Accounting Standards

In March 1995, the Financial Accounting Standards Board (FASB) issued SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, which will require the Company to review for the impairment of long-lived assets and certain identifiable intangibles to be held and used by the Company whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Adoption of SFAS No. 121 is required in fiscal year 1996.

In October 1995, the FASB issued SFAS No. 123, *Accounting for Stock-Based Compensation*, which establishes a fair value based method for financial accounting and reporting for stock-based employee compensation plans. However, the new standard allows compensation to continue to be measured by using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, but requires expanded disclosures. SFAS No. 123 is effective in fiscal year 1996.

While the Company does not know precisely the impact that will result from adopting SFAS No. 121 and SFAS No. 123, the Company does not expect the adoption of SFAS No. 121 or SFAS No. 123 to have a material effect on the Company's consolidated financial position or results of operations.

(3) Acquisitions and Joint Ventures

On January 31, 1994, the Company acquired certain assets from FiveCom Associates (FiveCom) that included a telecommunications network in Massachusetts and rights-of-way for development of networks in Connecticut and Rhode Island.

On October 14, 1994, the Company acquired 100% of Phoenix FiberLink, Inc. and certain related companies (Phoenix) that included telecommunications networks in California, a telemanagement services business, and a reseller of long distance telecommunications services. The Company issued short-term notes of \$24.5 million to the shareholders of Phoenix backed by a letter of credit. As of December 31, 1994, the notes were repaid using the proceeds from long-term debt.

On March 15, 1995, the Company acquired 100% of the assets of PSC of Oklahoma (PSC), a 105-mile competitive access network in Tulsa, Oklahoma.

The above acquisitions were accounted for using the purchase method of accounting and, accordingly, the results of operations of the acquired companies have been included in the Company's consolidated financial statements since the effective dates of acquisition. The aggregate purchase

(Continued)

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

price for the acquisitions occurring in 1995 and 1994 were allocated based on fair values as follows:

	<u>1995</u>	<u>1994</u>
Fair value of tangible assets acquired	\$ 5,958,000	15,037,000
Fair value of intangible assets acquired	8,323,000	20,757,000
Liabilities assumed	<u>(340,000)</u>	<u>(125,000)</u>
Purchase price, net of cash acquired	\$ <u>13,941,000</u>	<u>35,669,000</u>

The following unaudited condensed pro forma information presents the results of operations of the Company for the years ended December 31, 1995 and 1994 as if the above transactions had occurred on January 1, 1994:

	<u>1995</u>	<u>1994</u>
Revenue	\$ 14,536,000	12,803,000
Loss before minority interest	<u>(10,722,000)</u>	<u>(6,352,000)</u>

The unaudited pro forma information is provided for informational purposes only and is not necessarily indicative of the results of operations that would have occurred had the purchases been made on January 1, 1994, or of the future anticipated results of operations of the combined companies.

In September 1995, the Company and MCI/Metro Access Transmission Services, Inc. (MCI/Metro), a wholly-owned subsidiary of MCI Communications Corp. (MCI), entered into agreements for the formation of a joint venture company, which is majority owned by a subsidiary of the Company, to operate and significantly expand the Company's existing CAP networks in San Jose, California, and its environs. The Company transferred the net assets of its network in San Jose to the joint venture.

During 1995 and 1994, a third-party investor acquired a 6.5% interest in certain subsidiaries of the Company. In connection with MCI/Metro's investment in the Company's San Jose network and investments by the third-party investor, minority investments in the Company's subsidiaries totaling \$4.1 million and \$1.1 million were made during the years ended December 31, 1995 and 1994, respectively.

(Continued)

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Networks and Equipment, Net

Networks and equipment consists of the following:

	<u>1995</u>	<u>1994</u>
Telecommunications networks	\$ 30,158,000	12,726,000
Electronic and related equipment	20,174,000	7,448,000
Leasehold improvements	232,000	116,000
Furniture and office equipment	2,435,000	732,000
Motor vehicles	<u>173,000</u>	<u>71,000</u>
	53,172,000	21,093,000
Less accumulated depreciation	<u>3,130,000</u>	<u>373,000</u>
	<u>\$ 50,042,000</u>	<u>20,720,000</u>

As of December 31, 1995 and 1994, networks and equipment include \$4,469,000 and \$601,000 of networks in progress that were not in service and, accordingly, have not been depreciated.

