NEW APPLICATION ORIGINAL

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AZ CORP COMMISSION
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December 22, 1999

VIA FEDERAL EXPRESS

DOCKET CONTROL CENTER
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

DOCKET NO. T-03566A-99-0743

Re: Application of ICG Telecom Group, Inc. for Authority to Provide Resold and Facilities-Based Local Exchange Telecommunications Services within the State of Arizona

Dear Sir or Madam:

On behalf of ICG Telecom Group, Inc. ("ICG"), we hereby submit an original and ten (10) copies of its application for authority to provide resold and facilities-based local exchange telecommunications services within the State of Arizona.

In accord with the Commission's Rules, ICG will publish legal notice of the filing of its application in all counties in which it will provide service within twenty (20) days.

We have included an extra copy of this filing, marked "Stamp and Return," as well as a self-addressed, pre-paid overnight airbill and delivery envelope. Please stamp and return the extra copy to confirm your receipt.

Please direct any inquiries regarding this filing to the undersigned.

Respectfully submitted,
ICG TELECOM GROUP, INC.

By Valerie M. Furman

Valerie M. Furman

VMF/clh
Enclosures

ORIGINAL

RECEIVED

BEFORE THE
ARIZONA CORPORATION COMMISSION

1999 DEC 23 P 2: 28

AZ CORP COMMISSION
DOCUMENT CONTROL

In the Matter of	)	
	)	
ICG Telecom Group, Inc.	)	Docket No.________
	)	
Application for Certificate of Public Convenience and Necessity to Provide Resold and Facilities-Based Local Exchange Telecommunications Services Within the State of Arizona	)	DOCKET NO. T-03566A-99-0743

APPLICATION FOR CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY

ICG Telecom Group, Inc. ("ICG" or "Applicant"), pursuant to Title 14, Chapter 2, Articles 5 and 11 of the Arizona Administrative Code, hereby submits its application to the Arizona Corporation Commission ("Commission") for a Certificate of Public Convenience and Necessity authorizing ICG to provide resold and facilities-based local exchange telecommunications services throughout the State of Arizona. In support of its application, ICG hereby provides the following information:

1. **Applicant's Name and Principal Business Address**

In accord with R.14-2-1104(A)(2), the Applicant's name and business address are:

ICG Telecom Group, Inc.
161 Inverness Drive West
Englewood, Colorado 80112
Voice (303) 414-5000
Fax (303) 414-8867

2. Corporate Information

ICG is a privately-held Colorado corporation that was incorporated in 1993. In accord with R14-2-1105(A)(3), a copy of ICG's certificate of incorporation and articles of incorporation are attached hereto as Exhibit A.

3. Resident Agent

ICG is registered as a foreign corporation in State of Arizona. ICG's certificate of authority to transact business in the State of Arizona is attached hereto as Exhibit B. ICG's resident agent for the State of Arizona is:

CT Corporation System
3225 North Central Avenue
Suite 1601
Phoenix, Arizona 85012

4. Contact Persons Regarding This Application

Albert H. Kramer, Esq.
Valerie M. Furman, Esq.
Dickstein Shapiro Morin & Oshinsky LLP
2101 L Street, N.W.
Washington, D.C. 20037
Voice (202) 833-5017
Fax (202) 887-0689

Counsel for ICG Telecom Group, Inc.

with a copy to:

Amy Hartzler
Director, Regulatory & Government Affairs
ICG Communications, Inc.
161 Inverness Drive West
Englewood, Colorado 80112
Voice (303) 414-5903
Fax (303) 414-5817

5. Petitioner's Business Structure

A. Corporate Structure

As stated above, ICG was incorporated in the State of Colorado in 1993. ICG is an indirect subsidiary of ICG Communications, Inc. ("ICG Communications"). ICG Communications is a publicly-traded Delaware corporation that provides, through its operating subsidiaries, competitive local exchange telecommunications service, interexchange telecommunications service, enhanced voice and data telecommunications services, network integration, system design and support services, and domestic and international satellite voice and data transmission services.

B. Officers and Directors

In accord with R.14-2-1104(A)(2)(c), a list of ICG's officers and directors is attached hereto as Exhibit C.

6. **Description of Proposed Services**

ICG requests authority to provide resold and facilities-based local exchange telecommunications services on a statewide-basis to customers in the State of Arizona. ICG's proposed local exchange telecommunications services will permit its customers to originate and terminate local calls to other customers served by ICG, as well as to customers served by all other Arizona certificated local exchange carriers ("LECs"). ICG will initially provide local exchange telecommunications services through the resale of services purchased from US West, but intends in the near future to also provide such services through the use of its own facilities, through unbundled network elements purchased from other Arizona-certificated LECs, or through a combination of all three.

7. **Proposed Initial Tariff**

In accord with R.14-2-1104(A)(3), a proposed initial tariff containing the terms, conditions and the maximum and initial rates to be charged by ICG for the provision of the services proposed herein is attached hereto as Exhibit D.

8. **Managerial and Technical Expertise**

ICG was formed for the purpose of providing all forms of telecommunications services, including resold and facilities-based local exchange and interexchange telecommunications services, and ICG's officers and directors have extensive experience in the provision of telecommunications services and the operation of telecommunications companies.

As of the date of this filing, ICG has been granted authority or is otherwise authorized to provide local exchange telecommunications services on a resale basis in the states of Idaho, New Jersey, North Dakota, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, West Virginia and Wisconsin, and on both a resale and facilities-based basis in the District of Columbia and the states of Alabama, California, Colorado, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Massachusetts, Montana, Nevada, New Hampshire, New York, North Carolina, Ohio, Oklahoma, Oregon, Tennessee, Texas, Virginia and Washington. In addition, ICG currently has an application for authority to provide local exchange telecommunications services on a resale basis pending in the State of New Mexico. The services proposed in the pending applications are the same as those proposed herein. Over the next few months, ICG plans to seek authority to provide both resold and facilities-based local exchange telecommunications services in all states in which it does not currently hold authority to offer local exchange telecommunications in any capacity, and also plans to seek expanded authority to permit it to provide facilities-based local exchange telecommunications services in states in which it currently holds only resale authority.

ICG has also been granted authority or is otherwise authorized to provide resold intrastate interexchange (toll) telecommunications services on a statewide basis within the states of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North

Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

In accord with R-14-2-1105(A)(1), ICG has attached hereto as Exhibit E biographical descriptions of its officers, as evidence that ICG's management team possesses more than sufficient technical and managerial expertise to provide the local exchange telecommunications services proposed herein to customers in the State of Arizona.

10. Financial Capabilities

Although ICG is authorized to provide intrastate interexchange telecommunications services within the State of Arizona, ICG has not yet begun marketing its services and does not currently have any customers. As a result, ICG does not have any information to report on an intrastate balance sheet. However, in accord with R14-2-1105(A)(2), ICG has attached hereto as Exhibit F its income statements for the twelve months ended December 31, 1998 and the nine months ended September 30, 1999, as evidence of its more than sufficient financial resources and qualifications to provide the local exchange telecommunications services proposed herein within the State of Arizona.

ICG will rely on the substantial financial resources of its parent corporation, ICG Communications for its Arizona operations. Accordingly, ICG has included as part of Exhibit F ICG Communications' most recent SEC Form 10-K and 10-Q reports, as further evidence of its more than sufficient financial resources.

11. Geographic Service Area

As stated in Section 6, above, ICG requests authority to provide resold and facilities-based local exchange telecommunications services on a statewide-basis to customers in the State of Arizona. ICG will initially operate only as a reseller of local exchange telecommunications services, reselling the local exchange telecommunications services of US West in US West's exchange areas throughout the State of Arizona. The US West exchange areas in which ICG will provide resold local exchange telecommunications service are located in all or part of the following counties (where facilities permit):

Apache	La Paz	Santa Cruz
Cochise	Maricopa	Yavapai
Coconino	Mohave	Yuma
Gila	Navajo	
Graham	Pima	
Greenlee	Pinal	

R.14-2-1104(A)(4) requires that ICG submit with its application a map depicting ICG's initial proposed service area. As stated in the preceding paragraph, ICG's initial local calling areas will correspond with US West's local calling areas. Because ICG's proposed initial calling and serving areas will not vary from those of US West, ICG hereby incorporates by reference the maps of US West — whose services it will be reselling — and requests that it not be required to furnish the identical maps herein.

Although ICG intends in the near future to expand its Arizona operations to enable it to also provide local exchange telecommunications service by additional means — such as through the use of its own facilities, or through unbundled network elements purchased from other Arizona-certificated LECs — the exact locations within the state in which such expanded service will be provided have not yet been identified. Accordingly, ICG has not included any maps depicting such locations.

12. City, County and/or State Agency Approvals

ICG intends initially to operate only as a reseller of local exchange telecommunications services in the State of Arizona, and is unaware of any city, county or state agency approvals that are required to be obtained for its currently intended operations. Should ICG wish to begin offering service through the use of its own facilities or through unbundled network elements purchased from other Arizona-certificated LECs, ICG will identify and obtain any city, county or state agency approvals that may be required in order to operate in this manner prior to commencing such operations.

13. Location of Books and Records

ICG will maintain its corporate books and records at its corporate headquarters in Englewood, Colorado. In accord with R 14-2-1115(E)(2), ICG will permit Commission inspections of its books and records upon request, and will pay for all costs associated with such inspection by the Commission.

14. Customer Deposits and Advance Payments

ICG may require customers to make a deposit to be held as a guarantee for the payment of charges. A deposit may be required if a given customer's financial condition is not acceptable to ICG, or cannot be ascertained from general accepted credit reporting sources. Deposits will not exceed an amount equal to two (2) month's charges for tariffed services or a maximum of $50.00 plus 30% of the monthly estimated charge for a specified customer, or two (2) month's charges for a service or facility which has a minimum payment period of one (1) month. Deposits will accrue interest at the highest rate permitted by law. A deposit may be required in addition to an advance payment.

ICG will periodically review the accounts of customers who have paid deposits, and will refund deposits with interest for accounts that have been current for the preceding six (6) months. Upon discontinuance of service, ICG will automatically refund a customer's full deposit, plus accrued interest, or the balance of the deposit, if any, in excess of the unpaid bills including any penalties assessed for service furnished by ICG.

ICG may require a *business* customer to make an advance payment before services are furnished, where special construction is involved. Advance payments will not exceed an amount equal to the non-recurring charge(s) and one (1) month's charges for the service or facilities. In addition, advance payments 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 ICG and the customer involved. Any advance payment(s) made by a customer will be credited to that customer's initial bill. Advance payments do not accrue interest. An advance payment may be required in addition to a deposit.

15. Request for Waiver of Uniform System of Accounts Requirement

ICG hereby requests a waiver of R 14-2-1115(D)(2), which requires that a carrier's records be kept according to the Uniform System of Accounts ("USOA"). ICG submits that the requirement constitutes an undue burden on a non-dominant telecommunications carrier entering the Arizona market — particularly those operating as resellers only. Most states permit new carriers to waive the USOA requirement. ICG's financial records are kept according to the Generally Accepted Accounting Principles ("GAAP"). Accordingly, ICG respectfully requests waiver of the USOA requirement, to permit it to maintain its records for operations in the State of Arizona according to GAAP.

16. Notice and Publication

In accord with R 14-2-1104(E), ICG will publish legal notice of the filing of its application in all counties in which services will provided within twenty (20) days after its application is filed with the Commission.

17. Commission's Grant of ICG's Application to Provide Local Telecommunications Service is in the Public Interest

ICG submits that Commission approval of its application to provide local exchange telecommunications services in the State of Arizona is in the public interest, as ICG's market entry will bring a host of benefits to the State's telecommunications users. Included among those benefits are the following:

(i) increased diversity in the supply of telecommunications providers, which will offer additional and new consumer choices;

(ii) the entry of new telecommunications providers into the State's telecommunications marketplace, which will have no adverse impact upon prices; instead, it will introduce competitive pressures that will foster lower prices;

(iii) the entry of new telecommunications providers into the State's telecommunications marketplace, which will enhance competitive pressures that will foster higher quality service from all providers.

18. Request for Classification as a Competitive Carrier

Although ICG seeks authority to provide both resold and facilities-based local exchange telecommunications service, as stated above, ICG proposes initially to offer local exchange telecommunications services on only a resale basis in the Arizona service territories of US West. There is more than sufficient competition within the Arizona local exchange industry — particularly in the resale area — to justify treating ICG as a provider of competitive service for regulatory purposes. Additionally, heightened competition within the intrastate telecommunications market will benefit the State of Arizona by providing consumers with greater options in the types of services provided. This increased competition will result in innovative service packaging and lower prices for higher quality services. Accordingly, ICG submits that its proposed service offerings — whether offered through resale or through use of ICG's own facilities — should be classified as a "competitive" and that ICG should classified as a "competitive carrier" in accord with R 14-2-1105(B) and R 14-2-1108.

19. Exhibits

In support of its application, ICG hereby submits the following exhibits:

Exhibit A Certificate of Incorporation and Articles of Incorporation

Exhibit B Certificate of Authority to Transact Business in the State of Arizona

Exhibit C List of Officers and Directors

Exhibit D Proposed Initial Tariff

Exhibit E Biographies of ICG's Officers

Exhibit F Information Regarding ICG's Financial Resources and Qualifications

Conclusion

Wherefore, ICG Telecom Group, Inc. respectfully requests that the Arizona Corporation Commission grant it a Certificate of Public Convenience and Necessity to resell local exchange telecommunications services in the State of Arizona.

Respectfully submitted,
ICG TELECOM GROUP, INC.

By: ______________________________

Albert H. Kramer, Esq.
Valerie M. Furman, Esq.
Dickstein Shapiro Morin & Oshinsky LLP
2101 L Street, N.W.
Washington, D.C. 20037
Voice: (202) 833-5017
Fax: (202) 887-0689

Counsel for ICG Telecom Group, Inc.

Dated: December 22, 1999

EXHIBIT A

CERTIFICATE OF INCORPORATION AND ARTICLES OF INCORPORATION

FILING #0001806343 PG 04 OF 04 VOL B-00173
FILED 02/23/1998 08:30 AM PAGE 02618
SECRETARY OF THE STATE
CONNECTICUT SECRETARY OF THE STATE

STATE OF COLORADO · 1876

STATE OF COLORADO

DEPARTMENT OF STATE

CERTIFICATE

I, VICTORIA BUCKLEY, SECRETARY OF STATE OF THE STATE OF COLORADO HEREBY CERTIFY THAT

ACCORDING TO THE RECORDS OF THIS OFFICE

ICG TELECOM GROUP, INC.
(COLORADO CORPORATION)

FILE # 19931130030 WAS FILED IN THIS OFFICE ON November 19, 1993 AND HAS COMPLIED WITH THE APPLICABLE PROVISIONS OF THE LAWS OF THE STATE OF COLORADO AND ON THIS DATE IS IN GOOD STANDING AND AUTHORIZED AND COMPETENT TO TRANSACT BUSINESS OR TO CONDUCT ITS AFFAIRS WITHIN THIS STATE.

Dated: February 09, 1998

Victoria Buckley

SECRETARY OF STATE

CHANGE OF NAME

ARTICLES OF AMENDMENT TO THE ARTICLES OF INCORPORATION OF ICG ACCESS SERVICES, INC.

961056719 C $25.00
SECRETARY OF STATE
04-25-96 12:12

DP9311300030

Pursuant to the provisions of the Colorado Business Corporation Act, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

FIRST: The name of the corporation is ICG ACCESS SERVICES, INC.

SECOND: The following amendment to the Articles of Incorporation was adopted on April 15, 1996, as prescribed by the Colorado Business Corporation Act, by a vote of the shareholders. The number of shares voted for the amendment was sufficient for approval.

Deleting Article First in its entirety and substituting the following Article First in lieu thereof:

"FIRST: The name of the Corporation is ICG TELECOM GROUP, INC."

ICG ACCESS SERVICES, INC.

By [signature]
Martin E. Freidel, Vice President and Secretary

ARTICLES OF INCORPORATION
OF
ICG ACCESS SERVICES, INC.

The undersigned natural person of the age of eighteen years or more, acting as an incorporator of a corporation under the Colorado Corporation Act, adopts the following Articles of Incorporation for such corporation.

ARTICLE I

The name of the corporation is ICG Access Services, Inc..

FILED COPY

ARTICLE II

The period of its duration is perpetual.

ARTICLE III

3.1 Purposes. The nature, objects and purposes of the business to be transacted shall be as follows:

(a) To own and operate. To own, operate and develop telecommunications services, including, without limitation, voice, video, data and satellite transmissions; and to own and operate facilities for operating telecommunications services.

(b) To acquire business. To acquire (whether for cash or in exchange for its assets or securities, or otherwise), operate and deal in other businesses of all types and interests therein.

(c) To engage in other lawful business. To engage in any other lawful business or activity for which corporations may be incorporated under the laws of Colorado.

ARTICLE IV

The aggregate number of shares of stock the corporation is authorized to issue is TEN THOUSAND (10,000) shares of common stock, no par value per share. All common stock, when issued, shall be fully paid and nonassessable. The holders of the common stock shall be entitled to one vote for each common share held by them of record at the time set for determining the holders thereof entitled to vote.

ARTICLE V

Cumulative voting of shares of stock is not permitted.

Shareholders shall not have preemptive rights to acquire additional unissued or treasury shares of the corporation. The corporation may issue and sell shares of its stock to its officers, directors or employees without first offering such shares to its shareholders for such consideration and upon such terms and conditions as shall be approved by the Board of Directors and without approval by the shareholders of the corporation.

ARTICLE VI

The Board of Directors may cause any shares issued by the corporation to be issued subject to such lawful restrictions, qualifications, limitations or special rights as they deem fit, which restrictions, qualifications, limitations or special rights shall be created by provisions in the Bylaws of the corporation or in the duly adopted resolutions of the Board of Directors; provided that notice of such special restrictions, qualifications, limitations or special rights must appear on the Certificate evidencing ownership of such shares.

ARTICLE VII

Meetings of shareholders may be held at such time and place as the Bylaws shall provide. A majority of the shares entitled to vote represented in person or by proxy shall constitute a quorum at any meeting of the shareholders.

ARTICLE VIII

The number of directors constituting the initial Board of Directors of the corporation is three (3) and the names and addresses of the persons who are to serve as directors until the first annual meeting of shareholders or until their successors are elected and shall qualify are:

Name	Address
William W. Becker	1050 Seventeenth Street, Suite 1610 Denver, CO 80265
William J. Maxwell	1050 Seventeenth Street, Suite 1610 Denver, CO 80265
John R. Evans	1050 Seventeenth Street, Suite 1610 Denver, CO 80265

The number of directors to be elected at the annual meeting of shareholders or at a special meeting called for the election of directors shall not be less than three, nor more than nine, the exact number to be fixed by the Bylaws; provided, however, that there need be only as many directors as there are shareholders in the event that the outstanding shares are held of record by fewer than three shareholders.

ARTICLE IX

A director of this corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director except that this provision shall not limit the liability of a director to the corporation or to its shareholders for monetary damages for: (i) any breach of the director's duty of loyalty to the corporation or to its shareholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) acts specified in Section 7-5-114 of the Colorado Corporation Code as the same may be amended from time to time; or (iv) any transaction from which the director derived an improper personal benefit. If the Colorado Corporation Code is amended to authorize corporate actions further limiting or eliminating the personal liability of directors, then the liability of a director of the corporation shall be limited or eliminated to the fullest extent permitted by the Colorado Corporation Code, as so amended.

Any repeal or modification of the foregoing Article IX by the shareholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

ARTICLE X

The officers, directors and other members of management of this corporation shall be subject to the doctrine of corporate opportunities only insofar as it applies to business opportunities in which this corporation has expressed an interest as determined from time to time by the corporation's Board of Directors as evidenced by resolutions appearing in the corporation's Minutes. When such areas of interest are delineated, all such business opportunities within such areas of interest which come to the attention of the officers, directors and other members of management of this corporation shall be disclosed promptly to this corporation and made available to it. The Board of Directors may reject any business opportunity presented to it and thereafter any officer, director or other member of management may avail himself/herself of such opportunity. Until such time as this corporation, through its Board of Directors, has designated an area of interest, the officers, directors and other members of management of this corporation shall be free to engage in such areas of interest on their own and this doctrine shall not limit the rights of any officer, director or other member of management of this corporation to continue a business existing prior to the time that such area of interest is designated by this corporation. This provision shall not be construed to release any employee of the corporation (other than an officer, director or member of management) from any duties which he/she may have to the corporation.

ARTICLE XI

Any of the directors or officers of this corporation shall not, in the absence of fraud, be disqualified by his office from dealing or contracting with this corporation whether as vendor, purchaser or otherwise, nor shall any firm, association, or corporation of which he/she shall be a member, or in which he/she may be pecuniarily interested in any manner be disqualified. No director or officer, nor any firm, association or corporation with which he/she is connected as aforesaid shall be liable to account to this corporation or its shareholders for any profit realized by him/her from or through any such transaction or contract; it being the express purpose and intent of this Article to permit this corporation to buy from, sell to, or otherwise deal with partnerships, firms or corporations of which the directors and officers of this corporation, or any one or more of them, may be members, directors, or officers, or in which they or any of them have pecuniary interests; and the contracts of this corporation, in the absence of fraud, shall not be void or voidable or affected in any manner by reason of any such membership. The interested director or directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or a committee thereof authorizing, approving or ratifying any such contract or transaction. Further, the vote of any such interested director at a meeting of the Board of Directors or committee thereof authorizing, approving or ratifying any such contract or transaction may be counted if his relationship or interest with respect to any such contract or transaction (i) is disclosed and such transaction or contract is authorized, approved or ratified by a majority of the directors without counting the vote or consent of such interested director, or (ii) is disclosed to the shareholders of the Company and authorized, approved or ratified by the shareholders by vote or written consent, or (iii) such contract or transaction is fair and reasonable to the corporation..