(5) Other Assets, Net

Other assets consist of the following:

	<u>1995</u>	<u>1994</u>
Goodwill	\$ 29,129,000	20,757,000
Organization, development, and preoperating costs	2,341,000	614,000
Interest rate cap arrangements	1,511,000	567,000
Debt issuance costs	1,559,000	770,000
Rights-of-way	283,000	193,000
Other	<u>298,000</u>	<u>151,000</u>
	35,121,000	23,052,000
Less accumulated amortization	<u>1,652,000</u>	<u>293,000</u>
	<u>\$ 33,469,000</u>	<u>22,759,000</u>

Amortization charged to expense for the years ended December 31, 1995 and 1994 and for the period ended December 31, 1993 was \$1,356,000, \$289,000, and \$3,000, respectively.

The terms of the Company's Loan and Security Agreements (the Agreements) with AT&T Credit Corporation entered into during 1995 and 1994 require the purchase of interest rate cap arrangements under which, if the 90-day commercial paper rate rises above 7.5%, the Company will receive payments to offset the higher interest rates on long-term debt. These payments, if any, will be recorded as reductions of interest expense. The contract period and notional amounts of the interest rate caps as of December 31, 1995 are as follows:

<u>Contract period</u>	<u>Notional amount</u>
October 1996 through October 2001	\$ 4,752,000
January 1997 through January 2002	<u>30,551,000</u>

Notional amounts decrease during the contract period.

(Continued)

BROOKS FIBER PROPERTIES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 1995, the carrying value and fair value of the interest rate cap arrangements approximated \$1,511,000 and \$444,250, respectively.

(6) Long-Term Debt

During 1995 and 1994, the Company entered into Agreements with AT&T Credit Corporation to provide financing for the acquisition and construction of telecommunications networks, the purchase of equipment related to the construction and operation of the networks, and working capital. As of December 31, 1995, borrowings under the Agreements have a maximum capacity of \$49.2 million, with outstanding indebtedness of \$43.9 million. The notes bear interest at the 90-day commercial paper rate plus 4.5% per annum (10.12% at December 31, 1995), payable quarterly beginning two years after the initial borrowing. Interest not paid during the two-year period will be added to the principal balance of the notes, not to exceed the maximum borrowing capacity.

The Company is required to pay a commitment fee at the rate of .5% per annum on the average unused portion of the maximum borrowing capacity of the Agreements. The fee is payable quarterly and commences six months after the initial borrowing. Borrowings are secured by the assets and stock of certain of the Company's subsidiaries. Principal payments begin three years after the initial borrowing.

In August 1995, the Company entered into a credit agreement with Fleet National Bank, N.A. (the Bank Credit Agreement) that provides a wholly-owned subsidiary of the Company the ability to borrow amounts up to \$10 million from time to time prior to June 30, 1997 at an interest rate of 2% over the prime rate of the bank. Terms of the Bank Credit Agreement further provide for final maturity of all loans no later than June 30, 2002, interest-only payments through August 31, 1997, and a 4.5-year principal payout period thereafter. As of December 31, 1995, borrowings under this facility totaled \$100,000 at a rate of 10.25%.

The aforementioned credit agreements contain certain restrictive and financial covenants, including limitations on the ability of the subsidiaries to declare and pay dividends, to incur additional indebtedness, to make loans and advances, and the maintenance of certain financial ratios and minimum annualized operating cash flow.

Maturities of long-term debt at December 31, 1995 are as follows:

1996	\$ -
1997	115,000
1998	2,315,000
1999	4,513,000
2000	6,714,000
Thereafter	<u>30,320,000</u>
	<u>\$ 43,977,000</u>

As of December 31, 1995, the fair value of long-term debt approximated carrying value.

(Continued)

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(7) Preferred Stock

The Company's authorized preferred stock consists of 1,040,012 shares, of which 489,600 shares are designated as Series A-1 Voting Convertible Preferred Stock (Series A-1), 433,867 shares are designated as Series A-2 Non-voting Convertible Preferred Stock (Series A-2), 12,000 shares are designated as Series B-1 Voting Convertible Preferred Stock (Series B-1), and 4,545 shares are designated as Series B-2 Non-voting Convertible Preferred Stock (Series B-2). The Company has not designated approximately 100,000 shares of preferred stock.