ARTICLE XII

When with respect to any action to be taken by shareholders of this corporation, the Colorado Corporation Code requires the vote or concurrence of the holders of two-thirds of the outstanding shares entitled to vote thereon, or of any class or series, such action may be taken by the vote or concurrence of a majority of such shares or class or series thereof.

ARTICLE XIII

The name and address of the incorporator is Martin E. Freidel, 1050 Seventeenth Street, Suite 1610, Denver, Colorado 80265. The address of the corporation's initial registered office is 1050 Seventeenth Street, Suite 1610, Denver, Colorado 80265 and the name of the initial registered agent at such address is Martin E. Freidel.

IN WITNESS WHEREOF, I, the undersigned, being the incorporator designated in the foregoing Articles of Incorporation, have executed these Articles of Incorporation as of the 17 day of December, 1993.

Martin E. Freidel

Martin E. Freidel

VERIFICATION

I, Martin E. Freidel, the incorporator of ICG Access Services, Inc., hereby acknowledge and affirm under the penalties of perjury that the facts stated in the foregoing Articles of Incorporation are true and correct and that I am the duly authorized incorporator of such corporation.

Martin E. Freidel

Martin E. Freidel

CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, Martin E. Freidel, hereby give my consent to serve as the registered agent for ICG Access Services, Inc.

Dated: Nov. 12, 1993

Martin E. Freidel

Martin E. Freidel

EXHIBIT B

CERTIFICATE OF AUTHORITY TO TRANSACT BUSINESS IN THE STATE OF ARIZONA

JIM IRVIN
COMMISSIONER-CHAIRMAN

RENZ D. JENNINGS
COMMISSIONER

CARL J. KUNASEK
COMMISSIONER

ARIZONA CORPORATION COMMISSION

JACK ROSE
EXECUTIVE SECRETARY

C T CORPORATION SYSTEM
3225 NORTH CENTRAL AVENUE
PHOENIX, AZ 85012

RE: ICG TELECOM GROUP, INC.
File Number: F-0833442-9

We are pleased to notify you that your Application for Authority to transact business in Arizona was approved and filed on February 26, 1998.

You must publish a copy of your Articles of Incorporation. The publication must be in a newspaper of general circulation in the county of the known place of business, for three (3) consecutive publications. An affidavit from the newspaper, evidencing such publication, must be delivered to the Commission for filing WITHIN NINETY (90) DAYS from the File Date.

All corporations transacting business in Arizona are required to file an Annual Report with the Commission, on the anniversary of the date of incorporation. Each year, a preprinted Annual Report Form will be mailed to you prior to the due date of the report.

If you have any questions or need further information, please contact us at (602) 542-3135 in Phoenix, (520) 628-6560 in Tucson, or Toll Free (Arizona residents only) at 1-800-345-5819.

Very truly yours,

MARGARITA WRIGHT
Examiner
Corporations Division
Arizona Corporation Commission

CF:07
Rev: 4/97

EXPEDITED
AZ CORP. COMMISSION
DELIVERED
FEB 2 6 1998
FILED BY ~~Margaret~~
TERM
DATE 02-26-98
F-0833442-9

APPLICATION FOR AUTHORITY TO TRANSACT BUSINESS IN ARIZONA

BY

ICG Telecom Group, Inc.

A (n) Colorado CORPORATION
(State, Province or Country)

1. The exact name of the foreign corporation is

ICG Telecom Group, Inc.

If the exact name of the foreign corporation is not available for use in this state, then the fictitious name adopted for use by the corporation in Arizona is:

____

2. The name of the state, province or country in which the foreign corporation is incorporated is:

Colorado

3. The foreign corporation was incorporated on the 19th day of November, 1993

and the period of its duration is Perpetual.

4. The street address of the principal office of the foreign corporation in the state, province or country of its incorporation is:

9605 E. Maroon Circle
Englewood, Colorado 80112

5.a. The name and street address of the statutory agent for the foreign corporation in Arizona is:

C T Corporation System
3225 North Central Avenue
Phoenix, Arizona 85012

5.b. The street address of the known place of business of the foreign corporation in Arizona IF DIFFERENT from the street address of the statutory agent is:

____

____

____

6. The purpose of the corporation is to engage in any and all lawful business in which corporations may engage in the state, province or country under whose law the foreign corporation is incorporated, with the following limitations, if any: (If none, so state.)

none ______________________________

7. The names and usual business addresses of the current directors and officers of the foreign corporation are: (Attach additional sheets if necessary.)

See attached list of directors and officers, ______________ [title]

____

____

______________________________, ______________ [title]

____

____

______________________________, ______________ [title]

____

____

______________________________, ______________ [title]

____

____

8. The foreign corporation is authorized to issue 10,000 shares, itemized as follows:

(Attach additional sheets if necessary.)

10,000 shares of Common (No series) [class or series] stock at

X no par value or par value of $__________ per share.

______ shares of ______________ [class or series] stock at

____ no par value or par value of $__________ per share.

______ shares of ______________ [class or series] stock at

____ no par value or par value of $__________ per share.

9. The foreign corporation also issued ________

(Attach additional sheets if necessary.)

140 shares of Common (No series) [class or series] stock at

X no par value or par value of $________ per share.

________ shares of ________ [class or series] stock at

____ no par value or par value of $________ per share.

________ shares of ________ [class or series] stock at

____ no par value or par value of $________ per share.

10. The character of business the foreign corporation initially intends to conduct in Arizona is:

To provide telecommunication services.

This application is accompanied by:

A Certificate of Disclosure containing the information set forth in Arizona Revised Statutes Section 10-202.D.

A certified copy of our articles of incorporation, all amendments (AZ Const. Art. XIV, § 8) and a certificate of existence or document of similar import duly authenticated by the official having custody of corporate records in the state, province or country under whose laws we are incorporated (A.R.S. §10-1503.B).

The filing fee(s) (U.S.) made payable to the Arizona Corporation Commission.

DATED this 12 day of February, 19 ____.

ICG Telecom Group, Inc.
[Name of Corporation]

Executed By ________

Don Teague, Vice President
[print name] [title]

ACCEPTANCE OF APPOINTMENT BY STATUTORY AGENT

The undersigned hereby acknowledges and accepts the appointment as statutory agent of this corporation effective this 13 day of February, 1998.

C T Corporation System

Marcia J. Sunahara
Signature

Marcia J. Sunahara
[Print name]

Arizona A lication for Authority to Tran :t Business
ICG Telecom Group, Inc.

OFFICERS AND DIRECTORS AND THEIR ADDRESSES:

OFFICERS	ADDRESS
President - Sheldon S. Ohringer	9605 E. Maroon Circle Englewood, Colorado 80112
Executive Vice President-National Operations-Henry R. Carabelli	9605 E. Maroon Circle Englewood, Colorado 80112
Senior Vice President and Chief Information Officer - James Newman	9605 E. Maroon Circle Englewood, Colorado 80112
Vice President - Marc E. Maassen	9605 E. Maroon Circle Englewood, Colorado 80112
Vice President - James D. Grenfell	9605 E. Maroon Circle Englewood, Colorado 80112
Vice President, General Counsel,Secretary - Don Teague	9605 E. Maroon Circle Englewood, Colorado 80112
Assistant Secretary - Kathleen M. Boelte	9605 E. Maroon Circle Enlgewood, Colorado 80112
Treasurer - Regina A. Veglianie	9605 E. Maroon Circle Englewood, Colorado 80112
Assistant Vice President - Tax - Greg Halsey	9605 E. Maroon Circle Englewood, Colorado 80112

DIRECTORS	ADDRESS
Marc E. Maassen	9605 E. Maroon Circle Englewood, Colorado 80112
James D. Grenfell	9605 E. Maroon Circle Englewood, Colorado 80112
Sheldon S. Ohringer	9605 E. Maroon Circle Englewood, Colorado 80112

ARIZONA CORPORATION COMMISSION
CORPORATIONS DIVISION

Phoenix Address: 1300 West Washington
Phoenix, Arizona 85007-2929

Tucson Address: 400 West Congress
Tucson, Arizona 85701-1347

CERTIFICATE OF DISCLOSURE
A.R.S. § 10-202.D

ICG Telecom Group, Inc.
EXACT CORPORATE NAME

CHECK APPROPRIATE BOX (A or B)
ANSWER "C"

THE UNDERSIGNED CERTIFY THAT:

A. [X] No persons serving either by elections or appointment as officers, directors, trustees, incorporators and persons controlling or holding over 10% of the issued and outstanding common shares or 10% of any other proprietary, beneficial or membership interest in the corporation:

1. Have been convicted of a felony involving a transaction in securities, consumer fraud or antitrust in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate.
2. Have been convicted of a felony, the essential elements of which consisted of fraud, misrepresentation, theft by false pretenses, or restraint of trade or monopoly in any state or federal jurisdiction within the seven-year period immediately preceding the execution of this Certificate.
3. Have been or are subject to an injunction, judgment, decree or permanent order of any state or federal court entered within the seven-year period immediately preceding the execution of this Certificate wherein such injunction, judgment, decree or permanent order:
   (a) Involved the violation of fraud or registration provisions of the securities laws of that jurisdiction; or
   (b) Involved the violation of the consumer fraud laws of that jurisdiction; or
   (c) Involved the violation of the antitrust or restraint of trade laws of that jurisdiction.

B. [ ] For any person or persons who have been or are subject to one or more of the statements in Items A.1 through A.3 above, the following information MUST be attached:

1. Full name, prior name(s) and aliases, if used.
2. Full birth name.
3. Present home address.
4. Prior addresses (for immediate preceding 7-year period).
5. Date and location of birth.
6. Social Security number.
7. The nature and description of each conviction or judicial action, date and location, the court and public agency involved and file or cause number of case.

C. Has any person serving as an officer, director, trustee or incorporator of the corporation served in any such capacity or held or controlled over 20% of the issued and outstanding common shares, or 20% of any other proprietary, beneficial or membership interest in any corporation which has been placed in bankruptcy, receivership or had its charter revoked, or administratively or judicially dissolved by any state or jurisdiction?
Yes ____ No X

IF YOUR ANSWER TO THE ABOVE QUESTION IS "YES", YOU MUST ATTACH THE FOLLOWING INFORMATION FOR EACH CORPORATION:

1. Name and address of the corporation.
2. Full name (including aliases) and address of each person involved.
3. State(s) in which the corporation:
   (a) Was incorporated. (b) Has transacted business.
4. Dates of corporate operation.
5. Date and case number of Bankruptcy or date of revocation/administrative dissolution.

D. The fiscal year end adopted by the corporation is December 31

Under penalties of law, the undersigned incorporator(s)/officer(s) declare (s) that I (we) have examined this Certificate, including any attachments, and to the best of my (our) knowledge and belief it is true, correct, and complete. THE SIGNATURE(S) MUST BE DATED WITHIN THIRTY (30) DAYS OF THE DELIVERY DATE.

BY ____________ BY ____________

PRINT NAME Don Teague PRINT NAME ____________

TITLE Vice President DATE 2/12/98 TITLE ____________ DATE ____________

DOMESTIC CORPORATIONS: ALL INCORPORATORS MUST SIGN THE INITIAL CERTIFICATE OF DISCLOSURE. If within sixty days, any person becomes an officer, director, trustee or person controlling or holding over 10% of the issued and outstanding shares or 10% of any other proprietary, beneficial, or membership interest in the corporation and the person was not included in this disclosure, the corporation must file an AMENDED certificate signed by at least one duly authorized officer of the corporation.

FOREIGN CORPORATIONS: MUST BE SIGNED BY AT LEAST ONE DULY AUTHORIZED OFFICER OF THE CORPORATION.

C/F: 0022-Business Corporations
Rev. 7/96 (ARIZ. - 73 - 10/17/96)

EXHIBIT C

LIST OF OFFICERS AND DIRECTORS

Officers

Name	Title	Office Address
Douglas I. Falk	President	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000
Harry R. Herbst	Vice President	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000
John Kane	Vice President	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000
H. Don Teague	Vice President, General Counsel and Secretary	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000
Raymond A. Palkovic	Vice President and Chief Information Officer	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000
Regina A. Vegliante	Treasurer	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000
Robert L. Merkel	Vice President – Tax	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000
Kathleen M. Boelte	Assistant Secretary	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000

Directors

Name	Title	Office Address
Douglas I. Falk	Director	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000
Harry R. Herbst	Director	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000
H. Don Teague	Director	ICG Telecom Group, Inc. 161 Inverness Drive West Englewood, Colorado 80112 (303) 414-5000

EXHIBIT D

PROPOSED INITIAL TARIFF

REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES

APPLYING TO

LOCAL EXCHANGE END-USER

COMMUNICATIONS SERVICES WITHIN

THE STATE OF ARIZONA

CHECK SHEET

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EXPLANATION OF SYMBOLS

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

(C) To signify Changed Regulation.

(D) Delete or Discontinue

(I) Change Resulting in an Increase to a rate

(M) Moved from Another Tariff Location

(N) New

(R) Change Resulting in a Reduction to a rate

(S) Matter Appearing Elsewhere or Repeated for Clarification

(T) Change in Text But No Change to Rate or Charge

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of resold intrastate End-User communications services in The State of Arizona by ICG Telecom Group, Inc.

1.0 DEFINITIONS

For the purpose of this tariff, the following definitions will apply:

Access: Is connection to one carrier by a second carrier to obtain the services of any or all network facilities and services within the network, including unbundled elements.

Access Service Request (ASR): A written request for special access services executed by the Customer and the Company in the format devised by the Company. The signing of an ASR 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. Should a Customer use the Company's access service without an executed ASR, the Company will then request the Customer to submit one.

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.

Alternative Operator Services: Alternative Operator Services are those services provided by the carrier in which the customer and the End User are totally separate entities. The carrier contracts with the customer to provide the alternative operator services; however, the carrier does not directly contract with the End User to provide the services even though it is the End User who actually pays for the processing of the operator assisted calls.

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.

Automatic Location Identification (ALI): An E911 feature that provides the name or address or both associated with the calling party's telephone number (identified by ANI as defined below) to the PSAP for display. Additional telephones with the same number as the calling party's (secondary locations, off-premise extensions, etc.) are identified with the address of the telephone number at the main location.

1.0 DEFINITIONS (cont'd)

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

Collocation: An arrangement whereby the Company's switching equipment is located in a local exchange Company's central office.

Commission: The Arizona Public Service Commission.

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

Company or Carrier: ICG Telecom Group, Inc.

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

Dedicated Inbound Calls: Refers to calls that are terminated via dedicated access facilities connecting the Customer's premises and the Company's Point of Presence (POP). This service is offered to the extent facilities are available and where the Company and the Customer jointly arrange for the establishment of dedicated access facilities connecting the Customer's trunk-compatible PBX or other suitable equipment to the Company's POP. The Customer shall be responsible for all costs and charges associated with the dedicated access facilities.

Dedicated Outbound Calls: Refers to service that is offered to the extent facilities are available in those cases where the Company and the Customer jointly arrange for the establishment of dedicated access facilities connecting the Customer's trunk-compatible PBX or other suitable equipment to the Company's POP. The Customer shall be responsible for all costs and charges associated with the dedicated access facilities.

Deposit: Refers to a cash or equivalent of cash security held as a guarantee for payment of the charges.

DID Trunk (Direct Inward Dial 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.

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

1.0 DEFINITIONS (cont'd)

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

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

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

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

Emergency Number Service: A telephone exchange communication service whereby a Public Safety Answering Point (PSAP) designated by the Customer may receive telephone calls dialed to the telephone number 911. The 911 Services includes lines and equipment necessary for transferring and dispatching public emergency telephone calls originated by persons within the telephone central offices areas arranged for 911 calling.

Emergency Service Number (ESN): An ESN is a Selective Routing (SR) code assigned to each telephone number in an exchange where SR is provided to route E911 calls to an appropriate PSAP. The ESN defines the set of emergency services (e.g., police, fire, PSAP and medical) within a particular serving area. An ESN is associated with a primary possibly one or more secondary PSAPs.

Emergency Telephone Service Charge: A charge for the network start-up costs, custom notification costs, billing costs including an allowance for uncollectibles and network nonrecurring and recurring installation, maintenance, service, and equipment network charges of the Company providing 911 service.

End Office: With respect to each NPA-NXX code prefix assigned to the Company, the location of the Company's end office for purposes of this tariff shall be the point of interconnection associated with that NPA-NXX code in the Local Exchange Routing Guide (LERG), published by Bellcore.

Exchange Telephone Company or Telephone Company: Denotes any individual, partnership, association, joint-stock company, trust, or corporation authorized by the appropriate regulatory bodies to engaged in providing public switched communication service throughout an exchange area, and between exchange areas within the LATA.

1.0 DEFINITIONS (cont'd)

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.

Hearing Impaired: Those persons with communication impairments, including those hearing impaired, deaf, deaf/blind, and speech impaired persons who have an impairment that prevents them from communicating over the telephone without the aid of a telecommunications device for the deaf.

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

Getting Started Package: Refers to package Company gives to each new customer. The package includes information about the Company's services, service orders and contact numbers.

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

IXC or Interexchange Carrier: A long distance telecommunications services provider.

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

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 Interconnection Trunking Service: A local circuit administration point, other than a cross-connect or an information outlet, that provides capability for routing and re-routing circuits.

Mbps: Megabits, denotes millions of bits per second.

Minimum Point of Presence (MPOP): The main telephone closet in the Customer's building.

1.0 DEFINITIONS (cont'd)

Monthly Recurring Charges: The monthly charges to the Customer for services, which continue for the agreed upon duration of the service.

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

911 Service Area: The geographic area in which the Company will respond to all 911 calls and dispatch appropriate emergency assistance.

911 Trunks: Trunks between a serving central office and a PSAP or between two central offices, except where one of the central offices is a remote unit.
Non-Proprietary Calling Card: Refers to a calling card or travel card which can be billed by any carrier and used on any network, such as an Ameritech card issued in conjunction with local services; as opposed to a card issued by an IXC which can only be used on that carrier's network and billed by that carrier.

Non-Recurring Charge (NRC): The initial charge, usually assessed on a one-time basis, to initiate and establish service.

NPA: Numbering plan area or area code.

NXX: First three digits in a local phone number. Identifies the specific telephone company central office which serves that number.

Off-Net: A means for carrying traffic to or from the Customer's premises, where the Company leases Other Telephone Company's facilities to deliver traffic to Customer location. (Off-Net traffic consists of all traffic that is not considered to be On-Net traffic.)

On-Net: A means for carrying traffic to or from the Customer's premises, where the Company connects to the MPOP in a Customer building or on a Customer's premises using only Company-owned fiber. On-Net traffic is delivered to Customer exclusively over facilities of the Company.

Other Telephone Company: An Exchange Telephone Company, other than the Company.

PBX: Private Branch Exchange

1.0 **DEFINITIONS** (cont'd)

Point of Presence (POP): Point of Presence

PSAP Data Base Establishment and Update Service: Provides the PSAP with the initial list, as well as periodic updates of Customer names, telephone numbers and addresses for ALI.

Public Safety Answering Point (PSAP) - a communications facility operated or answered on a 24-hour basis, assigned responsibility by a public agency or county to receive 911 calls and, as appropriate, to directly dispatch emergency response services, or to transfer or relay emergency 911 calls to other public safety agencies. It is the first point of reception by a public safety agency of a 911 call, and serves the jurisdictions in which it is located and other participating jurisdictions, if any.

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

Service Commencement Date: The first day following the date on which the Company notifies the Customer that the requested service is available for use, unless extended by the Customer's refusal to accept service which 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 Company 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.

Shared Inbound Calls: Refers to calls that are terminated via the Customer's Company-provided local exchange line.

1.0 DEFINITIONS (cont'd)

Shared Outbound Calls: Refers to calls in Feature Group D (FGD) exchanges whereby the Customer's local telephone lines are presubscribed by the Company to the Company's outbound service such that 1 + 10-digit number calls are automatically routed to the Company's or an IXC's network. Calls to stations within the Customer's LATA may be placed by dialing 10XXX or 101XXXX with 1 + 10-digit number.

Tandem: A class 4 switch facility to which NPA and NXX codes are subtended.

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

Traditional Operator Services: Traditional Operator Services are those services provided by the carrier in which the End User has a customer relationship with the carrier, contracts with the customer/End User to provide the services, and the customer/End User pays for the actual processing of the operator assisted calls.

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.

Usage Based Charges: Charges for minutes or messages traversing over local exchange facilities.

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

2.0 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 originating from points within the State of Arizona, and terminating within a local calling area as defined herein.

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

2.1.2 Shortage of Equipment or Facilities

A) 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 facilities the Company obtains from other carriers to furnish service from time to time as required at the sole discretion of the Company, in a non-discriminatory manner consistent with the authority as granted by the Commission.

2.0 REGULATIONS (cont'd)

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 thirty (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 tariff or other approved 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. Except as otherwise stated in the tariff, 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 thirty (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. 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.

E. This tariff shall be interpreted and governed by the laws of the State of Arizona without regard for its choice of laws provision.

F. The Company hereby reserves its rights to establish service packages specific to a particular Customer. These contracts may or may not be associated with volume and/or term discounts. All such offerings shall be consistent with the rates and conditions specified herein, or shall require approval of the Commission.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 Limitations on Liability

A. Except as otherwise stated in this section, the liability of the Company for damages arising out of either: (1) the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representatives, or use of these services or (2) the failure to furnish its service, whether caused by acts or omission, shall be limited to the extension of allowances to the Customer for interruptions in service as set forth in Section 2.6.

B. Except as specified in this tariff, Company and its contractors shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages of any kind or nature arising out of or in connection with the installation, use, repair, performance or removal of the equipment, or other services in connection with the performance or failure to perform its obligations, including, but not limited to, loss of revenue or profits, regardless of the foreseeability thereof for any reason whatsoever, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure in or breakdown of facilities associated with the service.

C. In cases where the Customer does not have alternative local exchange service available, the liability of the Company for failure to provide basic local exchange service within 30 calendar days of the service order due date shall be limited to a waiver of all installations charges and a credit to the Customer's account equal to the pro rata monthly local exchange charge for each day thereafter that service is not provided, plus, at the Customer's option, either (1) reimbursement not to exceed $150.00 per month for the Customer to obtain alternative service if unregulated or (2) provision of a regulated service alternative charging the Customer no more than the Company's tariff rate for basic local exchange service. See Section 2.1.6.

D. The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 Limitations on Liability (cont'd)

E. Company shall not have any liability for or be responsible for any losses, costs, expenses, claims, liabilities or damages resulting from the Customer's failure to timely comply with the requirements in Section 2.3.1 below regarding emergency 911 service; Company shall be indemnified by Customer from any losses, costs, expenses, claims, liabilities or damages, including, but not limited to, third party claims, resulting from customer's failure to comply with the requirements of Section 2.3.1.

F. Company shall have no responsibility or liability for responding to emergency 911 or other emergency referral calls. Company will make reasonable effort to determine the nearest public safety or law enforcement authorities and then route such calls to those authorities.

G. The Company shall not be liable for and shall be indemnified and saved harmless by the Customer from and against all loss, liability, damage and expense, due to:

1. Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services provided by the Company; or (c) common carriers or warehousemen, except as contracted by the Company;

2. Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;

3. Any unlawful or unauthorized use of the Company's services;

4. Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the material transmitted by means of Company-provided services; or by means of the combination of Company-provided facilities or services;

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 Limitations on Liability (cont'd)

G. (cont'd)

5. Changes in any of the operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in paragraph (A) of this Subsection 2.1.4.

6. Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises by the Company or nay other carrier, installation or removal thereof;

7. Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to the facilities of any other carrier;

8. Failure of Customer to comply with the requirements of Section 2.3.1.

9. Any noncompletion of calls due to network busy conditions;

10. Any calls not actually attempted to be completed during any period that service is unavailable;

11. And any other claim resulting from any act or omission of the Customer or patron(s) of the Customer relating to the use of the Company's services.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 Limitations on Liability (cont'd)

H. The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere.

I. 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.

J. Failure by the Company to assert its rights pursuant to one provision of this tariff does not preclude the Company from asserting its rights under other provisions.

K. Company shall not be liable to Customer or any other person, firm or entity for any failure of performance hereunder if such failure is due to any cause or causes beyond the reasonable control of Company. Such causes shall include, without limitation, acts of God, fire, explosion, vandalism, cable cut, storm or other similar occurrences, any law, order, regulation, direction, action or request of the United States government or of any other government (including state and local governments or of any department agency, board, court, bureau, corporation or other instrumentality of any one or more of said governments) or of any civil or military authority, national emergencies, insurrections, riots, wars, strikes, lockouts or work stoppages or other labor difficulties, supplier failures, shortages, breaches or delays.

If Company's failure of performance by reason of force majeure specified above shall be for thirty (30) days or less, then the service shall remain in effect, but an appropriate percentage of charges shall be abated and/or credited in the discretion and determination of Company; if for more than thirty (30) days, then the service may be canceled by either party without any liability.

2.0 REGULATIONS (cont'd)

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.

2.1.6 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.

Hazardous Or Inaccessible Locations
In areas the Company considers hazardous or inaccessible to its employees, the customer may be required to furnish, install and maintain the facilities or equipment. Such installations must meet Company specifications and the results which apply to customer-provided equipment.

2.1.7 Availability of Service

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 the tariffs of the Company.

B. The Company shall negotiate a mutually agreed to installation date based on availability of services and facilities and the Customer's requested date.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.8 Universal Emergency Telephone Number Service

A. This tariff does not provide for the inspection or constant monitoring of facilities to discover errors, defects or malfunctions in the service, nor does the Company undertake such responsibility.

B. 911 information consisting of the names, addresses and telephone numbers of all telephone customers is confidential. The Company will release such information via the Data Management System only after a 911 call has been received, on a call by call basis, only for the purpose of responding to an emergency call in progress.

C. The 911 calling party, by dialing 911, waives the privacy afforded by non-listed and non-published service to the extent that the telephone number, name, and address associated with the originating station location are furnished to the Public Safety Answering Point.

D. After the establishment of service, it is the Public Safety Agency's responsibility to continue to verify the accuracy of and to advise the Company of any changes as they occur in street names, establishment of new streets, changes in address numbers used on existing streets, closing and abandonment of streets, changes in police, fire, ambulance or other appropriate agencies' jurisdiction over any address, annexations and other changes in municipal and county boundaries, incorporation of new cities or any other similar matter that may affect the routing of 911 calls to the proper Public Safety Answering Point.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.8 Universal Emergency Telephone Number Service (cont'd)

E. The Company assumes no liability for any infringement, or invasion of any right of privacy or any person or persons caused, or claimed to be caused, directly or indirectly by the use of 911 Service. Under the terms of this tariff, the Public Safety Agency must agree, except where the events, incidents, or eventualities set forth in this sentence are the result of the Company's gross negligence or willful misconduct, to release, indemnify, defend and hold harmless the Company from any and all loss or claims whatsoever, whether suffered, made, instituted, or asserted by the Public Safety Agency or by any other party or person, for any personal injury to or death of any person or persons, or for any loss, damage, or destruction of any property, whether owned by the customer or others. Under the terms of this tariff, the Public Safety Agency must also agree to release, indemnify, defend and hold harmless the Company for any infringement of invasion of the right of privacy of any person or persons, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion, or use of 911 Service features and the equipment associated therewith, or by any services furnished by the Company in connection therewith, including, but not limited to, the identification of the telephone number, address, or name associated with the telephone used by the party or parties accessing 911 Service hereunder, and which arise out of the negligence or other wrongful act of the Public Safety Agency, its User, agencies or municipalities, or the employees or agents of any one of them, or which arise out of the negligence, other than gross negligence or willful misconduct, of the Company, its employees or agents.

2.0 REGULATIONS (cont'd)

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 the Commission's regulations, policies, orders, and decisions.

C. The Company may block any signals being transmitted over its Network by Customers which cause interference to the Company or other Users. Customer shall be relieved of all obligations to make payments for charges relating to any blocked service and shall indemnify the Company for any claim, judgment or liability resulting from such blockage.

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.

2.0 REGULATIONS (cont'd)

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. providing Company with the following information which is needed by Company in order to identify the source of certain emergency calls:

1. PBX Information. Customer shall provide Company with detailed information related to multi-location private branch exchanges (PBX) and one customer PBXs operating within the Customer's premises or otherwise connected to Company's telecommunication service through Customer. Such information shall include the End-User addresses corresponding to all telephone lines operating through the PBX and such other information, as requested by Company, which will enable Company to determine, in the event of an emergency 911 call routed through a PBX, the physical location from which the call was made. Customer shall continually update this information and shall immediately notify Company of any changes related to this information. Customer shall indemnify and hold Company harmless from any and all losses, damages, costs, expenses, claims, or liabilities resulting from the Customer's failure to immediately provide or update this information to Company, including, but not limited to, any and all losses, costs, expenses, claims, liabilities or damages, including third party claims, related to the failure to respond to an emergency 911 telephone call.

2. Automatic Number Identification. In addition to providing the information requested in the subsection above, Customer shall provide and continually update Company with the correct true automatic number identification (ANI) for each telephone line operating through a PBX on Customer's premises or otherwise connected to Company's telecommunication service(s) through Customer. Customer recognizes that it may be necessary to purchase and install additional equipment in order to provide the ANI information and that Customer is solely responsible for all costs and expenses related to this equipment. Customer shall indemnify and hold Company harmless from any and all losses, damages, costs, expenses, claims, or liabilities arising from the Customer's failure to immediately provide or update this information to Company, including, but not limited to, any and all losses, damages, costs, expenses, liabilities or claims, including third party claims, related to the failure to respond to an emergency 911 phone call.

2.0 REGULATIONS (cont'd)

2.3 Obligations of the Customer (cont'd)

2.3.2 Liability of the Customer

A. The Customer shall not assert any claim against any other Customer or User of the Company's services for damages resulting in whole or in part from or arising in connection with the furnishing of service under this tariff including but not limited to mistakes, omissions, interruptions, delays, errors or other defects or misrepresentations, whether or not such other Customer or User contributed in any way to the occurrence of the damages, unless such damages were caused solely by the negligent or intentional act or omission of the other Customer or User and not by any act or omission of the Company. Nothing in this tariff is intended either to limit or to expand Customer's right to assert any claims against third parties for damages of any nature other than those described in the preceding sentence.

2.4 Customer Deposits and Advance Payments

2.4.1 Advance Payments

To safeguard its interests, the Company may require a Business Customer to make an advance payment before services are furnished, where special construction is involved. The advance payment will not exceed an amount equal to the nonrecurring charge(s) and one (1) month's charges for the service or facilities. In addition, 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. Advance payments do not accrue interest. An advance payment may be required in addition to a deposit.

2.0 REGULATIONS (cont'd)

2.4 Customer Deposits and Advance Payments (cont'd)

2.4.2 Deposits:

A. To safeguard its interests, the Company may require the Customer to make a deposit to be held as a guarantee for the payment of charges. A deposit may be required if the customer's financial condition is not acceptable to the Company or cannot be ascertained from general accepted credit reporting sources. 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 two (2) month's charges for tariffed services or a maximum of $50.00 plus 30% of the monthly estimated charge for a specified customer or; two (2) month's charges for a service or facility which has a minimum payment period of one month.

B. In the event the deposit as computed under Section 2.4.2.A. above exceeds $75.00 per access line, the Customer shall pay one half of the deposit prior to the provision of service, with the remainder of the deposit due thirty (30) days after provision of the service.

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

D. The Company shall review accounts of Customers with deposits and shall refund deposits with interest if the accounts have been current for the preceding six (6) months.

E. Upon discontinuance of service, the Company, shall automatically refund the Customer's deposit plus accrued interest, or the balance, if any, in excess of the unpaid bills including any penalties assessed for service furnished by the Company.

2.0 REGULATIONS (cont'd)

2.4 Customer Deposits and Advance Payments (cont'd)

2.4.2 Deposits: (cont'd)

F. Deposits will accrue interest at the rate of 6.00% annually or the highest rate permitted by law.

G. The Company will assume the service obligation of the reseller under the terms, conditions, and rates of the facilities-based providers of local exchange telecommunications services, should the reseller be unable or unwilling to continue service provision.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements

2.5.1 Payment for Service

Customer shall pay the Company, monthly in advance (commencing the first month following the Service Commencement Date), a monthly charge equal to the rates set forth in the Section 6 or equal to the monthly charge as adjusted under the terms hereof, provided, however, that the first such payment shall be for the period from the Service Commencement Date through the end of the next full month and shall be due after the Service Commencement Date and then thirty (30) days following the date the billing statement was mailed to the Customer. The installation charges contained in the Section 6 are due with such first payment. Residential customers will be provided with the option of having installation charges prorated in four equal portions over four monthly billing periods. The Customer is responsible for the payment of all charges incurred by the Customer or other users for services furnished to the Customer by the Company. Billing for service will commence on the Service Commencement Date. The Customer must notify the Company of any errors or discrepancies in the billing statement within thirty (30) days of the date the billing statement was mailed to the Customer. Customer will be obligated to pay all charges shown on the billing statement if the Customer fails to provide such notice.

Taxes. The Customer is responsible for the payment of federal excise taxes, state and local sales and use excise or privilege taxes and similar taxes imposed by governmental jurisdictions, all of which shall be separately designated on the Company's invoices. Any taxes imposed by a local jurisdiction (e.g., county and municipal) will only be recovered from those Customers residing in the affected jurisdictions.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.1 Payment for Service (cont'd)

Universal Service Fund Surcharge

This surcharge relates to funding the Arizona Universal Service Fund (AUSF) and is in addition to the rates and charges for intraLATA MTS and local service set forth in this Tariff. If the Company determines it has collected its annually assessed amount prior to the end of the calendar year, it will suspend collection of these surcharges for the remainder of that year, subject to any subsequent adjustment necessitated by Commission order.

The surcharge amounts are per R-14-2-1206A. As the Arizona Corporation Commission issues orders which increase or decrease the requirement for AUSF funding, the amount(s) will be adjusted accordingly.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.2 Billing and Collection of Charges

A. **Non-recurring Charges (NRC)**: The non-recurring charges contained in the service description are due with the Customer's first payment for charges, which payment shall be for the period from the start of service through the end of the next full month. Non-recurring charges not included with installation charges are billed to the Customer, as set forth in Section 2.6.1, and shall be due and payable within thirty (30) days after the date the invoice is mailed to the Customer by the Company.

Customer shall be responsible to pay all of the Company's charges for time and material resulting from diagnosing problems which were caused by Customer's equipment.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.2 Billing and Collection of Charges (cont'd)

B. **Recurring Charges:** 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 thirty (30) days after the date the invoice is mailed to the Customer by the Company. When billing is based upon Customer usage, usage charges will be billed monthly for the preceding billing period.

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 thirty (30) days.

D. Billing of the Customer by the Company will begin on the Service Commencement Date, and 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 which are not immediately available upon presentment, then a late payment penalty shall be due to the Company. A late payment charge in the amount of the lesser of 12% of the unpaid balance per month or the maximum lawful rate per month, for bills not paid within thirty (30) days of receipt, is not applicable to subsequent rebilling of any amount to which a late payment charge has already been applied. Late payment charges are to be applied without discrimination.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.2 Billing and Collection of Charges (cont'd)

F. Customer's liability for charges hereunder shall not be reduced by untimely installation or non-operation of the Customer's or a third party's facilities and equipment.

G. The Customer shall notify the Company of any disputed items on an invoice within thirty (30) days of receipt of the invoice. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the Commission in accordance with the Commission's rules of procedure. The Company shall advise the Customer that the Customer may make a formal or informal complaint to the Commission. The address of the Commission is as follows:

Arizona Public Service Commission
1200 West Washington Street
Phoenix, Arizona 85007
tel. 602-542-2237
fax. 602-542-4111

H. If service is disconnected by the Company (in accordance with Section 2.5.3 following) and later re-installed, re-installation of service will be subject to all applicable installation charges. If service is suspended by the Company (in accordance with Section 2.5.3 following) and later restored, restoration of service will be subject to the rates in Section 7.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.3 Discontinuance of Service for Cause

A. Upon nonpayment of a delinquent account amounting to $25.00 or more owing to the Company, the Company may, by giving fifteen (15) business days prior written notice to the Customer, discontinue service without incurring any liability. The Company shall provide the customer with a written reminder notice five (5) days prior to and place a telephone call to the customer two (2) days prior to the discontinuance of service. Service may be reinstated at such time as Customer pays in full all arrearages, including late payment charges.

B. Upon violation of any of the other material terms or conditions of this tariff the Company may discontinue service without incurring any liability. Company shall give Customer fifteen (15) notice of discontinuance to give Customer an opportunity to arrange for an alternate service provider.

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.

D. Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may, by notice to the Customer, immediately discontinue or suspend service without incurring any liability.

E. Upon any governmental prohibition or governmental required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

2.0 **REGULATIONS** (cont'd)

2.5 **Payment Arrangements** (cont'd)

2.5.3 **Discontinuance of Service for Cause** (cont'd)

F. In the event of fraudulent use of the Company's network, the Company may without notice suspend or discontinue service. The Customer will be liable for all related costs. The Customer will also be responsible for payment of any reconnection charges.

G. Upon the Company's discontinuance of service to the Customer under Section 2.5.3(A) or 2.5.3(B), the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff, may declare all future monthly and other charges which would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent).

H. The Customer is responsible for providing adequate access lines to enable the Company to terminate all 800 Service calls to the Customer's telephone equipment. Should the Customer have insufficient access lines on which to terminate 800 Service calls, the Company reserves the right to request the Customer to add additional lines for call terminations. If, after ninety (90) days, the Customer has not made the requested change, the Company, without incurring any liability, reserves the right to terminate the Customer's 800 Service, with thirty (30) days written notice.

I. Full Toll Denial

When a customer fails to pay outstanding charges billed by the Company for MTS calls, including MTS provided by the Company and interexchange carriers, but excluding 900-type services, all MTS service (e.g., 0+, 1+ including 900-type services, all MTS services, 0- 10XXX), may be denied (Full Toll Denial), where Company facilities do not permit Full Toll Denial, the Company may deny all service.

Full Toll Denial includes the denial of third number billed, collect, and calling card calls. If the customer's primary exchange access line service remains connected, MTS will be reestablished only the payment of all outstanding MTS charges.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.4 Notice to Company for Cancellation of Service

Customers desiring to terminate service shall provide the Company thirty (30) days written notice of desire to terminate service.

2.5.5 Cancellation of Application for Service

A. Where the Company permits the 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 the Company incurred, 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 begun.

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, less net salvage, may apply. 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 2.5.5(A) through 2.5.5(C) will be calculated and applied on a case-by-case basis.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.6 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.

2.5.7 Bad Check Charge

A charge will be assessed for all checks returned by drawee bank or other financial institution for: Insufficient or uncollected funds, closed account, apparent tampering, missing signature or endorsement, or any other insufficiency or discrepancy necessitating return of the instrument at the discretion of the drawee bank or other financial institution.

Bad check charge is $25.00 per check plus any statutory remedy available to the Company.

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruptions in Service

2.6.1 General

A. A credit allowance will be given when service is interrupted, except as specified in Section 2.6.2 following. A service is interrupted when it becomes inoperative to the Customer, e.g., the Customer is unable to transmit or receive, because of a failure of a component furnished by the Company under this tariff.

B. An interruption period begins when the Customer reports a service, facility or circuit to be inoperative and, if necessary, releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.

C. If the Customer reports a service, facility or circuit to be interrupted but declines to release it for testing and repair, or refuses access to its premises for test and repair by the Company, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service, facility or circuit considered by the Company to be impaired.

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruption in Service (cont'd)

2.6.1 General (cont'd)

D. 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.

E. A credit allowance will be given for interruptions of thirty (30) minutes or more. Two or more interruptions of fifteen (15) minutes or more during any one 24-hour period shall be combined into one cumulative interruption. For calculating credit allowances, every month is considered to have thirty (30) days.

F. Interruptions of 24 Hours or Less

Length of Interruption	Interruption Period To Be Credited
30 minutes to 3 hours	1/10 Day
3 hours up to but not including 6 hours	1/4 Day
6 hours up to but not including 8 hours	3/4 Day
8 hours up to but not including 24 hours	One Day

G. Over 24 Hours and Less Than 72 Hours. Interruptions over 24 hours and less than 72 hours will be credited one day for each 8-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 thirty (30) days credit will be allowed for any one month period.

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruption in Service (cont'd)

2.6.2 Limitations of Allowances

No credit allowance will be made for any interruption in service:

A. Due to the negligence of or noncompliance with the provisions of this tariff by any person or entity other than the Company, including but not limited to the Customer;

B. Due to the failure of power, equipment, systems, connections or services not provided by the Company;

C. Due to circumstances or causes beyond the reasonable control of the Company;

D. During any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;

E. A service will not be deemed to be interrupted if a Customer continues to voluntarily make use of such service. If the service is interrupted, the Customer can get a service credit, use another means of communications provided by the Company (pursuant to Section 2.6.3), or utilize another service provider;

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruption in Service (cont'd)

2.6.2 Limitations of Allowances (cont'd)

F. 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;

G. That occurs or continues due to the Customer's failure to authorize replacement of any element of special construction; and

H. That was not reported to the Company within thirty (30) days of the date that service was affected.

2.6.3 Use of Another Means of Communications

If the Customer elects to use another means of communications during the period of interruption, the Customer must pay the charges for the alternative service used.

2.6.4 Application of Credits for Interruptions in Service

A. Credits for interruptions in service that is provided and billed on a flat rate basis for a minimum period of at least one month, beginning on the date that billing becomes effective, shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the period of service during which the event that gave rise to the claim for a credit occurred. A credit allowance 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.

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruption in Service (cont'd)

2.6.5 Cancellation For Service Interruption

The Customer may terminate for service interruption only if any circuit experiences a single continuous outage of eight (8) hours or more or cumulative service credits equaling sixteen (16) hours in a continuous twelve (12) month period. The right to cancel service under this provision applies only to the single circuit which has been subject to the outage or cumulative service credits.

2.7 Cancellation of Service/Termination Liability

If a Customer cancels a service order or terminates services before the completion of the term for any reason (i) other than a service interruption (as defined in Section 2.8.1) or (ii) where the Company breaches the terms in the service contract, Customer may be requested by the Company to pay to the Company termination liability charges, which are 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.

2.7.1 Termination Liability

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

1. all unpaid non-recurring charges reasonably expended by the Company to establish service to the Customer, including any installation charges which may have been waived by the Company, provided Customer has been notified of the amount of the waived charges and of Customer's liability therefore on cancellation, plus;

2.0 REGULATIONS (cont'd)

2.7 Cancellation of Service/Termination Liability (cont'd)

2.7.1 Termination Liability (cont'd)

2. Any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by Company on behalf of Customer, plus;

3. The difference between the total actual monthly recurring charges to Customer for the Service during the entire time the Service was provided to Customer and the total monthly recurring charges which Customer would have paid or which Customer would have been required to pay if the Service had been based on a month to month term using the Company's most recent tariff prices at the time of cancellation.