On November 10, 1993, the Company received stock subscriptions for 396,000 shares of Series A-1 and 12,000 shares of Series B-1 preferred stock for an aggregate committed purchase price of \$100 per share. The Company recorded \$40.8 million of preferred stock and a subscriptions receivable (as a component of shareholders' equity) of \$40.2 million, net of \$600,000 of cash received for the initial issuance of 6,000 shares of preferred stock. In December 1993, additional funds of \$619,000 were received for the issuance of preferred shares. During 1995 and 1994, the remaining funds under the subscriptions receivable were requested and received by the Company. Accordingly, the subscriptions receivable of \$17.8 million as of December 31, 1994 was reclassified as an asset of the Company, of which \$7.75 million was designated to make an acquisition of long-term assets and was classified as a noncurrent asset.

In August 1995, the Company completed a private placement of 419,705 shares of Series A-2 and 4,545 shares of Series B-2 preferred stock. Gross proceeds from the offering totaled \$70,001,000.

Each share of preferred stock may be converted into 20 shares of common stock at the option of the holder. In addition, Series B preferred stock may be converted into shares of Series A preferred stock on a share-for-share basis. The preferred shares automatically convert into common stock upon consummation of a public offering of the Company's stock of at least \$40.0 million and \$15.00 per share.

The holders of shares of the Series A and Series B preferred stock are not entitled to receive cash dividends. No cash dividends may be declared and paid to the holders of common stock as long as Series A or Series B preferred stock is outstanding.

(8) Stock Options and Warrants

The Company's 1993 Stock Option Plan (the Plan) authorizes the granting of options and stock appreciation rights covering up to 3,400,000 shares of common stock. The options generally vest over a period of three years from the date of grant.

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Stock option activity for the years ended December 31, 1995 and 1994 is as follows:

	<u>Number</u>	<u>Price per share</u>
Balance, January 1, 1994	580,000	\$ 4.00
Granted	460,000	4.00
Cancelled	<u>(120,000)</u>	4.00
Balance, December 31, 1994	920,000	4.00
Granted	875,000	4.00-6.60
Cancelled	<u>(143,340)</u>	4.00-6.60
Balance, December 31, 1995	<u>1,651,660</u>	<u>4.00-6.60</u>

In connection with the stock subscriptions received by the Company on November 10, 1993, the Company granted a warrant to BTC to purchase up to 81,600 shares of Series A-1 preferred stock (convertible into 1,632,000 shares of common stock) at a price of \$220 per share if exercised prior to November 10, 1996; \$290 per share thereafter to November 10, 1997; and \$380 per share after November 10, 1997. The warrant expires on November 10, 1998.

In connection with the August 1995 placement of Series A-2 preferred stock, the Company granted its financial advisor for the offering 9,617 warrants for the purchase of Series A-2 shares (convertible into 192,340 shares of common stock) at \$165 per share. The warrants expire August 8, 2000.

(9) Related-Party Transactions

During November 1993, the Company entered into a management agreement with BTC pursuant to which BTC agreed to provide certain services to the Company. The management agreement commenced upon the Company's first acquisition (January 31, 1994). The management agreement provides for payment by the Company to BTC of a fee equal to \$250,000 per year adjusted annually in 1996 and subsequent years for inflation, plus the Company's proportionate share of rent and support services. Furthermore, BTC charges BFP for consulting services and certain expenses as incurred, plus the Company's proportionate share of rent and support services. Aggregate expenses related to services provided by BTC totaled \$1,478,000 and \$458,000 in 1995 and 1994, respectively. As of December 31, 1995 and 1994, the Company has recorded a payable to BTC of \$152,000 and \$66,000, respectively. See note 12 for further discussion of related-party transactions.

(10) Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109. No provision for income taxes was recorded for 1995, 1994, or for the period ended December 31, 1993. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company has established a valuation allowance for the entire portion of the net deferred income tax asset. The valuation allowance increased by \$4,407,000 and \$1,535,000 for 1995 and 1994, respectively.

(Continued)

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As of December 31, 1995 and 1994, temporary differences and carryforwards that give rise to deferred income tax assets and liabilities are as follows:

	<u>1995</u>	<u>1994</u>
Deferred income tax assets:		
Tax loss carryforwards	\$ 6,358,000	1,754,000
Valuation allowance	(6,011,000)	(1,604,000)
Other	<u>52,000</u>	<u>32,000</u>
Net deferred income tax asset	<u>399,000</u>	<u>182,000</u>
Deferred income tax liabilities:		
Networks and equipment	(399,000)	(159,000)
Intangible assets	<u>-</u>	<u>(23,000)</u>
Net deferred income tax liabilities	<u>(399,000)</u>	<u>(182,000)</u>
Net deferred income taxes	<u>\$ -</u>	<u>-</u>

As of December 31, 1995, net operating loss carryforwards totaling \$15.9 million expire in years 2008-2011 if not utilized in future income tax returns.

(11) Commitments and Contingencies

The Company leases office space at various locations. Rent expense totaled \$688,000 and \$245,000 for 1995 and 1994, respectively. Future minimum rental payments under noncancellable operating leases at December 31, 1995 were as follows:

1996	\$ 1,169,000
1997	1,181,000
1998	850,000
1999	667,000
2000	532,000
Thereafter	<u>1,455,000</u>
	<u>\$ 5,854,000</u>

During September 1995, GST Tucson Lightwave, Inc. (Lightwave) was permitted to intervene in litigation originally filed by Brooks Fiber Communications of Tucson, Inc., a wholly owned subsidiary of BFP (BFC Tucson). Lightwave filed a counterclaim against BFC Tucson, BFP, and Tucson Electric Power Company (TEP) charging BFC Tucson, BFP, and TEP with violations of anti-trust laws, all of which stem from an agreement between BFC Tucson and TEP that allowed BFC Tucson exclusive rights, for one year, to utilize certain of TEP's rights-of-way. The original causes of the action have been settled; however, the counterclaim by Lightwave is currently still pending. The Company believes the claim to be without merit and intends to vigorously defend against this action. The Company believes that resolution of the matter will not have a material adverse effect on the financial condition or results of operations of the Company.

(Continued)

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(12) Subsequent Events

Pursuant to an Agreement and Plan of Merger between BTC and the Company, BTC was merged into the Company on January 2, 1996, and the securities of the Company held by BTC were cancelled. Following the merger, the former holders of BTC's common stock, preferred stock, convertible notes, and options and warrants received shares of the Company's common stock, options, and warrants. After the consideration of the shares of BFP held by BTC at the time of the acquisition, the Company issued an additional 756,340 shares of Common Stock valued at \$12.50 per share. Intangible assets of approximately \$7.0 million are expected to be recorded as a result of this acquisition. The Management Agreement between the Company and BTC was cancelled.

Also on January 2, 1996, the Company's Board of Directors authorized a 20-for-1 stock split for each share of common stock and adjusted all outstanding common stock options and warrants accordingly. All share data presented within the December 31, 1995 consolidated financial statements have been revised to effect for the stock split.

On January 17, 1996, the Company signed a definitive agreement to acquire City Signal, Inc., a provider of competitive access and local exchange services in Michigan and Ohio, and certain assets of a related entity. In connection with the acquisition, the Company has agreed to issue approximately 2.2 million shares of common stock (subject to post-closing adjustment) and to assume approximately \$13.0 million of liabilities. In addition, the Company has provided the seller with the option to require the Company to purchase from the seller all or any part of the shares issued in connection with the acquisition at a price of \$12.50 per share on or prior to the earlier of the first anniversary of the closing or the closing of an initial public offering of the Company's common stock. The transaction is scheduled to close into escrow on January 31, 1996. Intangible assets of approximately \$15.8 million are expected to be recorded as a result of this acquisition.

The following unaudited condensed pro forma information presents the results of operations of the Company for the year ended December 31, 1995 as if the above transactions had occurred on January 1, 1995:

Revenue	\$ 23,072,000
Loss before minority interest	<u>(18,946,000)</u>

The unaudited pro forma information is provided for informational purposes only and is not necessarily indicative of the results of operations that would have occurred had the purchases been made on January 1, 1995, or of the future anticipated results of operations of the combined companies.

QUESTION 18B and 18C

Brooks has the managerial and technical expertise to provide intrastate telecommunications service in Florida. Brooks operates switched facilities in Hartford, Connecticut, Sacramento, California, and Grand Rapids, Michigan. Brooks intends to have switching, frame relay, and ATM transport capabilities in 25 of its operating networks by the end of 1996. Brooks will be able to utilize the expertise and technical experience of its underlying carrier for its Florida intrastate services.

GLA International, a wholly owned subsidiary of Brooks, provides a full range of consulting, management, engineering, and information system solutions for telecommunications companies. GLA serves as an internal source for infrastructure support for Brooks' business. Brooks will be able to support ALD's Florida operations as part of its overall telecommunications operations.