B. Either party shall have the right to cancel services without liability if Company is prohibited from furnishing the Service or if any material rate or term contained herein is substantially changed by order of the Commission, the Federal Communications Commissions, or highest court of competent jurisdiction to which the matter is appealed, or other local, state or federal government authority.

C. Customer shall also have the right to terminate this Agreement if the agreed Service is interrupted to Customer for over forty-eight (48) hours in any ninety (90) day period, provided the interruption was not caused by an event of force majeure, or any action of Customer or its agents or employees.

2.8 Customer Liability for Unauthorized Use of the Network

Unauthorized use of the network occurs when a person or entity that does not have actual, apparent, or implied authority to use the network, obtains the Company's services provided under this tariff.

2.0 REGULATIONS (cont'd)

2.8 Customer Liability for Unauthorized Use of the Network (cont'd)

2.8.1 Customer Liability for Fraud and Unauthorized Use of the Network

A. The Customer is liable for the unauthorized use of the network obtained through the fraudulent use of a Company calling card, if such a card is offered by the Company, or an accepted credit card, provided that the unauthorized use occurs before the Company has been notified.

B. A Company calling card is a telephone calling card issued by the Company at the Customer's request, which enables the Customer or User(s) authorized by the Customer to place calls over the Network and to have the charges for such calls billed to the Customer's account.

An accepted credit card is any credit card that a cardholder has requested or applied for and received, or has signed, used, or authorized another person to use to obtain credit. Any credit card issued as a renewal or substitute in accordance with this paragraph is an accepted credit card when received by the cardholder.

C. The Customer must give the Company written or oral notice that an unauthorized use of a Company calling card or an accepted credit card has occurred or may occur as a result of loss, and/or theft.

2.0 REGULATIONS (cont'd)

2.8 Customer Liability for Unauthorized Use of the Network (cont'd)

2.8.1 Customer Liability for Fraud and Unauthorized Use of the Network (cont'd)

D. The Customer is responsible for payment of all charges for calling card services furnished to the Customer or to Users authorized by the Customer to use service provided under this tariff, unless due to the negligence of the Company. This responsibility is not changed due to any use, misuse, or abuse of the Customer's service or Customer-provided equipment by third parties, the Customer's employees, or the public.

The liability of the Customer for unauthorized use of the Network by credit card fraud will not exceed the lesser of fifty dollars ($50.00) or the amount of money, property, labor, or services obtained by the unauthorized User before notification to the Company.

2.0 REGULATIONS (cont'd)

2.9 Use of Customer's Service by Others

2.9.1 Resale and Sharing

Any service provided under this tariff may be resold to or shared with other persons at the option of Customer, subject to compliance with any applicable laws or 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.

2.9.2 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 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.

2.0 REGULATIONS (cont'd)

2.10 Telephone Relay Service for the Hearing Impaired

A. Residential impaired customers or impaired members of a customer's household, upon written application and upon certification of their impaired status, which is evidenced by either a certificate from a physician, health care official, or state agency, or a diploma from an accredited educational institution for the impaired, may receive a discount off their message toll service rates, and, if they utilize telebraille devices, they may receive free access to local and intrastate long distance directory assistance. Additionally, TDD lines maintained by nonprofit organizations and governmental agencies, upon written application and verification that such lines are maintained for the benefit of the impaired may receive a discount off their message toll service rates.

B. Upon receipt of the appropriate application, and certification or verification, the following discounts off basic message toll service shall be made available for the benefit of the impaired: the evening discount off the intrastate, interexchange, customer-dialed, station to station calls originating 8:00a.m. to 4:59p.m. Monday through Friday; the night/weekend discount off the intrastate, interexchange, customer-dialed, station to station calls originating 5:00p.m. to 10:59p.m. Sunday through Friday, and New Year's Day, Independence Day, Labor Day, Thanksgiving, and Christmas.

2.0 REGULATIONS (cont'd)

2.11 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.

2.0 REGULATIONS (cont'd)

2.12 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 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. Except as otherwise stated in this tariff, 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.

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.

3.0 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 Usage Based Charges

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:

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

3.2.2 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.

3.2.3 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.

3.2.4 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.

3.2.5 All times refer to local time.

3.0 APPLICATION OF RATES (cont'd)

3.3 Rates Based Upon Distance

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

3.3.1 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 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.

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

A. Obtain the V (vertical) and H (horizontal) coordinates for each Rate Center from the above-referenced Bellcore document.

B. Compute the difference between the V coordinates of the two rate centers; and the difference between the two H coordinates.

C. Square each difference obtained in step (b) above.

D. Add the square of the V difference and the square of the H difference obtained in step C above.

E. Divide the sum of the squares by 10.

F. 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.

3.0 APPLICATION OF RATES (cont'd)

3.3 Rates Based Upon Distance (cont'd)

3.3.2 The airline distance between any two rate centers is determined as follows: (cont'd)

G. FORMULA:

$$\sqrt{[(V_1 - V_2)^2 + (H_1 - H_2)^2]/10}$$

4.0 SERVICE AREAS

4.1 Exchange Areas

The Company develops exchange service areas to establish service within a defined geographical area.

4.2 List Of U.S. West Exchange Areas And Local Calling Areas:

EXCHANGE AREA	EXCHANGE AREA INCLUDED IN THE LOCAL CALLING AREA
Agua Fria	Agua Fria, Black Canyon, Buckeye, Cave Creek, Circle City, Deer Valley, Fort McDowell, Higley, New River, Paradise Valley, Phoenix Metropolitan Exchange and Superstition
Ash Fork	Ash Fork, Cameron, Flagstaff, Munds Park and Williams
Bisbee	Bisbee, Douglas, Sierra Vista, Tombstone and (Elfrida)[1]
Black Canyon	Black Canyon, Agua Fria, Buckeye, Cave Creek, Circle City, Deer Valley, Fort McDowell, Higley, New River, Paradise Valley, Phoenix Metropolitan Exchange and Superstition
Buckeye	Buckeye, Agua Fria, Black Canyon, Cave Creek, Circle City, Deer Valley, Fort McDowell, Higley, New River, Paradise Valley, Phoenix Metropolitan Exchange and Superstition
Cameron	Cameron, Ash Fork, Flagstaff, Munds Park and Williams
Camp Verde	Camp Verde, Cottonwood and Sedona
Casa Grande	Casa Grande, Coolidge, Eloy, Florence and Maricopa

[1] () denotes other company exchanges.

4.0 SERVICE AREAS (cont'd)

4.2 LIST OF U.S. WEST EXCHANGE AREAS AND LOCAL CALLING AREAS: (cont'd)

EXCHANGE AREA	EXCHANGE AREA INCLUDED IN THE LOCAL CALLING AREA
Cave Creek	Cave Creek, Agua Fria, Black Canyon, Buckeye, Circle City, Deer Valley, Fort McDowell, Higley, New River, Paradise Valley, Phoenix Metropolitan Exchange and Superstition
Chino Valley	Chino Valley, Humboldt and Prescott
Circle City	Circle City, Agua Fria, Black Canyon, Buckeye, Cave Creek, Deer Valley, Fort McDowell, Higley, New River, Paradise Valley, Phoenix Metropolitan Exchange and Superstition
Coolidge	Coolidge, Casa Grande, Eloy, Florence and Maricopa
Coronado	Coronado, Green Valley, Marana, Robles, Tubac, Tucson and Vail
Cottonwood	Cottonwood, Camp Verde and Sedona
Deer Valley	Deer Valley, Agua Fria, Black Canyon, Buckeye, Cave Creek, Circle City, Fort McDowell, Higley, New River, Paradise Valley, Phoenix Metropolitan Exchange and Superstition
Douglas	Douglas, Bisbee, Sierra Vista, Tombstone and (Elfrida)[1]
Eloy	Eloy, Casa Grande, Coolidge, Florence and Maricopa

[1] () denotes other company exchanges.

4.0 SERVICE AREAS (cont'd)

4.2 LIST OF U.S. WEST EXCHANGE AREAS AND LOCAL CALLING AREAS: (cont'd)

EXCHANGE AREA	EXCHANGE AREA INCLUDED IN THE LOCAL CALLING AREA
Flagstaff	Flagstaff, Ash Fork, Cameron, Munds Park and Williams
Florence	Florence, Casa Grande, Coolidge, Eloy and Maricopa
Fort McDowell	Fort McDowell, Agua Fria, Black Canyon, Buckeye, Cave Creek, Circle City, Deer Valley, Higley, New River, Paradise Valley, Phoenix Metropolitan Exchange and Superstition
Globe	Globe, Miami and (San Carlos)[1]
Green Valley	Green Valley, Coronado, Marana, Robles, Tubac, Tucson and Vail
Higley	Higley, Agua Fria, Black Canyon, Buckeye, Cave Creek, Circle City, Deer Valley, Fort McDowell, New River, Paradise Valley, Phoenix Metropolitan Exchange and Superstition
Humboldt	Humboldt, Chino Valley and Prescott Joseph City and Winslow
Joseph City	Joseph City and Winslow

[1] () denotes other company exchanges.

4.0 SERVICE AREAS (cont'd)

4.2 LIST OF U.S. WEST EXCHANGE AREAS AND LOCAL CALLING AREAS: (cont'd)

EXCHANGE AREA	EXCHANGE AREA INCLUDED IN THE LOCAL CALLING AREA
Marana	Marana, Coronado, Green Valley, Robles, Tubac, Tucson and Vail
Maricopa	Maricopa, Casa Grande, Coolidge, Eloy, and Florence
Miami	Miami, Globe and (San Carlos)[1]
Munds Park	Munds Park, Ash Fork, Cameron, Flagstaff and Williams
New River	New River, Agua Fria, Black Canyon, Buckeye, Cave Creek, Circle City, Deer Valley, Fort McDowell, Higley, Paradise Valley, Phoenix Metropolitan Exchange and Superstition
Nogales	Nogales and Patagonia
Paradise Valley	Paradise Valley, Agua Fria, Black Canyon, Buckeye, Cave Creek, Circle City, Deer Valley, Fort McDowell, Higley, New River, Phoenix Metropolitan Exchange and Superstition

[1] () denotes other company exchanges.

4.0 SERVICE AREAS (cont'd)

4.2 LIST OF U.S. WEST EXCHANGE AREAS AND LOCAL CALLING AREAS: (cont'd)

EXCHANGE AREA	EXCHANGE AREA INCLUDED IN THE LOCAL CALLING AREA
Patagonia	Patagonia and Nogales
Phoenix Metropolitan	Phoenix Metropolitan Exchange, Agua Fria, Black Canyon, Buckeye, Cave Creek, Circle City, Deer Valley, Fort McDowell, Higley, New River, Paradise Valley and Superstition
Pima	Pima and Safford
Prescott	Prescott, Chino Valley and Humboldt
Robles	Robles, Coronado, Green Valley, Marana, Tubac, Tucson and Vail
Safford	Safford and Pima
Sedona	Sedona, Camp Verde and Cottonwood
Sierra Vista	Sierra Vista, Bisbee, Douglas, Tombstone and (Elfrida)[1]
Superstition	Superstition, Agua Fria, Black Canyon, Buckeye, Cave Creek, Circle City, Deer Valley, Fort McDowell, Higley, New River, Paradise Valley and Phoenix Metropolitan Exchange
Tombstone	Tombstone, Bisbee, Douglas, Sierra Vista and (Elfrida)[1]
Tubac	Tubac, Coronado, Green Valley, Marana, Robles, Tucson and Vail

[1] () denotes other company exchanges.

4.0 SERVICE AREAS (cont'd)

4.2 LIST OF U.S. WEST EXCHANGE AREAS AND LOCAL CALLING AREAS: (cont'd)

EXCHANGE AREA	EXCHANGE AREA INCLUDED IN THE LOCAL CALLING AREA
Tucson	Tucson, Coronado, Green Valley, Marana, Robles, Tubac and Vail
Vail	Vail, Coronado, Green Valley, Marana, Robles Tubac and Tucson
Wellton	Wellton and Yuma
Wickenburg	Wickenburg, Yarnell and (Aguila)[1]
Williams	Williams, Ash Fork, Cameron, Flagstaff and Munds Park
Winslow	Winslow and Joseph City
Yarnell	Yarnell, Wickenburg and (Aguila)[1]
Yuma	Yuma and Wellton

5.0 SERVICE DESCRIPTIONS

5.1 Service Offerings

The following Company Services for business Customers and for carriers certificated by the Commission are offered in this tariff:

Standard Business Line
Single and Multiple Analog PBX Trunk
Direct Inward Dial (DID)
Digital Voice Grade DS-1 Trunk Service
Integrated Services Digital Network (ISDN) Primary Rate Interface (PRI)
Directory Assistance
Operator Service
Local Calling Service
Message Telecommunications Service
Custom Calling Features
Trunk Side Features
Main Number Retention
Non Published Service
Blocking/Unblocking
Personalized Telephone Number
Service Order and Service Change Charges
Maintenance Visit Charges
Directory Listings
Emergency Services Calling

All services offered in this tariff are subject to service order and service change charges where the Customer requests new services or changes in existing services, as well as indicated Non-Recurring and Monthly Recurring Charges. Charges for Local Calling Service and Measured Telecommunications Service are assessed on a measured rate basis and are additional to the charges shown for Standard Business Line, Key System Line, Basic PBX Trunk and PBX Trunk Service - Digital/DS-1, as are other service charges.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.2 Standard Business Line

The Standard Business Line provides a Customer with a single, analog, voice-grade telephonic communications channel which can be used to place or receive one call at a time. Standard Business Lines are provided for the connection of Customer-provided wiring and single station sets or facsimile machines.

5.3 Single and Multiple Analog PBX Trunk

Basic PBX Trunk Service provides a Customer with a single, voice-grade telephonic communications channel which 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 PBX Trunk is provided with touch tone signaling and may be configured into a hunt group with other Company-provided Basic PBX Trunks. The signal is an analog signal at the DSO level.

Basic Trunks may be equipped with Direct Inward Dialing (DID) capability and DID number blocks for additional charges.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.4 Digital Voice Grade DS-1 Trunk Service

Digital Voice Grade DS-1 Trunk Service provides business Customers with PBX or PBX-like equipment or other telephonic equipment with access to switch port. Customers can purchase this capability for both primary service (listed directory number) and diversity purposes. Customers must have the ability to terminate DS-1 signal. The signal is delivered as a digital signal at the DS-1 level.

The connection to the Customer's equipment is accomplished using a DS-1 for digital connectivity.

Customers can subscribe to PBX Trunk Service - Digital/DS-1 for local telecommunications services. Customers can also use this service for intraLATA and interLATA toll calling capability and for access to long distance carriers.

DID trunk signaling enables a PBX to switch an incoming call directly to the intended extension number without the need for an attendant. PBX Trunk Service - Digital/DS-1 includes access to 911 service.

5.5 Directory Assistance

Provides for identification of telephone directory numbers, via an operator or automated platform. Customers are provided with a maximum of 2 listings per each call to Directory Assistance.

5.6 Operator Service

Provides for live or automated operator treatment when Customer dials A0". Services include, but are not limited to, bill to originating telephone number, calling card, collect or to a third party.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.7 Local Calling Service

This service provides for local calling service determined by NXX in a from and to grouping based on the listings in Section 4.1

Business calls are billed at either a flat per call rate or at a measured rate of six (6) second increments with an initial billing period of eighteen (18) seconds.

At the time the Company offers, residential calls are billed at one of three options:

1. Unlimited free usage
2. Limited free calls and flat rate per call excess
3. Measured rate of one (1) minute increment with one (1) minute initial billing period

5.8 Message Telecommunications Service (MTS)

Message Telecommunications Service is a communications service which is available for use by Customers twenty-four (24) hours a day. MTS enables a User of an exchange access line to place calls to any station on the public switched telecommunications network bearing an NPA-NXX designation associated with points outside the Customer's Local Calling Area, but within the boundaries of the state of Arizona.

Each MTS call is billed in 6 second increments after an initial billing period of 6 seconds. At the completion of each Billing Period, the total number of minutes will be rounded to the nearest minute. Fractional cents will be rounded to nearest cent.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.9 Custom Calling Features

Call Waiting: Permits the end-user engaged in a call to receive a tone signal indicating a second call is waiting; and, by operation of the switch hook, to place the first call on hold and answer the waiting call. The Customer may alternate between the two calls by operation of the switch hook, but a three-way conference call cannot be established.

Three Way Calling: Permits the end-user to add a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The end-user initiating the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. The feature may be used on both outgoing and incoming calls.

Call Forwarding: Permits the end-user to automatically forward (transfer) all incoming calls to an end-user designated telephone number, and permits the end-user to restore incoming calls to non Call Forwarding operation.

Missed Call Dialing: Allows the Customer to return a call to the last incoming call whether the Customer answered the call or not. Upon activation, Miss Call Dialing will re-dial the number automatically and continue to check the number every 45 seconds for up to 30 minutes if the number is busy. The Customer is alerted with a distinctive ringing pattern when the busy number is free. When the Customer answers the ring, the call is then completed. The calling party's number will not be delivered or announced to the call recipient under any circumstances.

Busy Number Re-dial: This feature automatically redials another parties phone number after the Customer's first attempt to connect to that number resulted in a busy signal. The line is checked every 45 seconds for up to 30 minutes and alerts the Customer with a distinctive ringing pattern when the busy number and the Customer's line are free. The Customer can continue to make and receive other calls while the feature is activated.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.9 Custom Calling Features (cont'd)

Call Forwarding Busy: Permits the forwarding of incoming calls when the end-user's line is busy. The forwarded number is fixed by the end-user's service order.

Call Forwarding No Answer: Permits the forwarding of incoming calls when the end-user's line remains unanswered after end user designated number of rings. The number of rings and the forwarded number are fixed by the Customer service order.

Call Forwarding Selective: Permits the end-user to automatically forward (transfer) calls from up to ten end-user pre-selected number to another telephone number and to restore it to normal operation at their discretion. Call Forwarding Selective can be used in conjunction with Call Forwarding.

Speed Calling (8 or 30): Permits the Customer to place calls to other telephone numbers by dialing a one- or two-digit code rather than complete telephone numbers. The feature is available as an eight code list or a thirty code list. Either code list may include local and/or toll telephone numbers. To establish or change a telephone number in a code list, the Customer dials an activating code, receives a second dial tone and dials either a one- or two-digit code (for the eight code and thirty code lists, respectively) plus the telephone number.

Call Screening: Allows the end-user to automatically block incoming calls from up to ten Customer pre-selected telephone numbers (including numbers from which a Customer has just received a call. The list of numbers can be changed at any time. Callers whose numbers have been blocked will hear a recorded message and no usage charges will apply. The calling party's number will not be delivered or announced to the call recipient under any circumstances.

Remote Call Forwarding: Permits calls made to one end-user phone number to be forwarded to another end-user phone number served by a different phone company end-office.

Basic Caller ID: Allows the number of the calling party to be passed from the telephone company to your telephone between the first and second ring signalling an incoming telephone call.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.10 Trunk Side Features

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

5.11 Main Number Retention

Main Number Retention is an optional feature by which a Customer, who was formally a Customer of another certified 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 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.

5.12 Non Published Service

This service provides for suppression of printed and recorded directory listings.

5.13 Personalized Telephone Number

Personalized Telephone Number 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 Services. This service provides for the assignment of a Customer requested telephone number other than the next available number from the assignment control list.

Personalized Telephone Number is furnished subject to the availability of facilities and the requirements of Exchange Service as defined by the Company. The Company reserves all rights to the Personalized Telephone Numbers assigned to Customer's and may, therefore, change them if required.

Monthly recurring charges apply per Personalized Telephone Number.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.14 Service Order and Service Change Charges

Non-recurring charges apply to processing Service Orders for new service, for changes in service, and for changes in the Customer's PIC code.

5.15 Maintenance Visit Charges

Maintenance Visit Charges apply when the Company dispatches personnel to a Customer's premises to perform work necessary for resolving troubles reported by the Customer and the trouble is found to be caused by the Customer's facilities.

Maintenance Visit Charges will be credited to the Customer's account in the event trouble is not found in the Company facilities, but the trouble is later determined to be in facilities.

The time period for which the Maintenance Visit Charges is applied will commence when Company personnel are dispatched at the Customer premises and end when work is completed. The rates for Maintenance of Service vary by time per Customer request.

5.16 Directory Listings

For each Customer of Company-provided Exchange Service(s), the Company shall arrange for the listing of the Customer's main billing telephone number 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 for an additional charge.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.17 Emergency Services Calling Plan

Access (at no additional charge) to emergency services by dialing 0 - or 9-1-1.

Message toll telephone calls, to governmental emergency service agencies as set forth in (a) following, having primary or principal responsibility with respect to the provision of emergency services to person and property in the area from which the call is made, meeting the definition and criteria of an emergency call as set forth in (b) following: are offered at no charge to Customers:

a) Governmental fire fighting, Arizona State Highway Patrol, police, and emergency squad service (as designated by the appropriate governmental agency) qualify as governmental emergency service agencies provided they answer emergency service calls on a personally attended (live) twenty-four (24) hour basis, three hundred sixty-five (365) days a year, including holidays.

b) An emergency is an occurrence or set of circumstances in which conditions pose immediate threat to human life, property, or both and necessitate that prompt action be taken. An emergency call is an originated call of short duration to a governmental emergency services agency in order to seek assistance for such an emergency.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.18 Integrated Services Digital Network (ISDN) Primary Rate Interface (PRI)

Integrated Services Digital Network (ISDN) is a set of transmission protocols that provides end-to-end digital connectivity and integration of voice, data and video, on a single Customer loop to support a wide variety of services via the public switched network. The Primary Rate Interface (PRI) consists of a 23B+D configuration with 23 64Kbps Bearer (B) digital channels and one 64Kbps Data (D) digital channel. The B channels are designed for voice, data, image and sound transmissions. B channels can support synchronous, asynchronous or isochronous services at rates up to 64Kbps. B channels can be aggregated for higher bandwidth applications. The D channel PRI provides the out of band signaling, call control and messaging.

PRI is provided through standard four wire DS-1 (1.544Mbps) point to point, private line facilities that enables Customer control of the 24 individual channels. PRI supports 1+, 0+, 7 digit, and 10 digit IntraLATA and InterLATA services, as well as 01+ and 011+ international calling. PRI allows Customers to direct InterLATA voice, data and video over the Public Switched Telephone Network to the pre-subscribed IXC carrier of their choice, as well as 10XXX casual dialing. PRI also allows access to Public Switched Company services, such as Two-Way, Incoming Only, Outgoing Only, and DID.

Multiple PRI interfaces can be combined to function as one group. Utilizing a Backup D Channel arrangement, Customers are able to link up to 20 DS-1s together, providing a maximum of 479 64Kbps B channels controlled by a single D (signaling) channel.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.19 Calling Card Services

The Company's Calling Card Services are offered to Customers of its local exchange (dial tone) services, such as Standard Business Line, and PBX Trunk Service.

A Customer must complete and sign a contract (Agreement) form signifying the Customer's agreement to pay for such Calling Card Services pursuant to the rates set forth herein.

There is a 30-second minimum charge per Calling Card call. Each call is rounded up to the nearest 6 seconds after the first 30 seconds.

The Company's Calling Card Services are accessed by dialing a toll-free number and entering the Calling Card Number (area code, phone number, and PIN).

5.20 Direct Inward Dial (DID)

The Company's Direct Inward Dial Service offers the ability for a caller outside a company to call an internal extension without having to pass through an attendant.

5.21 Touch Tone

A way of signaling consisting of a push button or touchtone dial that sends out a sound which consists of two discrete tones (one low frequency and one high frequency), picked up and interpreted by telephone switches.

6.0 NETWORK SERVICES

[RESERVED FOR FUTURE USE]

7.0 RESOLD SERVICES - RETAIL PRICE LIST

7.1 General

Services provided in this tariff section are available on a resold basis. Resold Services are provided through the use of resold switching and transport facilities obtained from Other Telephone Companies.

The rates, terms and conditions set forth in this section are applicable where the Company provides specified local exchange services to Customers through resale of US West local exchange services. The rates, terms and conditions set forth in this Section are not applicable to the Company's provision of service within the service area of any other incumbent local exchange carrier or where the Company provides service, in whole or in part, over its own facilities (On-Net). The rates, terms and conditions set forth in this Section are available on a retail basis only and will not be provided for resale to any other carrier.

All rates set forth in this Section are subject to change and may be changed by the Company pursuant to notice requirements established by the Commission. The rates, terms and conditions set forth in this Section are applicable as of the effective date hereof and will not apply to any Customer whose services may have been provisioned through resale of US West's local exchange services, in whole or in part, prior to the effective date hereof.

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.2 Business Lines and Trunks

7.2.1 Local Service Increments

7.2.1.1 Exchange Zone Increments

A) The increment shown below is applicable to exchange service furnished within exchange zones and is in addition to the local exchange service rates specified in.

B) Monthly Increment Per Access Line

EXCHANGE ZONE NUMBER	EXCHANGE ZONE INCREMENT	MAX. EXCHANGE ZONE INCREMENT
1	$0.91	$3.00
2	2.73	7.00

7.2.1.2 MAPS

Maps, indicating each exchange area within the Company's operating territory, are found in U.S. West's Arizona Tariffs.

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.2 Business Lines and Trunks (cont'd)

7.2.2 Local Exchange Service

7.2.2.1 Standard Business Line

	Monthly Rate	Maximum Rate
Measured Service	$13.97	$35.00
Flat Rate Service	$15.86	$40.00

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.2 Business Lines and Trunks (cont'd)

7.2.3 Private Branch Exchange (PBX)

7.2.3.1 PBX Analog Trunks

	NRC	MAX. NRC	MONTHLY RATE	MAX. MRC
-2-Way, 1-Way out, 1-Way in, 1-Way in with hunting for DID	$56.00	$140.00	$ 35.04	$ 88.00

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.2 Business Lines and Trunks (cont'd)

7.2.4 Digital PBX Trunks

Digital Port Charges:	**Monthly Recurring**	**Maximum MRC**
	$142.50	$356.00
	Non-Recurring:	**Maximum NRC**
First Trunk - Installation	$1,050.00	$2500.00
Additional Trunks (same occasion)	$1,050.00	$2500.00

Digital Transport Charges:	**Monthly Recurring**	**Maximum MRC**
	$342.00	$855.00
	Non-Recurring:	**Maximum NRC**
Installation Charge	$1,025.00	$2563.00

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.2 Business Lines and Trunks (cont'd)

7.2.5 Integrated Services Digital Network (ISDN) Primary Rate Interface (PRI)

	MONTHLY RATE	MAX. MRC
1ST PRI		
Term Plan:		
Month to Month	$864.50	$2,162.00
12 Months	850.85	2,128.00
24 Months	837.20	2,093.00
36 Months	800.80	2,002.00
48 Months	764.40	1,911.00
60 Months	728.00	1,820.00
2ND PRI		
Term Plan:		
Month to Month	773.50	1,934.00
12 Months	759.85	1,900.00
24 Months	746.20	1,866.00
36 Months	709.80	1,775.00
48 Months	673.40	1,684.00
60 Months	637.00	1,593.00
3RD PRI		
Term Plan:		
Month to Month	728.00	1,820.00
12 Months	714.35	1,786.00
24 Months	700.70	1,752.00
36 Months	664.30	1,661.00
48 Months	627.90	1,570.00
60 Months	591.50	1,479.00

*ISDN PRI Monthly Recurring Charges are in addition to the Digital T1 Facility Monthly Recurring Charges listed in Section 7.2.5 of this tariff.

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.2 Business Lines and Trunks (cont'd)

7.2.5 Integrated Services Digital Network (ISDN) Primary Rate Interface (PRI)

ISDN PRI Installation Charge:
$1,500.00/T1 Facility

Maximum ISDN PRI Installation Charge:
$3,750.00/T1 Facility

Term Plan Price Standard Features Include:

- · 23B+D
- · 24B; Requires purchase of one 23B+D
- · "D" Channel Control of Multiple ISDN Primes
- · 64 Clear Channel Capability
- · Direct Inward Dialing
- · Dedicated Trunk Groups

Digital DS-1 Trunk is an additional fee.
(Refer to Digital DS-1 Trunk Pricing for Dialtone located in Section 7.2 of this tariff.)

ISDN PRI Optional Features:
(One per Prime)

	MONTHLY RATE	MAX. MRC
23B with "D" Channel Backup		
Term Plan:		
Month to Month	$273.00	$683.00
12 Months	271.18	678.00
24 Months	269.36	674.00
36 Months	267.54	669.00
48 Months	265.72	665.00
60 Months	263.90	660.00

Installation Charge:
$550.00

Maximum Installation Charge:
$1,375.00

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.3 Direct Inward Dial Service (DID)*

	MONTHLY RECURRING CHARGE	**MAX. MRC**
DID Circuit Termination Charge	$5.00	$12.00
1st Block of 20 DID Numbers	2.73	10.00
Additional Blocks of 20 DID Numbers	2.50	10.00
Additional Blocks of 20 DID Numbers over 100	2.28	10.00

	Non-Recurring DID Installation Charges	**Max. NRC Installation Charges**
DID Circuit Termination Charge	$15.62	$50.00
1st Block of 20 DID Numbers - per occasion	20.00	50.00
Additional Blocks of 20 DID Numbers (same occasion)	20.00	50.00
Additional Blocks of 20 DID Numbers over 100	20.00	50.00

*DID Equipped Line/Trunk MRCs are in addition to the PBX Trunk MRCs. In addition, the Customer will be charged for the number of DID Number Blocks (20 numbers per block) regardless of the number of DID numbers utilized out of the available 20 numbers.

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.4 Directory Assistance

7.4.1 Charges

	CHARGE	MAXIMUM CHARGE
Per call	$ 0.43	$ 2.00
-Each call connected by a Company operator	$ 1.37	$ 4.00

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.5 IntraLATA Toll Services

7.5.1 Operator Services

	CHARGE	MAXIMUM CHARGE
• Customer-Dialed Calling Card (Mechanized)	$0.46	$2.00
• Customer-Dialed Calling Card (Operator-Assisted)	0.77	2.00
• Operator-Assisted Station-to-Station	1.18	3.00
• Operator-Assisted Person-to-Person	3.19	8.00

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.5 IntraLATA Toll Services (cont'd)

7.5.2 Message Telecommunication Service (cont'd)

7.5.2.1 Rates and Charges

B) MTS Charges

• **BUSINESS** - Applies to customer-dialed station-to-station calls

	CHARGE	MAXIMUM CHARGE
DAY RATE PER MINUTE	$0.2725	$1.00
EVENING/NIGHT/WEEKEND RATE PER MINUTE	$0.2002	1.00

7.5.2.2 Charge Determination

The following table indicates the appropriate times for the two rate periods.

	MON	TUE	WED	THU	FRI	SAT	SUN
8:00 AM to 5:00PM	Day Rate Period Full Rate						
5:00 PM to 8:00 AM	Evening/Night/Weekend Rate Period						

The evening/night/weekend rate applies to the holidays listed below unless a lower rate applies:

• New Year's Day	January 1
• Independence Day	July 4
• Labor Day	–
• Thanksgiving Day	–
• Christmas Day	December 25

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.6 Features

7.6.1 Custom Calling Features

7.6.1.1 Rates and Charges

The following nonrecurring charge applies per line, per customer request to establish or change one or more custom calling features. The nonrecurring charge will not apply to discontinue all custom calling features. Monthly rate does not apply to customers using the service on a per activation basis.

	MONTHLY RATE	MAX. MRC
Call Forwarding	2.73	7.00
- Busy	2.73	7.00
- Don't Answer	3.64	10.00
Caller Identification - Number	6.83	18.00
Call Waiting	2.73	7.00
Missed Call Dialing	2.73	7.00
Selective Call Forwarding	3.19	8.00
Speed Calling, 8-number capacity	2.73	7.00
Speed Calling, 30-number capacity	4.10	11.00
Three-Way Calling	3.64	10.00
	NRC	**MAX. NRC**
Nonrecurring charge for Custom Calling Services	$ 8.50	$ 21.25

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.6 Features (cont'd)

7.6.1 Custom Calling Features (cont'd)

7.6.1.1 Rates and Charges (cont'd)

	CHARGE	MAX. CHARGE
• Usage Basis Missed Call Dialing, per activation [1]	0.68	2.00
• Usage Basis Three-Way Calling, per activation[1]	0.68	2.00

[1] Monthly rate does not apply to customers using the service on a per activation basis.

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.7 Remote Call Forwarding

The Customer is responsible for any applicable local usage charges as described in applicable tariffs on file with the F.C.C. or the Commission.

	Non-Recurring	Maximum NRC	Monthly Recurring	Maximum MRC
Per Arrangement	$30.00	$75.00	$17.29	$44.00

7.0 RESOLD SERVICES - RETAIL PRICE LIST (cont'd)

7.8 Maintenance Visit Charges

Duration of time, per technician

Charge per 1st 1/4 hour	MAX. per 1st 1/4 hour
$25.00	$62.50
Charge each additional 1/4 hour	MAX.each additional 1/4 hour
$25.00	$62.50

8.0 MISCELLANEOUS SERVICES

8.1 Busy Line Verify and Line Interrupt Service

8.1.1 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.

8.1.2 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. A separate charge will apply for both verification and interruption.

8.0 MISCELLANEOUS SERVICES (cont'd.)

8.1 Busy Line Verify and Interrupt Services (cont'd.)

8.1.2 Regulations (cont'd.)

B) No charge will apply when:

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

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

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

8.1.3 Rates

	CHARGE	MAXIMUM CHARGE
Call Processing		
Verification, per request	$0.91	$3.00
Interrupt, per request	1.82	5.00

8.0 MISCELLANEOUS SERVICES (cont'd.)

8.2 Restoration of Service

8.2.1 Description

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

8.2.2 Rates

	Non-Recurring Charge	Maximum Non-Recurring Charge
Per occasion	10% outstanding balance but not less than $50.00	30% of outstanding balance but not less than $500.00

8.2.3 PBX Trunks

	Non-Recurring Charge	Maximum Non-Recurring Charge
Per PBX Trunk	$ 32.50	$ 81.25

8.2.4 Nonrecurring Charges

	Installation Charge:	Maximum Installation Charge:
Additions, Deletions, Rearrangements & Changes of one or more Trunks to existing Trunk Groups: Per Interface, Occasion or Trunk Group	$50.00	$125.00

8.2.5 PIC Charges

Non-Recurring Charge	Maximum Non-Recurring Charge
$ 2.75	$ 10.00

9.0 SPECIAL ARRANGEMENTS

9.1 Special Construction

9.1.1 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: (1) non-recurring type charges; (2) recurring type charges; (3) termination liabilities; or (4) combinations thereof.

9.1.2 Basis for Cost Computation

The costs referred to in 7.1.1 preceding may include one or more of the following items to the extent they are applicable:

A) Cost installed of the facilities to be provided including estimated costs for the rearrangements of existing facilities. Cost installed includes:

1) equipment and materials provided or used,
2) engineering, labor and supervision,
3) transportation, and
4) rights of way;

B) Cost of maintenance;

C) Depreciation on the estimated cost installed of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage;

D) Administration, taxes and uncollectible revenue on the basis of reasonable average costs for these items;

9.0 SPECIAL ARRANGEMENTS (cont'd.)

9.1 Special Construction (cont'd.)

9.1.2 Basis for Cost Computation (cont'd)

E) License preparation, processing and related fees;

F) Tariff preparation, processing and related fees;

G) Any other identifiable costs related to the facilities provided; or

H) An amount for return and contingencies.

9.1.3 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:

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.

9.0 SPECIAL ARRANGEMENTS (cont'd.)

9.1 Special Construction (cont'd.)

9.1.3 Termination Liability (cont'd)

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 7.1.3(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 7.1.3(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.

9.2 Individual Case Basis (ICB) Arrangements

Arrangements will be developed on a case-by-case basis in response to a bona fide special request from a Customer or prospective Customer to develop a competitive bid for a service not generally available under this tariff. ICB rates will be offered to the Customer in writing and on a non-discriminatory basis. Contracts resulting from a special request will be submitted for approval and filed with the Commission.

9.0 SPECIAL ARRANGEMENTS (cont'd.)

9.3 Special Promotions

The Carrier may from time to time engage in special promotional trial service offerings of limited duration (not to exceed ninety days on a per customer basis for non-optional, recurring charges) designed to attract new subscribers or to increase subscriber awareness of a particular tariff offering. Requests for promotional offerings will be presented to the Commission for its review in accordance with rules and regulations established by the Commission, and will be included in the Carrier's tariff as an addendum to the Carrier's price lists. All promotions are offered on a non-discriminatory basis.

9.4 Discounts

The Company may, from time to time as reflected in the price list, offer discounts based on monthly volume (or, when appropriate, "monthly revenue commitment" and/or "time of day" may also be included in the tariff).

10.0 PROMOTIONAL OFFERINGS

[RESERVED FOR FUTURE USE]

EXHIBIT E

BIOGRAPHIES OF ICG'S OFFICERS

ICG Communications

Management Profiles

Douglas I. Falk
Executive Vice President and President, Retail Group

Douglas I. Falk was appointed President of ICG Retail Group in June of 1999. Prior to that Doug was president of ICG Telecom Group, Inc. from September 1998 to May 1999. In these roles, he has led efforts to develop the company's small and medium-sized retail business, ISP business and wholesale business.

Falk first joined ICG in August 1996 as president of ICG Satellite Services, Inc. and executive vice president of ICG Communications, Inc. Falk was later promoted to chairman and chief executive officer of the Satellite Services division. Under Falk's leadership, ICG Satellite Services became a major contributor to the parent company by signing major accounts and long-term contracts and developing new businesses from emerging satellite, voice and data technologies.

In mid 1998, Falk joined Netcom, ICG's former Internet subsidiary, as senior vice president of sales. In August 1998, Falk also assumed responsibility for product marketing. At Netcom, Falk was responsible for establishing the company's sales strategy and leading its sales efforts, as well as developing its entire product marketing plans. He was instrumental in establishing Netcom's position as a customer-driven, Internet communications company, offering solutions to the consumer, individual professional and small to medium-sized business markets.

Prior to ICG, Falk spent almost a decade working in the cruise line and travel industries. Most recently he was senior vice president of Marketing and Sales at Holland America Line/Westours and was president of Norwegian Cruise Line and executive vice president of Royal Viking Line. Additionally, Falk has held senior consumer marketing positions at Brown & Williamson, PepsiCo and Procter & Gamble.

Falk received a bachelor's degree in economics from the University of Wisconsin and a master of business administration in marketing from the Wharton Graduate School, University of Pennsylvania. Falk has also served on the boards of directors for several non-profit organizations, including the Zoological Society, Children's Home Society and PONCHO (Patrons of Northwest Civic, Cultural and Charitable Organizations).

ICG Communications

Management Profiles

Harry R. Herbst
Executive Vice President and Chief Financial Officer

Harry R. Herbst was appointed Executive Vice President and Chief Financial Officer of ICG Communications, Inc. in June 1998.

His responsibilities include managing all finance functions, including accounting, tax, treasury and financial analysis; providing investor relations for both equity and debt, sell and buy side analysts; and overseeing corporate services such as payroll, benefits, real estate, safety, materials management, and risk management. He also is responsible for the development of strategic planning for long-term business development, including acquisitions, divestments and regulatory impact.

Herbst has been a member of the ICG Board of Directors since October 1995. He previously had served on the board of Syncrude Canada.

Herbst came to ICG with more than 10 years of senior financial management expertise with Gulf Canada Resources Ltd., Torch Energy Advisors, Inc. and Apache Corp. He was vice president of Strategic Planning and treasurer of Gulf Canada Resources Ltd., where he was responsible for corporate finance, including treasury, financial analysis, strategic planning, and tax.

Previously, Herbst served as vice president of Taxation for Torch Energy Advisors, Inc. and as tax manager for Apache Corp. In addition, Herbst has extensive merger and acquisition experience and is a certified public accountant, formerly with Coopers & Lybrand.

Herbst has a bachelor of science and a bachelor of arts from the University of Colorado and a master's degree in taxation from the University of Denver College of Law.

Management Profiles

ICG Communications

John Kane
President and Chief Operating Officer

John Kane was named President and Chief Operating Officer of ICG Communications in June 1999.

Prior to this appointment, Kane served in multiple roles within ICG. Kane joined ICG as senior vice president of Corporate Development in February 1998. Since March 1998, he also has served as president of Fiber Optic Technologies, Inc., a former division of ICG. In December 1998, Kane became executive vice president of Corporate Development and president of NetAhead, Inc., an ICG division that provides data networking solutions to Internet service providers nationally. Kane brings an extensive background in telecommunications operations to ICG, including product development and government regulation over the past 25 years.

Before joining ICG, Kane worked with Amnex, Inc. where he helped to reshape this boutique communications company into a diversified international telecommunications service provider, specializing in the hospitality industry. Kane deployed several niche products for Amnex and completed a series of strategic acquisitions on its behalf.

From 1992 to 1995, Kane was senior vice president of Operations with WCT Communications, Inc., where he built a national fiber optic, long distance network and developed the operational infrastructure. WCT was acquired by Frontier Communications.

In 1991, Kane founded Computer Calling Technologies, Inc. (CCT), where he developed and marketed a "Pay in Advance" calling service based on a proprietary technology platform. The company was one of the first to retail long distance debit cards as well as deliver customized debit services to wholesalers. CCT was merged into WCT in early 1992.

Between 1987 and 1991, Kane was the vice president and general manager of First Phone of New England, Inc.—a Boston-based, LD provider that quickly grew to a leadership position in the New England marketplace. First Phone was acquired by ATC/Microtel, which was a predecessor company to MCI WorldCom.

In 1983, Kane was a co-founder of Tenex Communications Corp., a long distance reseller focused on small- and medium-sized businesses. Tenex became a facilities-based company by installing fiber optic lines that connected three states. Tenex was acquired by a private investment group.

Kane's service to the telecommunications industry includes roles as president and director of America's Carriers Telecommunications Association (ACTA), a long distance industry association, and a member of the executive committee of ALTS, the industry association that represents the competitive local exchange carriers' interests.

ICG Communications

Management Profiles

Don Teague
Executive Vice President, General Counsel and Secretary

Don Teague brought more than 30 years of outstanding legal experience when he joined ICG in May 1997 as Executive Vice President, General Counsel and Secretary.

His responsibilities include establishing all legal policies for ICG and administrating the Legal Department. Teague also coordinates all outside litigation matters for ICG and assists the executive team in all major policy decisions.

Prior to joining ICG, Teague was senior vice president and general counsel for Falcon Seaboard Resources Inc., a privately owned company engaged principally in electricity generation, oil, gas, and energy services. He also was a partner in the law firm of Vinson and Elkins where he worked in both Houston and London.

Teague has a diverse legal background which includes experience with securities offerings, Securities and Exchange Commission (SEC) matters, mergers and acquisitions, banking and finance, energy regulation, and international law.

Teague holds a bachelor's degree in business administration and an LL.B. from the University of Texas. He also holds an LL.M. from Harvard University.

ICG Communications

Management Profiles

Raymond A. Palkovic
Senior Vice President and Chief Information Officer

Raymond A. Palkovic joined ICG Communications, Inc. in February 1999 as Senior Vice President and Chief Information Officer.

In this position, he is responsible for managing ICG Telecom Group, Inc.'s information systems including the network and billing systems.

Palkovic's career as a telecommunications professional spans 32 years. Prior to joining ICG, Palkovic was assistant vice president and chief information technology officer for GTE Communications Corporation's competitive local exchange group in Irving, Texas.

Prior to that role, which he assumed in February 1997, Palkovic was assistant vice president and chief information technology officer for GTE Mobilnet in Atlanta, Ga., one of the largest wireless communications providers in the United States. He had been with GTE since 1966 and had served in a number of capacities for the company.

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Management Profiles

Regina Vegliante
Vice President, Treasury

Regina Vegliante joined ICG Communications in 1996 and currently serves as Vice President of the Treasury. She was appointed to this position in April 1997.

In her role as Treasurer, Vegliante focuses on company debt, investments, treasury operations, stock options, risk management, and insurance.

Vegliante has over 20 years of experience in Treasury and Banking. She spent two years at Nextel Communications Corporation as assistant treasurer and senior debt analyst. From 1980 to 1993, Vegliante worked at the Chase Manhattan Bank in New York as vice president in a variety of lending and treasury related positions. She also spent two years with Chemical Bank.

Vegliante earned her master of business administration from Rutgers Graduate School of Business in New Jersey and her bachelor of arts from the University of Connecticut. She is a certified cash manager and member of the Treasury Management Association.

ICG Communications

Management Profiles

Robert L. Merkel
Vice President, Taxes

Robert L. Merkel is the Vice President of Taxes at ICG Communications, Inc.

In this role, Merkel is responsible for developing, administering and executing ICG's corporate tax policy as it applies to ICG's corporate ownership structure, its customers and vendors, thus allowing ICG to plan and achieve its financial and business objectives. Merkel has also served as ICG's Director of Taxes.

Merkel joined ICG with more than10 years of tax and accounting experience. He previously was the manager of Tax at U.S. Robotics Corporation (now known as 3Com Corporation), where he founded, recruited, trained, and managed the tax department and was responsible for the company's global tax affairs.

Other experience includes Merkel's positions as the manager of International Tax at both Nalco Chemical Company and KPMG Peat Marwick.

Merkel received a Bachelor of Science in Accountancy with Honors, from the University of Illinois, Champaign/Urbana, Ill., in 1987 and a Master of Science in Taxation with Distinction, from DePaul University in 1993. He is a certified public accountant and a member of the Tax Executives Institute.

ICG Communications

Management Profiles

Kathleen M. Boelte
Assistant General Counsel, Contract Administration
and Assistant Secretary

Kathleen M. Boelte is the Assistant General Counsel for Contract Administration and the Assistant Secretary for ICG Communications, Inc.

The Legal Department consists of the general counsel, two assistant general counsels (including Boelte and Bernie Zuroff), four attorneys, three paralegals, and staff. In order to minimize legal risks and to obtain legal protections, the department writes, drafts and provides negotiation for all ICG contracts.

Boelte joined ICG in November 1994 as a director-level attorney. Prior to ICG, Boelte was senior counsel in the asset and contracts department of Resolution Trust Corp.

Boelte received a bachelor of arts and a juris doctorate from Oklahoma City University. She is a member of the Colorado Bar Association.

EXHIBIT F

INFORMATION REGARDING ICG'S FINANCIAL RESOURCES AND QUALIFICATIONS

ICG Telecom Group, Inc.
Consolidated Summary of Operations
($ in 000's)

	12 Months ended December 31, 1998	9 Months ended September 30, 1999
Revenue	$ 305,612	$ 335,842
Operating Costs	188,362	180,073
Margin	117,250	155,769
SG&A & Lease Expense	147,156	226,885
EBITDA	(29,906)	(71,116)
Depreciation and Amortization	82,710	87,086
(Gain)/Loss on Disposal of Long-Lived Assets	(2,740)	(62,011)
Provision for Impairment of Long-Lived Assets	-	29,300
Restructuring Costs	1,307	-
Operating Income (Loss)	(111,183)	(125,491)
Interest Expense	(144,885)	(157,130)
Interest Income	653	53
Income tax (expense) benefit	(90)	(0)
Discontinued Operations (loss)	(2,194)	-
Other, net	(979)	(3,026)
Net profit (loss)	$ (258,678)	$ (285,594)

Notes:

The unaudited Consolidated Summary of Operations represent the results of operations of ICG Telecom Group, Inc. and its subsidiaries for the twelve months ended December 31, 1998 and the nine months ended September 30, 1999. The unaudited Consolidated Summary of Operations are not prepared according to generally accepted accounting principles and are not prepared in this format by the Company on a normal recurring basis. Accordingly, the unaudited Consolidated Summary of Operations do not include a statement of stockholders' equity, a statement of cash flows or accompanying notes. The Consolidated Summary of Operations have been prepared for the specific purpose as discussed and only for the readers to whom they have been delivered.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

OR

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

(Commission file Number 1-11965)

ICG COMMUNICATIONS, INC.

(Commission file Number 1-11052)

ICG HOLDINGS (CANADA) CO.

(Commission file Number 33-96540)

ICG HOLDINGS, INC.

(Exact names of registrants as specified in their charters)

Delaware Nova Scotia Colorado (State or other jurisdiction of incorporation or organization)	84-1342022 Not applicable 84-1158866 (I.R.S. Employer Identification No.)
161 Inverness Drive West Englewood, Colorado 80112	Not applicable
161 Inverness Drive West Englewood, Colorado 80112	c/o ICG Communications, Inc. 161 Inverness Drive West P.O. Box 6742 Englewood, Colorado 80155-6742
161 Inverness Drive West Englewood, Colorado 80112 (Address of principal executive offices)	Not applicable (Address of U.S. agent for service)

Registrants' telephone numbers, including area codes: (888) 424-1144 or (303) 414-5000

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

Title of class
Not applicable
Not applicable
Not applicable

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value (46,770,440 shares outstanding on March 29, 1999)	Nasdaq National Market
Not applicable	Not applicable
Not applicable	Not applicable

Indicate by check mark whether the registrants: (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. [✓] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

On March 29, 1999 the aggregate market value of ICG Communications, Inc. Common Stock held by non-affiliates (using the closing price of $18.63 on March 29, 1999) was approximately $871,333,297.

ICG Canadian Acquisition, Inc., a wholly owned subsidiary of ICG Communications, Inc., owns all of the issued and outstanding common shares of ICG Holdings (Canada) Co.

ICG Holdings (Canada) Co. owns all of the issued and outstanding shares of common stock of ICG Holdings, Inc.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive Proxy Statement for the 1999 Annual Meeting of Stockholders of ICG Communications, Inc. to be filed with the Securities and Exchange Commission not later than April 30, 1999 has been incorporated by reference in whole or in part for Part III, Items 10, 11, 12 and 13, of the Annual Report on Form 10-K for the fiscal year ended December 31, 1998 of ICG Communications, Inc.

TABLE OF CONTENTS

PART I

Unless the context otherwise requires, the term "Company" or "ICG" means the combined business operations of ICG Communications, Inc. ("ICG") and its subsidiaries, including ICG Holdings (Canada) Co. ("Holdings-Canada") and ICG Holdings, Inc. ("Holdings"); the terms "fiscal" and "fiscal year" refer to ICG's fiscal years ending December 31 for 1997 and 1998 and September 30 for years prior to 1997. The Company changed its fiscal year end to December 31 from September 30, effective January 1, 1997. All dollar amounts are in U.S. dollars.

ITEM 1. BUSINESS

Overview

The Company is one of the nation's leading competitive integrated communications providers ("ICPs"), based on estimates of the industry's 1998 revenue. ICPs seek to provide an alternative to incumbent local exchange carriers ("ILECs"), long distance carriers and other communications service providers for a full range of communications services in the increasingly deregulated telecommunications industry. Through its competitive local exchange carrier ("CLEC") operations, the Company operates fiber networks in regional clusters covering major metropolitan statistical areas in California, Colorado, Ohio, the Southeast and Texas. The Company also provides a wide range of network systems integration services and maritime and international satellite transmission services. Additionally, the Company began providing wholesale network services over its nationwide data network in February 1999. As a leading participant in the rapidly growing competitive local telecommunications industry, the Company has experienced significant growth, with total revenue increasing from approximately $154.1 million for fiscal 1996 to approximately $397.6 million for fiscal 1998. The Company's rapid growth is the result of the initial installation, acquisition and subsequent expansion of its fiber optic networks and the expansion of its communications service offerings.

The Federal Telecommunications Act of 1996 (the "Telecommunications Act") and pro-competitive state regulatory initiatives have substantially changed the telecommunications regulatory environment in the United States. Under the Telecommunications Act, the Company is permitted to offer all interstate and intrastate telephone services, including competitive local dial tone. In early 1997, the Company began marketing and selling local dial tone services in major metropolitan areas in California, Colorado, Ohio and the Southeast and, in December 1998, began offering services in Texas through an acquired business. During fiscal 1997 and 1998, the Company sold 178,470 and 206,458 local access lines, respectively, net of cancellations, of which 354,482 were in service at December 31, 1998. The Company had 29 operating high capacity digital voice switches and 16 data communications switches at December 31, 1998, and plans to install additional switches as demand warrants. As a complement to its local exchange services offered to business end users, the Company markets bundled service offerings provided over its regional fiber network which include long distance, enhanced telecommunications services and data services. Additionally, the Company owns and operates a nationwide data network, with 236 points of presence ("POPs") over which the Company recently began providing wholesale Internet access and enhanced network services to MindSpring Enterprises, Inc. ("MindSpring") and intends to offer similar services to other Internet service providers ("ISPs") and telecommunications providers in the future.

In developing its telecommunications service offerings, the Company continues to invest significant resources to expand its network. This expansion is being undertaken through a combination of constructing owned facilities, entering into long-term agreements with other telecommunications carriers and through mergers and acquisitions. See "-Recent Developments."

Recent Developments

Sale of Operations of NETCOM On-Line Communication Services, Inc. On January 21, 1998, the Company acquired NETCOM On-Line Communication Services, Inc., a Delaware corporation and provider of Internet connectivity and Web site hosting services and other value-added services located in San Jose, California ("NETCOM") in a transaction accounted for as a pooling of interests for approximately 10.2 million shares of common stock of ICG ("ICG Common Stock"), valued at approximately $284.9 million on the date of the merger. On February 17, 1999, the Company sold certain of the operating assets and liabilities of NETCOM to MindSpring, an ISP located in Atlanta, Georgia. Total proceeds from the sale were $245.0 million, consisting of $215.0 million in cash and 376,116 shares of unregistered common stock of MindSpring, valued at approximately $79.76 per share at the time of the transaction. Assets and liabilities sold to MindSpring include those directly related to the domestic operations of NETCOM's Internet dial-up, dedicated access and Web site hosting services. On March 16, 1999, the Company sold all of the capital stock of NETCOM's international operations for total proceeds of approximately $41.1 million. MetroNET Communications Corp. ("MetroNET"), a Canadian entity, and Providence Equity Partners ("Providence"), located in Providence, Rhode Island, together purchased the 80% interest in NETCOM Canada Inc. owned by NETCOM for approximately $28.9 million in cash. Additionally, Providence purchased all of the capital stock of NETCOM Internet Access Services Limited, NETCOM's operations in the United Kingdom, for approximately $12.2 million in cash. The Company expects to record a combined gain on the NETCOM transactions of approximately $200 million, net of income taxes of approximately $6.5 million, during the three months ended March 31, 1999.

In conjunction with the sale to MindSpring, the legal name of the NETCOM subsidiary was changed to ICG PST, Inc. ("PST"). PST has retained the domestic Internet backbone assets formerly owned by NETCOM which include 236 POPs serving approximately 700 cities nationwide. PST intends to utilize the retained network operating assets to provide wholesale Internet access and enhanced network services to MindSpring and other ISPs and telecommunications providers. On February 17, 1999, the Company entered into an agreement to lease to MindSpring for a one-year period the capacity of certain network operating assets for a minimum of $27.0 million, although subject to increase dependent upon network usage. MindSpring will utilize the capacity to provide Internet access to the dial-up services customers formerly owned by NETCOM. In addition, the Company will receive for a one-year period 50% of the gross revenue earned by MindSpring from the dedicated access customers formerly owned by NETCOM.

Effective November 3, 1998, the Company's board of directors adopted the formal plan to dispose of the operations of NETCOM and accordingly, the Company's consolidated financial statements reflect the operations of NETCOM as discontinued for all periods presented. For fiscal 1996, 1997 and 1998, NETCOM reported revenue of $120.5 million, $160.7 million and $164.6 million, respectively, and EBITDA (before nonrecurring charges) of $(31.0) million, $(9.4) million and $(14.7) million, respectively.

Announcement of New Service Offerings. In August 1998, the Company began offering enhanced telephony services via Internet protocol ("IP") technology. The Company currently offers these services in 230 major cities in the United States, covering more than 90% of the commercial long distance market. The Company carries the IP traffic over its nationwide data network and terminates a large portion of the traffic via its own POPs, thereby eliminating terminating charges from the use of other carriers' network facilities. Calls that cannot be terminated over the Company's own facilities are billed at higher per minute rates to compensate for the charges associated with using other carriers' facilities. The Company currently does not generate any significant revenue from this service.

In December 1998, the Company announced its plans to offer three new network services, to be available beginning in early 1999:

Modemless remote access service ("RAS") allows the Company to provide modem access at its own switch location, rather than requiring ISPs to deploy modems physically at each of their POPs. This service will enable the Company to act as an aggregator for ISP traffic while limiting the ISP's capital deployment. Through its strategic relationship with Lucent Technologies, Inc. ("Lucent"), the Company is currently retrofitting all of its Lucent-5ESS switches with the new Lucent product that allows for RAS functionality. This service eliminates the need for ISPs to separately purchase modems and shifts the network management responsibilities to the Company. The Company plans to be the first to market RAS using Lucent's modem technology and expects the service will be available to customers in the second quarter of 1999.

Through the same technology that allows it to provide RAS, the Company plans to offer interLATA (local access and transport area) expanded originating service ("EOS"), enabling regional or local ISPs to expand their geographical footprint outside their current physical locations by carrying the ISP's out-of-region traffic on the Company's own nationwide data network. The Company will initially offer this service within its CLEC regional clusters during the first quarter of 1999, and plans to expand EOS offerings to other areas as demand warrants.

Through digital subscriber line ("DSL") technology, the Company plans to provide high-speed data transmission services primarily to business end users and, on a wholesale basis, to ISPs. DSL technology utilizes the existing ILEC twisted copper pair connection to the customer, giving the customer significantly greater bandwidth, and consequently speed, when connecting to the Internet. The Company expects to offer DSL in over 400 central offices by the end of 1999 through alliances with other companies focusing on DSL service. For example, on February 18, 1999, the Company entered into a letter of intent with NorthPoint Communications, Inc., a privately held data CLEC based in San Francisco, California ("NorthPoint"). If this agreement is finalized, NorthPoint will be designated as the Company's preferred DSL provider for a two-year period and the

Company will purchase up to 75,000 DSL lines from NorthPoint over the two-year term. This alliance will enable the Company to accelerate the expansion of its DSL service offerings and allow NorthPoint to gain access to the Company's collocation facilities in markets where NorthPoint currently has limited or no operations. If the agreement is finalized, NorthPoint will provision and manage all of the Company's DSL services offered under this agreement. The Company expects to begin offering DSL services under this agreement in the second quarter of 1999.

Acquisition of CSW/ICG ChoiceCom, L.P. In January 1997, the Company announced a strategic alliance with Central and South West Corporation ("CSW") formed for the purpose of developing and marketing telecommunications services in certain cities in Texas. Based in Austin, Texas, the venture entity was a limited partnership named CSW/ICG ChoiceCom, L.P. ("ChoiceCom"). On December 31, 1998, the Company purchased 100% of the partnership interests in ChoiceCom from CSW for approximately $55.7 million in cash and the assumption of certain liabilities of approximately $7.3 million. In addition, the Company converted approximately $31.6 million of receivables from prior advances made to ChoiceCom by the Company to its investment in ChoiceCom. The acquired company currently provides local exchange and long distance services in Austin, Corpus Christi, Dallas, Houston and San Antonio, Texas. For fiscal 1997 and 1998, ChoiceCom reported revenue of $0.3 million and $5.8 million, respectively, and EBITDA losses (before nonrecurring charges) of $(5.5) million and $(13.6) million, respectively.

Acquisition of DataChoice Network Services, L.L.C. On July 27, 1998, the Company acquired DataChoice Network Services, L.L.C., a Colorado limited liability company providing point-to-point data transmission resale services through its long-term agreements with multiple regional carriers and nationwide providers ("DataChoice"). The Company paid total consideration of approximately $5.9 million, consisting of 145,997 shares of ICG Common Stock and approximately $1.1 million in cash. The historical results of operations of DataChoice are not significant to the Company's consolidated results of operations.

Acquisition of NikoNET, Inc. The Company completed a series of transactions on July 30, 1998 to acquire NikoNET, Inc., CompuFAX Acquisition Corp. and Enhanced Messaging Services, Inc. (collectively, "NikoNET"). The Company paid total consideration of approximately $13.8 million in cash, which included dividends payable by NikoNET to its former owners and amounts to satisfy NikoNET's former line of credit, assumed approximately $0.7 million in liabilities and issued 356,318 shares of ICG Common Stock with a fair market value of approximately $10.7 million on the date of the acquisition, for all the capital stock of NikoNET. Located in Atlanta, Georgia, NikoNET provides broadcast facsimile services and enhanced messaging services to financial institutions, corporate investor and public relations departments and other customers. The Company believes the acquisition of NikoNET enables the Company to offer expanded services to its existing customers. The historical results of operations of NikoNET are not significant to the Company's consolidated results of operations.

Discontinuance of Operations of Zycom. Due primarily to the loss of a major customer, which generated a significant obligation under a volume discount agreement with its call transport provider, the board of directors of Zycom Corporation, a 70%-owned subsidiary of the Company which operated an 800/888/900 number services bureau and switch platform ("Zycom"), approved a plan on August 25, 1998 to wind down and ultimately discontinue Zycom's operations. On October

22, 1998, Zycom completed the transfer of all customer traffic to other providers and on January 4, 1999, the Company completed the sale of the remainder of Zycom's operating assets to an unrelated third party. For fiscal 1996, 1997 and 1998, Zycom reported revenue of $14.9 million, $28.3 million and $17.0 million, respectively, and EBITDA (before nonrecurring charges) of $0.6 million, $(2.7) million and $(3.3) million, respectively. The Company's consolidated financial statements reflect the operations of Zycom as discontinued for all periods presented.

Sale of Satellite Services Operating Subsidiaries. On August 12 and November 18, 1998, the Company completed the sales of the capital stock of MarineSat Communications, Inc. ("MCN") and Nova-Net Communications, Inc. ("Nova-Net"), respectively, two wholly owned subsidiaries within the Company's Satellite Services operations. MCN is a Florida-based provider of cellular and satellite communications for commercial ships, private vessels and land-based mobile units. Nova-Net provides private data networks utilizing very small aperture terminals ("VSATs") and specializes in data collection and in monitoring and control of customer production and transmission facilities in various industries, including oil and gas, electric and water utilities and environmental monitoring industries. The Company recorded a gain on the sale of MCN of approximately $0.9 million and a loss on the sale of Nova-Net of approximately $0.2 million in its consolidated statement of operations during fiscal 1998. The Company believes that the dispositions of MCN and Nova-Net will further management's ability to focus on the development and deployment of its core Telecom Services. The combined historical results of operations of MCN and Nova-Net are not significant to the Company's consolidated results of operations. The Company's remaining Satellite Services operations consists principally of the operations of Maritime Telecommunications Network, Inc. ("MTN"). See "-Satellite Services."

Financings. On February 12, 1998, ICG Services, Inc., a Delaware corporation and newly formed wholly owned subsidiary of the Company ("ICG Services"), completed a private placement of 10% Senior Discount Notes due 2008 (the "10% Notes") for gross proceeds of approximately $300.6 million. Net proceeds from the offering, after underwriting and other offering costs of approximately $9.7 million, were approximately $290.9 million. The 10% Notes are unsecured senior obligations of ICG Services that mature on February 15, 2008, at a maturity value of $490.0 million. Interest will accrue at 10% per annum, beginning February 15, 2003, and is payable in cash each February 15 and August 15, commencing August 15, 2003. The 10% Notes have been registered under the Securities Act of 1933, as amended (the "Securities Act").

On April 27, 1998, ICG Services completed a private placement of 9 7/8% Senior Discount Notes due 2008 (the "9 7/8% Notes") for gross proceeds of approximately $250.0 million. Net proceeds from the offering, after underwriting and other offering costs of approximately $7.9 million, were approximately $242.1 million. The 9 7/8% Notes are unsecured senior obligations of ICG Services that mature on May 1, 2008, at a maturity value of $405.3 million. Interest will accrue at 9 7/8% per annum, beginning May 1, 2003, and is payable in cash each May 1 and November 1, commencing November 1, 2003. The 9 7/8% Notes have been registered under the Securities Act.

ICG Equipment, Inc. In January 1998, the Company formed ICG Equipment, Inc., a Colorado corporation and wholly owned subsidiary of ICG Services ("ICG Equipment"), for the principal purpose of purchasing telecommunications equipment, software, network capacity and related services for sale or lease to other operating subsidiaries of ICG ("Holdings' Subsidiaries"). By purchasing assets through ICG Equipment, the Company defers sales tax on asset purchases over the term of the operating leases between ICG Equipment and Holdings' Subsidiaries, which sales tax would otherwise be paid in full at the time of the purchase. The equipment and services provided to Holdings' Subsidiaries are utilized to upgrade and expand the Company's network infrastructure. All such arrangements are intended to be conducted on the basis of fair market value and on comparable terms that Holdings' Subsidiaries would be able to obtain from a third party. As of December 31, 1998, approximately $195.0 million of telecommunications equipment, software, network capacity and related services were under lease to Holdings' Subsidiaries by ICG Equipment.

Telecom Services

The Company operates local exchange networks in the following markets within its regional clusters: California (Sacramento, San Diego and portions of the Los Angeles and San Francisco metropolitan areas); Colorado (Denver, Colorado Springs and Boulder); Ohio (Akron, Cincinnati, Cleveland, Columbus, and Dayton); the Southeast (Atlanta, Georgia; Birmingham, Alabama; Charlotte, North Carolina; Louisville, Kentucky; and Nashville, Tennessee); and Texas (Austin, Corpus Christi, Dallas, Houston and San Antonio). The Company will continue to expand its network through construction, leased facilities and strategic alliances and, potentially, through acquisitions. The Company's operating regional fiber networks have grown from 2,143 fiber route miles at the end of fiscal 1996 to 4,255 fiber route miles as of December 31, 1998. Telecom Services revenue has increased from approximately $72.8 million for fiscal 1996 to approximately $303.3 million for fiscal 1998. Since February 1999, the Company also operates a nationwide data network with 236 POPs over which the Company provides wholesale Internet access services to MindSpring and intends to provide such services and enhanced network services to other ISPs and telecommunications providers in the future.

Strategy

The Company's objective is to be a premier provider of high quality communications services to its targeted business, ISP and carrier customers. The key elements of this strategy are:

Increase Revenue and Margins through Bundled Services to Business End Users. The Company believes that its commercial customers are increasingly demanding a broad, full service approach to providing telecommunications services. By offering integrated technology-based communications solutions, management believes the Company will be better able to capture business from telecommunications-intensive commercial accounts. To this end, the Company is complementing its competitive local service offerings with long distance and data service offerings, including its recently offered IP telephony services, and marketing these combined products through ICG's direct sales force and sales agents. Management believes a targeted business end user strategy can better leverage ICG's network footprint and telecommunications investment.

Increase Revenue and Margins through New Wholesale Network Products Offered to ISPs and Telecommunications Providers. The Company believes the Internet business is one of the fastest growing segments of the telecommunications service sector, thereby providing enormous growth opportunities for network service providers supporting the growing base of ISPs. The

Company plans to take advantage of these opportunities through the offering of wholesale Internet access and other enhanced network services to ISPs and other telecommunications providers, and expanding its current primary rate interface ("PRI") offerings with RAS, EOS and DSL. See "-Recent Developments." Management believes these new products will leverage the Company's relationships with ISPs and will position the Company to lead in the provisioning of new services to this emerging customer base.

Concentrate Networks in Regional Clusters. The Company believes that by focusing on regional clusters it will be able to more effectively service its customers' needs and efficiently market, operate and control its networks and expanded service offerings. As a result, the Company has concentrated its fiber networks in regional clusters serving major metropolitan areas in California, Colorado, Ohio, the Southeast and Texas.

Networks

The Company's networks generally comprise fiber optic cables, switching facilities, advanced electronics, transmission equipment and related wiring and equipment. The Company typically designs a ring architecture with a view toward making the network accessible to the largest concentration of telecommunications-intensive businesses in a given market.

The Company's networks are generally configured in redundant synchronous optical network ("SONET") rings that offer the advantage of uninterrupted service in the event of a fiber cut or equipment failure, resulting in limited outages and increased network reliability. The Company generally markets its services at prices below those charged by the ILEC. Management believes these factors combine to create a more reliable and cost effective alternative to ILEC networks and services.

The Company's networks are constructed to access long distance carriers as well as areas of significant end user telecommunications traffic in a cost efficient manner. The construction period of a new network varies depending upon the scope of the activities, such as the number of backbone route miles to be installed, the initial number of buildings targeted for connection to the network backbone and the general deployment of the network infrastructure. Construction is planned to allow revenue-generating operations to commence prior to the completion of the entire network backbone. When constructing and relying principally on its own facilities, the Company has experienced a period of 12 to 18 months from initial design of a network to revenue generation from such network. Based upon its experience of using ILEC facilities to provide initial customer service and the Company's agreements to use utilities' existing fiber, the Company has experienced revenue generation within nine months after commencing network design. After installing the initial network backbone, extensions to additional buildings and expansions to other regions of a metropolitan area are evaluated, based on detailed assessments of market potential. The Company is currently expanding all of its existing networks to reduce its reliance on the ILECs and evaluating development of new networks both inside and outside its existing regional clusters.

Switched services involve the transmission of voice, video or data to long distance carrier-specified or end user-specified termination sites. The switch is required in order for the Company to provide the full range of local telephone services. By contrast, the special access services provided by the Company and other CLECs involve a fixed communications link or "pipe," usually between an end user and a specific long distance carrier's POP. With a switch and interconnection to various carriers' networks, it is possible for the Company to direct a long distance carrier's traffic to any end user regardless of whether the end user is physically connected to the Company's owned or leased network. The Company is marketing and selling competitive local dial tone services in California, Colorado, Ohio, the Southeast and Texas. See "-Regulation - State Regulation."

The Company's network monitoring center in Denver, Colorado monitors and manages the Company's regional fiber networks and provides high-level monitoring of the Company's local exchange switches. Centralized electronic monitoring and control of the Company's networks allows the Company to avoid duplication of this function in each city, thereby reducing costs.

The Company owns and operates a nationwide data network consisting of 236 POPs and 13 hubs containing frame relay switches and high-performance routers connecting a backbone of leased Asynchronous Transfer Mode ("ATM") switches and leased high-speed dedicated data lines in the United States. The design and architecture of the physical network permits the Company to offer highly flexible, reliable high-speed services to its customers. The data network infrastructure is monitored by a network operations center in San Jose, California.

Services

The Company's competitive local exchange services include local dial tone, long distance, enhanced telephony, data, special access and interstate and intrastate switched access services. Competitive local dial tone services consist of basic local exchange lines and trunks for business, related line features (such as voice mail, Direct Inward Dialing (DID), hunting and custom calling features), local calling, and intraLATA, also called local toll, calling. The Company believes that having a full complement of communications services, including local, long distance and data services, will strengthen its overall market position and help the Company to better penetrate the local exchange marketplace. The Company has also developed long distance services, including calling and debit cards, to complement its local exchange services family of products. The Company offers a bundled service of local, long distance and data services, delivered over a T-1 connection in several markets and intends to expand this bundled service offering to its remaining markets in the future.

The Company offers long distance services to end user customers. Although the Company carries some of its long distance traffic on its own switches, it relies upon obtaining long distance transmission capacity from other carriers to provide its services. Therefore, the Company has entered into transmission agreements, which typically provide for transmission on a per minute basis, with long distance carriers to fulfill such needs. To reduce its cost of services, the Company leases point-to-point circuits on a monthly or longer term fixed cost basis where it anticipates high traffic volume.

The Company also offers enhanced telephony services via IP technology in 230 major cities in the United States, covering more than 90% of the commercial long distance market. The Company carries the IP traffic over its nationwide data network and terminates a large portion of the traffic via its own POPs, thereby eliminating terminating charges from the use of other carriers' network facilities. Calls that cannot be terminated over the Company's own facilities are billed at higher per minute rates to compensate for the charges associated with using other carriers' facilities.

Private line services are generally used to connect the separate locations of a single business outside of the local calling area or LATA. Special access services are generally used to connect end user customers to a long distance telephone carrier's facilities, to connect long distance carrier's facilities to the local telephone company's central offices, and to connect different facilities of the same long distance carrier or facilities of different long distance carriers all within the same LATA. As part of its initial "carrier's carrier" strategy, the Company targeted the transport between long distance company facilities and the local telephone company central offices, and, for high volume customers, between the long distance company and the end user customer's office. In order to leverage its significant network investment, the Company also markets these services directly to end user business customers.

The Company's interstate and intrastate switched access services include the transport and switching of calls between the long distance carrier's facilities and either the local telephone company's central offices or end users. By performing the switching services, the Company can reduce the long distance carriers' local access costs, which constitute their major operating expense. Until recently, the Company experienced negative operating margins from the provision of wholesale switched services because it relies on ILEC networks to terminate and originate customers' switched traffic. The Company has raised prices on its wholesale switched services product in order to improve margins and has de-emphasized its wholesale switched services to focus on its higher margin products.

The Company's Signaling System 7 ("SS7") services provide signaling connections between long distance and local exchange carriers, and between long distance carriers' networks. SS7, sometimes referred to as "look-ahead routing," is used by local exchange companies, long distance carriers, wireless carriers and others to signal between network elements, creating faster call set-up and resulting in more efficient use of network resources. SS7 is now the standard method for telecommunications signaling worldwide. The Company has deployed signal transfer points ("STPs") throughout its networks to efficiently route SS7 data across the United States. SS7 is also the enabling technology for advanced intelligence network platforms, a set of services and signaling options that carriers can use to create new services or customer options. Carriers purchase connections into the Company's SS7 network, and also purchase connections to other local and long distance carriers on a monthly recurring basis. The Company has also developed a nationwide SS7 service with Southern New England Telecommunications Corporation ("SNET"), a subsidiary of SBC Communications, Inc. The Company believes that, together with SNET, it is one of the largest independent suppliers of SS7 services. The Company's STPs are integrated with two SNET "gateway" STPs in Connecticut.

Through NikoNET, the Company provides broadcast facsimile services and enhanced messaging services to financial institutions, corporate investor and public relations departments and other customers. NikoNET also provides facsimile to e-mail and e-mail to facsimile translation services. This product leverages the Company's network and creates high margin minutes of use.

As part of its new strategy to maximize the value of its nationwide data network by including high-growth ISPs in its customer base, the Company is currently offering Internet access services and recently announced its plans to offer other new wholesale network services, including RAS, EOS and DSL, to ISPs, to be available beginning in early 1999. See "-Recent Developments."

Industry

The Company operates in the local telephone services market as an ICP. The Company is competing in the local, long distance, enhanced telephony and data communications markets, to provide "full service" to its business, ISP and carrier customers. The Company believes it can maximize revenue and profit opportunities by leveraging its extensive network facilities in providing multiple communications services to its customers.

Local telephone service competition was made possible by the Telecommunications Act and by deregulatory actions at the state level. Prior to passage of the Telecommunications Act, firms like the Company were generally limited to providing private line and special access services. These firms, including the Company, installed fiber optic cable connecting long distance telephone carriers' POPs within a metropolitan area and, in some cases, connecting end users (primarily large businesses and government entities) with long distance carrier POPs. The greater capacity and economies of scale inherent in fiber optic cable enabled competitive access providers to offer customers less expensive services at higher quality than the ILECs.

The Telecommunications Act, subsequent Federal Communications Commission ("FCC") decisions and many state legislative and regulatory initiatives have substantially changed the telecommunications regulatory environment in the United States. Due to these regulatory changes, CLECs are now legally able to offer many communications services, including local dial tone and all interstate and intrastate switched services, effectively opening up the local telephone market to full competition. Because of these changes in state and federal regulations, CLECs have expanded their services from providing competitive access and private line services to providing all local exchange services to become true competitors to the ILECs. See "-Regulation."

Network Services

Through the Company's wholly owned subsidiary, ICG Fiber Optic Technologies, Inc. ("FOTI"), the Company supplies information technology services and selected networking products, focusing on network design, installation, maintenance and support for a variety of end users, including Fortune 1000 firms and other large businesses and telecommunications companies. Revenue from Network Services was approximately $53.9 million for fiscal 1998.

The Company provides network infrastructure, systems and support services, including the design, engineering and installation of local and wide area networks ("LANs/WANs") for its customers. These networks (within end user offices, buildings or campuses) may include fiber optic, twisted-pair, coaxial and other network technologies. The Company specializes in turnkey network installations including cabling and electronics that address specific requirements. The Company also provides professional network support services. These services include move, add and change services and ongoing maintenance and support services. Network Services revenue is expected to constitute a smaller percentage of the Company's future revenue as Telecom Services revenue increases.

The Company offers these network integration and support services through offices located within five regions. The regional headquarters are located in Dallas, Denver, Portland (Oregon), Los Angeles and San Francisco.

Satellite Services

The Company's Satellite Services operations consist of satellite voice, data and video services provided to major cruise lines, the U.S. Navy, the offshore oil and gas industry and other ICPs. The Company also owns a teleport facility which provides international voice and data transmission services. Revenue from Satellite Services was approximately $40.5 million for fiscal 1998.

MTN. MTN provides digital wireless communications through satellites to the maritime cruise industry, U.S. Navy vessels and offshore oil and gas platforms utilizing an experimental radio frequency license and a grant of Special Temporary Authority ("STA") issued by the FCC. MTN provides private communications networks to various cruise lines allowing for the transmission of data communications and allowing passengers to make calls from their cabins to anywhere in the world. MTN additionally provides its communications services to seismic vessels, to commercial shipping vessels and to the U.S. Navy in conjunction with a major long distance provider, which serves as the long distance carrier, while MTN provides the shipboard communications equipment. The Company believes that the radio spectrum employed under an experimental license and a grant of STA, which uses C-band radio frequencies, enables it to provide a higher quality maritime service than is available through the radio frequencies currently allocated to other maritime service providers.

In April 1996, the FCC issued a waiver allowing MTN to apply for a permanent FCC license to utilize C-band frequencies authorized under a previously issued experimental license. MTN's application is pending. Additionally, in January 1997, the FCC granted the STA, which enables MTN to conduct operations, for up to an initial six-month period, which period can be renewed for six-month terms, while the FCC's review of the permanent license application is pending. The most recent extension of the STA was received by MTN on January 29, 1999. MTN's FCC experimental license allows it to operate its shipboard earth stations on a fixed and mobile basis throughout domestic waters on a non-interference basis using C-band frequencies. MTN filed an application for renewal of the experimental authorization on January 22, 1999. MTN may continue to operate under the terms of its experimental authorization pending action on the renewal application. There can be no assurance that the Company will be granted permanent licenses, that the experimental license and STA currently being used will continue to be renewed for future terms or that any license granted by the FCC will not require substantial payments from the Company. See "-Regulation."

Teleport. The teleport in Holmdel, New Jersey, acquired as part of the Company's acquisition of MTN, is located 20 miles south of Newark and specializes in international digital voice and data communications services with full fiber interconnect to the local telephone company facilities in New York City. Teleport services are also provided to the maritime industry, including support of the Company's cruise ship, U.S. Navy and offshore oil platform telephone and data services business. In addition, the Company markets the resale of services from the four teleports it sold in 1996.

Customers And Marketing

The Company's primary marketing strategies for Telecom Services are to offer a broad range of local, long distance, enhanced telephony and data services, to the Company's business and ISP customers at cost effective rates. Wholesale customers typically re-market the Company's services to the retailer's end user, under the retailer's brand name. The Company markets its services in regional clusters, which it believes is the most effective and efficient way to penetrate its markets.

The Company markets its Telecom Services products through direct sales to end users and wholesale accounts, sales agents and direct mail, to a limited extent. Telecom Services revenue from major long distance carriers and resellers constituted approximately 83%, 76% and 34% of the Company's Telecom Services revenue in fiscal 1996, 1997 and 1998, respectively. The balance of the Company's Telecom Services revenue was derived from end users. The Company anticipates revenue from business and ISP customers will increase in the future as it continues to expand its bundled service offerings, increases its sales and marketing teams and focuses more on these segments of the market. In support of this strategy, the Company has substantially increased its direct sales and marketing staff. Telecommunications service agreements with its customers typically provide for terms of one to five years, fixed prices and early termination penalties.

The Company has telecommunications sales offices in: Irvine, Los Angeles, Oakland, Sacramento, San Diego, San Francisco and San Jose, California; Denver, Colorado Springs and Boulder, Colorado; Akron, Columbus, Dayton, and Independence, Ohio; Birmingham, Alabama; Atlanta, Georgia; Louisville, Kentucky; Charlotte, North Carolina; and Nashville, Tennessee; and Austin, Corpus Christi, Dallas, Houston and San Antonio, Texas. The Company's marketing staff is located in Denver, Colorado.

The Company markets its network systems integration products and services through a direct sales force located in the Rocky Mountains, Pacific Northwest, Texas and California regions. The Company also has entered into resale agreements with manufacturers of network integration products and services.

The Company offers satellite private line transmission services from its teleport to business customers that can benefit from the Company's international and domestic transmission capabilities. The Company also markets voice and data communications to the maritime industry, including cruise ships, U.S. Navy vessels, offshore oil and gas platforms and mobile land-based units.

The Company is currently utilizing its nationwide data network to provide wholesale Internet access services to MindSpring for a one-year period. During the term of this agreement, the Company plans to evaluate various strategies to identify and market similar services and other enhanced network services to primarily local and regional ISPs and other telecommunications providers.

Competition

The Company operates in an increasingly competitive environment dominated by the ILECs, mainly the Regional Bell Operating Companies ("RBOCs") and GTE which are among the Company's current competitors. Also included among the Company's current competitors are other ILECs, other CLECs, other ICPs, network systems integration service providers, microwave and satellite service providers, teleport operators and private networks built by large end users. Potential competitors (using similar or different technologies) include cable television companies, utilities, ISPs, ILECs outside their current local service areas, and the local access operations of long distance carriers. Consolidation of telecommunications companies, including mergers between certain of the RBOCs, between long distance companies and cable television companies and between long distance companies and CLECs, and the formation of strategic alliances within the telecommunications industry, as well as the development of new technologies, could give rise to increased competition. One of the primary purposes of the Telecommunications Act is to promote competition, particularly in the local telephone market. Since the enactment of the Telecommunications Act, several telecommunications companies have indicated their intention to aggressively expand their ability to address many segments of the telecommunications industry, including segments in which the Company participates and expects to participate. This may result in more participants than can ultimately be successful in a given market.

Telecom Services. The bases of competition in competitive local telecommunications services are generally price, service, reliability, transmission speed, technological innovation and availability. The Company believes that its expertise in developing and operating highly reliable, advanced digital networks which offer substantial transmission capacity at competitive prices enables the Company to compete effectively against the ILECs, other CLECs and others providing local and enhanced telephony services.

In every market in which the Company operates telecom service networks, the ILECs (which are the historical monopoly providers of local telephone services) are the primary competitors. The ILECs have long-standing relationships with their customers and provide those customers with various transmission and switching services. The ILECs also have the potential to subsidize access and switched services with revenue from a variety of businesses and historically have benefited from certain state and federal regulations that have favored the ILECs over the Company. In certain markets where the Company operates, other CLECs also operate or have announced plans to enter the market. Some of those CLECs are affiliated with major long distance companies which have resources available to sustain an initially capital-intensive business through the point of profitability. Current competitors also include network systems integration services providers, wireless telecommunications providers and private networks built by large end users. Additional competition may emerge from cable television operators and electric utilities. Many of the Company's actual and potential competitors have greater financial, technical and marketing resources than the Company.

In addition, the long distance and data transmission businesses are extremely competitive and prices have declined substantially in recent years and are expected to continue to decline.

As a recent entrant into the wholesale network services sector, the Company faces competition from existing providers of the Company's planned services, primarily UUNet Technologies, Inc., PSINet, Inc. and, ultimately, Level 3 Communications, Inc. and Qwest Communications International, Inc. once their networks have been sufficiently developed. Other competitors also include GTE, AT&T, Sprint Corporation and the RBOCs that currently offer similar wholesale network service products to ISPs. While strong competition currently exists in this sector, the Company believes that the recent growth in the Internet industry provides expanded opportunity and demand for new providers such as the Company, and that early participants in this growing sector have increased opportunity for establishing and, once experienced, growing market share. There can be no assurance that sufficient demand will exist for the Company's wholesale network services in its selected markets, that market prices will not dramatically decline or the Company will be successful in executing its strategy in time to meet new competitors, or at all.

Network Services. The bases of competition in the network services market are primarily technological capability and experience, value-added services and price. In this market, the Company competes with a variety of local and regional system integrators.

Satellite Services. In the delivery of domestic and international satellite services, the Company competes with other full service teleports in the northeast region of the United States. The bases of competition are primarily reliability, price and transmission quality. Most of the Company's satellite competitors focus on the domestic video market. Competition is expected principally from a number of domestic and foreign telecommunications carriers, many of which have substantially greater financial and other resources than the Company. In the maritime telecommunications market, MTN competes primarily with COMSAT Corporation ("COMSAT") in providing similar telecommunications services. COMSAT has FCC licenses that are similar to MTN's and it is the sole point of control in the United States for direct access to Intelsat satellites.

Regulation

The Company's services are subject to significant federal, state and local regulation. The Company operates in an industry that is undergoing substantial change as a result of the passage of the Telecommunications Act.

The Telecommunications Act opened the local and long distance markets to additional competition and changed the division of oversight between federal and state regulators. Under previous law, state regulators had authority over those services that originated and terminated within the state ("intrastate") and federal regulators had jurisdiction over services that originated within one state and terminated in another state ("interstate"). State and federal regulators now share responsibility to some extent for implementing and enforcing the pro-competitive policies and the provisions for the Telecommunications Act.

The Telecommunications Act generally requires ILECs to negotiate agreements to provide interconnection and nondiscriminatory access to their networks on more favorable terms than were previously available in the past. However, such new agreements are subject to negotiations with each ILEC which may involve considerable delays and may not necessarily be obtained on terms and conditions that are desirable to the Company. In such instances, the Company may petition the proper state regulatory agency to arbitrate disputed issues. Ultimately, the terms of an arbitrated agreement are subject to review by the federal courts. Additionally, the Company is in the process of renegotiating and extending the terms of certain of the interconnection agreements executed by the Company. There can be no assurance that the Company will be able to negotiate and/or arbitrate acceptable new interconnection agreements.

On August 8, 1996, in two separate decisions, the FCC adopted rules and policies implementing the local competition provisions of the Telecommunications Act. The FCC, among other things, adopted national guidelines with respect to the unbundling of ILECs' network elements, resale of ILEC services, the pricing of interconnection services and unbundled elements, and other local competition issues. Numerous parties appealed both of the FCC's orders to the Eighth Circuit Court, and in 1997, the Eighth Circuit Court issued a decision which upheld certain of the FCC's rules but reversed many of the FCC's rules on other issues, including the pricing rules.

On January 25, 1999, the United States Supreme Court (the "Supreme Court") largely reversed the Eighth Circuit Court's decision and reestablished the validity of many of the FCC's interconnection rules including the FCC's jurisdiction to adopt pricing guidelines under the Telecommunications Act. The Supreme Court also upheld the FCC's "pick and choose" rules, which allow CLECs to adopt individual rates, terms and conditions from agreements that an ILEC has with other carriers. The Supreme Court did not, however, evaluate the specific pricing methodologies adopted by the FCC, and the appellate court will further consider those methodologies. Additionally, the Supreme Court vacated the FCC rules defining what network elements must be unbundled and made available to the CLECs by the ILECs. The Supreme Court held that the FCC must provide a stronger rationale to support the degree of unbundling ordered. As a result, the FCC likely will soon hold a rulemaking proceeding to revise its rules on unbundled network elements. Management views the Supreme Court decision as a favorable development for the CLEC industry, although the ultimate outcome of the further FCC and court proceedings resulting from the decision cannot be predicted.

On December 31, 1997, the United States District Court for the Northern District of Texas (the "District Court"), in a case brought by SBC Communications, Inc., issued a decision holding that Sections 271 through 275 of the Telecommunications Act are unconstitutional. The decision addressed the restrictions contained in Sections 271 through 275 of the Telecommunications Act on the lines of businesses in which the RBOCs may engage, including establishing the conditions that the RBOCs must satisfy before they may provide interLATA long distance telecommunications services in their local telephone service areas. On September 4, 1998, the Fifth Circuit Court of Appeals reversed the District Court decision and ruled that Sections 271 through 275 are not unconstitutional. A separate decision by the D.C. Circuit Court of Appeals issued in December 1998 also ruled that Section 271 is not unconstitutional.

The Company believes that it is entitled to receive reciprocal compensation from ILECs for the transport and termination of Internet traffic from ILEC customers as local traffic pursuant to various interconnection agreements. The ILECs have not paid most of the bills they have received from the Company and have disputed substantially all of these charges based on the argument that ISP traffic is not local traffic as defined by the various interconnection agreements and under state and federal laws and public policies. The resolution of these disputes will be based on rulings by state public utility commissions and/or by the FCC. See "-Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity - Transport and Termination Charges."

Federal Regulation. The Company generally operates as a regulated carrier with fewer regulatory obligations than the ILECs. The Company must comply with the requirements of the Telecommunications Act, such as offering service on a non-discriminatory basis at just and reasonable rates. The FCC treats the Company as a non-dominant carrier. The FCC has established different levels of regulation for dominant and non-dominant carriers. Of domestic common carriers, only the ILECs are classified as dominant carriers for the provision of access services, and all other providers of domestic common carrier services are classified as non-dominant. Under the FCC's streamlined regulation of non-dominant carriers, the Company must file tariffs with the FCC for domestic and international long distance services on an ongoing basis. The Company's provision of international long distance services requires prior authorization by the FCC pursuant to Section 214 of the Telecommunications Act, which the Company has obtained. The FCC recently eliminated the requirement that non-dominant interstate access carriers must file tariffs. The Company is not subject to price cap or rate of return regulation, nor is it currently required to obtain FCC authorization for the installation or operation of its fiber optic network facilities used for services in the United States. The Company may install and operate non-radio facilities for the transmission of domestic interstate communications without prior FCC authorization. The Company's use of digital microwave radio frequencies and satellite earth stations in connection with certain of its telecommunications services is subject to FCC radio frequency licensing regulation. See "-Federal Regulation of Microwave and Satellite Radio Frequencies."

State Regulation. In general, state regulatory agencies have regulatory jurisdiction over the Company when Company facilities and services are used to provide local and other intrastate services. Under the Telecommunications Act, state commissions continue to set the requirements for providers of local and intrastate services, including quality of services criteria. State regulators also can regulate the rates charged by CLECs for intrastate and local services and can set prices for interconnection by CLECs with the ILEC networks. The Company's provision of local dial tone and intrastate switched and dedicated services are classified as intrastate and therefore subject to state regulation. The Company expects that it will offer more intrastate services as its business and product lines expand. To provide intrastate service (particularly local dial tone service), the Company generally must obtain a Certificate of Public Convenience and Necessity ("CPCN") from the state regulatory agency prior to offering service. In most states, the Company also is required to file tariffs setting forth the terms, conditions and prices for services that are classified as intrastate, and to update or amend its tariffs as rates change or new products are added. The Company may also be subject to various reporting and record-keeping requirements.

The Company currently holds CPCNs (or their equivalents) to provide competitive local services in the following states: Alabama, California, Colorado, Delaware, Florida, Georgia, Hawaii, Indiana, Kansas, Kentucky, Massachusetts, Missouri, Montana, Nevada, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia, Washington, West Virginia, and Wisconsin. Additionally, the Company holds CPCNs (or their equivalents) to provide intrastate long distance services in the following states: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming.

Local Government Authorizations. Under the Telecommunications Act, local authorities retain jurisdiction under applicable state law to control the Company's access to municipally owned or controlled rights of way and to require the Company to obtain street opening and construction permits to install and expand its fiber optic network. In addition, many municipalities require the Company to obtain licenses or franchises (which generally have terms of 10 to 20 years) and to pay license or franchise fees, often based on a percentage of gross revenue, in order to provide telecommunications services, although in certain states including California and Colorado, current state law prescribes the amount of such fees. Certain municipalities in Colorado, however, are continuing to charge franchise fees pending enforcement by the Colorado courts. There is no assurance that certain cities that do not impose fees will not seek to impose fees, nor is there any assurance that, following the expiration of existing franchises, fees will remain at their current levels. In many markets, the ILECs have been excused from paying such franchise fees or pay fees that are materially lower than those required to be paid by the Company for access to public rights of way. However, under the Telecommunications Act, while municipalities may still regulate use of their streets and rights of way, municipalities may not prohibit or effectively prohibit any entity from providing any telecommunications services. In addition, the Telecommunications Act requires that local governmental authorities treat telecommunications carriers in a non-discriminatory and competitively neutral manner. If any of the Company's existing franchise or license agreements are terminated prior to their expiration dates or not renewed, and the Company is forced to remove its fiber from the streets or abandon its network in place, such termination could have a material adverse effect on the Company.

Federal Regulation of Microwave and Satellite Radio Frequencies. The FCC continues to regulate radio frequency use by both private and common carriers under the Telecommunications Act. Unlike common carriers, private carriers contract with select customers to provide services tailored to the customer's specific needs. The FCC does not currently regulate private carriers (other than their use of radio frequencies) and has preempted the states from regulating private carriers. The Company offers certain services as a private carrier.

The Company is required to obtain authorization from the FCC for its use of radio frequencies to provide satellite and wireless services. The Company holds a number of point-to-point microwave radio licenses that are used to provide telecommunications services in California. Additionally, the Company holds a number of satellite earth station licenses in connection with its operation of satellite-based networks. The Company also provides maritime communications services pursuant to an experimental license and a grant of STA. The Company's experimental license has been renewed by the FCC on several occasions. On January 22, 1999, the Company submitted an application for an additional two-year renewal of the experimental license, which was due to expire in February 1999. Under the FCC's procedures, the experimental license remains valid pending FCC action on the renewal application. The STA was first granted on January 30, 1997 and enables the Company to conduct operations pursuant to the STA of the Company's application for a permanent license. The Company applied for six-month extensions of the STA, most recently on January 29, 1999, and received verbal grants by the FCC of each of the requested extensions. The Company also filed 32 applications for permanent full-term FCC licenses to operate shipboard earth stations in fixed ports. Those applications are pending. There can be no assurance that the Company will be granted permanent licenses, that the experimental license and STA currently being used will continue to be renewed for future terms or that any license granted by the FCC will not require substantial payments from the Company.

Employees

On December 31, 1998, the Company employed a total of 3,415 individuals on a full time basis. There are 39 employees in the Company's Oregon and Washington network systems integration services offices who are represented by collective bargaining agreements. The collective bargaining agreement with certain IBEW (International Brotherhood of Electrical Workers) employees in Oregon and southern Washington expires on December 31, 2000. Additionally, several IBEW employees in other areas of Washington are currently in negotiations for a new collective bargaining agreement. The Company believes that its relations with its employees are good.

ITEM 2. PROPERTIES

The Company's physical properties include owned and leased space for offices, storage and equipment rooms and collocation sites. Additional space may be purchased or leased by the Company as networks are expanded. The Company owns a 30,000 square-foot building located in Englewood, Colorado which houses a portion of the Company's Telecom Services business. Currently, the Company leases approximately 324,000 square feet of office space for operations located in the Denver metropolitan area and approximately 846,000 square feet in other areas of the United States.

As of December 31, 1998, the Company's corporate headquarters building, land and improvements were leased by the Company under an operating lease from an unrelated third party. The Company has entered into a letter of intent to purchase the approximately 265,000 square foot facility located in Englewood, Colorado, as well as the other previously leased assets, and expects to complete the purchase of those assets in early 1999.

ITEM 3. LEGAL PROCEEDINGS

On April 4, 1997, certain shareholders of Zycom filed a shareholder derivative suit and class action complaint for unspecified damages, purportedly on behalf of all of the minority shareholders of Zycom, in the District Court of Harris County, Texas (Cause No. 97-17777) against the Company, Zycom and certain of their subsidiaries. This complaint alleges that the Company and certain of its subsidiaries breached certain duties owed to the plaintiffs. The plaintiffs were denied class certification by the trial court and this decision has been appealed. Trial has been tentatively set for August 1999. The Company is vigorously defending the claims. While it is not possible to predict the outcome of this litigation, management believes these proceedings will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

A putative class action lawsuit was filed on July 15, 1997 in Superior Court of California, Orange County, alleging unfair business practices and related causes of action against NETCOM in connection with its offers of free trial periods and cancellation procedures and claiming damages of at least $10.0 million. Although the case is plead as a class action, the class has not been certified. The parties are currently conducting discovery. Trial has been tentatively set for June 1999. The Company believes it has meritorious defenses to such claims and intends to vigorously defend the action.

The Company is a party to certain other litigation which has arisen in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

ICG Common Stock, $.01 par value per share, has been quoted on the Nasdaq National Market ("Nasdaq") since March 25, 1997 under the symbol "ICGX" and was previously listed on the American Stock Exchange ("AMEX"), from August 5, 1996 to March 24, 1997 under the symbol "ICG." Prior to August 5, 1996, Holdings-Canada's common shares had been listed on the AMEX under the symbol "ITR" from January 14, 1993 through February 28, 1996, and under the symbol "ICG" thereafter through August 2, 1996. Holdings-Canada Class A Common Shares (the "Class A Shares") ceased trading on the AMEX at the close of trading on August 2, 1996. The Class A Shares, which were listed on the Vancouver Stock Exchange ("VSE") under the symbol "IHC.A," ceased trading on the VSE at the close of trading on March 12, 1997. During fiscal 1998, all of the remaining Class A Shares outstanding held by third parties were exchanged into shares of ICG Common Stock.

The following table sets forth, for the fiscal periods indicated, the high and low sales prices of the ICG Common Stock as reported on the AMEX through March 24, 1997 and on the Nasdaq from March 25, 1997 through the date indicated below. The VSE reported no trading activity for the Class A Shares from January 1, 1997 through March 12, 1997, the date on which the Class A Shares ceased trading on the VSE.

	American Stock Exchange/Nasdaq National Market	
	High	**Low**
Fiscal 1997:		
First Quarter	$ 18.13	$ 10.38
Second Quarter	21.13	8.63
Third Quarter	24.63	17.75
Fourth Quarter	28.63	19.75
Fiscal 1998:		
First Quarter	$ 44.25	$ 24.38
Second Quarter	38.88	28.50
Third Quarter	36.63	15.50
Fourth Quarter	26.56	11.13
Fiscal 1999:		
Through March 29, 1999	$ 24.13	$ 15.25

See the cover page of this Annual Report for a recent bid price and related number of shares outstanding of ICG Common Stock. On March 29, 1999, there were 281 holders of record.

The Company has never declared or paid dividends on the ICG Common Stock and does not intend to pay cash dividends on the ICG Common Stock in the foreseeable future. The

Company intends to retain future earnings, if any, to finance the development and expansion of its business. In addition, the payment of any dividends on the ICG Common Stock is effectively prohibited by the restrictions contained in the Company's indentures to the Company's senior indebtedness and in the Second Amended and Restated Articles of Incorporation of Holdings, which prohibits Holdings from making any material payment to the Company. Certain of the Company's debt facilities contain covenants which also may restrict the Company's ability to pay cash dividends.

In April 1998, ICG Services sold $405.3 million principal amount at maturity ($250.0 million original issue price) of 9 7/8% Notes. Morgan Stanley & Co. Incorporated acted as placement agent for the offering and received placement fees of approximately $7.5 million. In February 1998, ICG Services sold $490.0 million principal amount at maturity ($300.6 million original issue price) of 10% Notes. Morgan Stanley & Co. Incorporated acted as placement agent for the offering and received placement fees of approximately $9.0 million.

In September and October 1997, ICG Funding, LLC, a Delaware limited liability company and wholly owned subsidiary of the Company ("ICG Funding"), completed a private placement of $132.25 million of 6 3/4% Exchangeable Limited Liability Company Preferred Securities Mandatorily Redeemable 2009 (the "6 3/4% Preferred Securities"). The 6 3/4% Preferred Securities are mandatorily redeemable November 15, 2009 at the liquidation preference of $50.00 per security, plus accrued and unpaid dividends. Dividends on the 6 3/4% Preferred Securities are cumulative at the rate of 6 3/4% per annum and are payable in cash through November 15, 2000 and, thereafter, in cash or shares of ICG Common Stock at the option of ICG Funding. The 6 3/4% Preferred Securities are exchangeable, at the option of the holder, into ICG Common Stock at an exchange price of $24.025 per share, subject to adjustment. ICG Funding may, at its option, redeem the 6 3/4% Preferred Securities at any time on or after November 18, 2000. Prior to that time, ICG Funding may redeem the 6 3/4% Preferred Securities if the current market value of ICG Common Stock equals or exceeds, for at least 20 days of any consecutive 30-day trading period, 160% of the exchange price through November 15, 1999, and 150% of the exchange price from November 16, 1999 through November 15, 2000. Morgan Stanley & Co. Incorporated and Deutsche Morgan Grenfell Inc. acted as placement agents for the offering and received aggregate placement fees of approximately $4.0 million.

In March 1997, Holdings sold $176.0 million principal amount at maturity ($99.9 million original issue price) of 11 5/8% Senior Discount Notes due 2007 (the "11 5/8% Notes") and 100,000 shares of 14% Preferred Stock Mandatorily Redeemable 2008 (the "14% Preferred Stock"), having a liquidation preference of $1,000 per share. These securities are guaranteed by the Company on a full and unconditional basis. Morgan Stanley & Co. Incorporated acted as placement agent for the offering and received placement fees of approximately $7.5 million.

In April 1996, Holdings sold $550.3 million principal amount at maturity ($300.0 million original issue price) of 12 1/2% Senior Discount Notes due 2006 (the "12 1/2% Notes") and 150,000 shares of 14 1/4% Preferred Stock Mandatorily Redeemable 2007 (the "14 1/4% Preferred Stock"), having a liquidation preference of $1,000 per share. These securities are guaranteed by the Company on a full and unconditional basis. Morgan Stanley & Co. Incorporated acted as placement agent for the offering and received placement fees of approximately $16.5 million.

Each of the foregoing offerings were exempt from registration pursuant to Rule 144A under the Securities Act. Sales were made only to "qualified institutional buyers," as defined in Rule 144A under the Securities Act, and other institutional accredited investors. The securities sold in each of the foregoing offerings were subsequently registered under the Securities Act.

In October 1997, the Company issued 687,221 shares of Common Stock (the "CBG Shares") to certain shareholders of CBG in connection with the acquisition of CBG for a purchase price of approximately $16.0 million. The sale of the CBG Shares was exempt from registration under Section 4(2) of the Securities Act because the offers and sales were made to a limited number of investors in a private transaction. Resale of the CBG Shares was subsequently registered on a Form S-3 registration statement which was declared effective on October 31, 1997.

In July 1998, the Company issued 145,997 shares of ICG Common Stock in connection with the acquisition of DataChoice, valued at approximately $32.88 per share on the date of the sale (the "DataChoice Shares"). The sale of the DataChoice Shares was exempt from registration under Section 4(2) of the Securities Act because the offers and sales were made to a limited number of investors in a private transaction. The Company is required to register the resale of the DataChoice Shares.

Also in July 1998, the Company issued 356,318 shares of ICG Common Stock in connection with the acquisition of NikoNET, valued at approximately $30.03 per share on the date of the sale (the "NikoNET Shares"). The sale of the NikoNET Shares was exempt from registration under Section 4 (2) of the Securities Act because the offer and sales were made to a limited number of investors in a private transaction.

ITEM 6. <u>SELECTED FINANCIAL DATA</u>

The selected financial data for fiscal years ended September 30, 1994, 1995 and 1996, the three months ended December 31, 1996, and the fiscal years ended December 31, 1997 and 1998 has been derived from the audited consolidated financial statements of the Company. The information set forth below should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included elsewhere in this Annual Report. The Company's development and expansion activities, including acquisitions, during the periods shown below materially affect the comparability of this data from one period to another. The Company's consolidated financial statements reflect the operations of Zycom and NETCOM as discontinued for all periods presented. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Fiscal Years Ended September 30,			Three Months Ended December 31,	Fiscal Years Ended December 31,	
	1994	1995	1996	1996	1997	1998
	(in thousands, except per share amounts)					
Statement of Operations Data:						
Revenue [1]	$ 59,112	110,188	154,143	49,477	245,022	397,619
Operating costs and expenses:						
Operating costs	38,165	77,944	121,983	42,485	217,927	254,689
Selling, general and administrative expenses	28,015	61,305	75,646	23,868	148,254	183,683
Depreciation and amortization	8,198	16,350	30,030	9,691	56,501	101,545
Provision for impairment of long-lived assets	-	7,000	9,994	-	9,261	-
Net loss (gain) on disposal of long-lived assets	-	241	5,128	(772)	243	4,055
Restructuring costs	-	-	-	-	-	2,339
Total operating costs and expenses	74,378	162,840	242,781	75,272	432,186	546,311
Operating loss	(15,266)	(52,652)	(88,638)	(25,795)	(187,164)	(148,692)
Interest expense	(8,481)	(24,389)	(85,714)	(24,454)	(117,520)	(170,127)
Other income, net	925	3,141	15,585	5,898	21,549	23,762
Loss from continuing operations before income taxes, preferred dividends, share of losses and cumulative effect of change in accounting	(22,822)	(73,900)	(158,767)	(44,351)	(283,135)	(295,057)
Income tax benefit (expense)	-	-	5,131	-	-	(90)
Loss from continuing operations before preferred dividends, share of losses and cumulative effect of change in accounting	(22,822)	(73,900)	(153,636)	(44,351)	(283,135)	(295,147)
Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses	435	(1,636)	(25,409)	(4,988)	(38,117)	(55,183)
Share of losses of joint venture	(1,481)	(741)	(1,814)	-	-	-
Loss from continuing operations before cumulative effect of change in accounting	(23,868)	(76,277)	(180,859)	(49,339)	(321,252)	(350,330)
Loss from discontinued operations	(100,000)	(14,435)	(44,060)	(11,974)	(39,483)	(67,715)
Cumulative effect of change in accounting [1]	-	-	(3,453)		-	-
Net loss	$ (123,868)	(90,712)	(228,372)	(61,313)	(360,735)	(418,045)
Loss per share from continuing operations - basic and diluted	$ (1.17)	(2.48)	(4.90)	(1.18)	(7.56)	(7.75)
Net loss per share - basic and diluted	$ (6.06)	(2.94)	(6.19)	(1.47)	(8.49)	(9.25)
Weighted average number of shares outstanding - basic and diluted [2]	20,455	30,808	36,875	41,760	42,508	45,194
Other Data:						
Net cash used by operating activities of continuing operations	(7,532)	(41,947)	(39,099)	(6,436)	(117,191)	(105,358)
Net cash used by investing activities of continuing operations	(51,452)	(65,772)	(134,832)	(82,342)	(429,512)	(349,082)
Net cash (used) provided by financing activities of continuing operations	(49,428)	377,772	355,811	(1,886)	308,136	530,915
EBITDA [3]	(7,068)	(36,302)	(58,608)	(16,104)	(130,663)	(47,147)
EBITDA (before nonrecurring charges) [3]	(7,068)	(29,061)	(43,486)	(16,876)	(121,159)	(40,753)
Capital expenditures of continuing operations [4]	54,921	82,623	176,935	70,297	268,796	368,946
Capital expenditures of discontinued operations [4]	11,143	49,714	54,364	8,554	18,055	25,981

(Continued)

	At September 30,			At December 31,		
	1994	1995	1996	1996	1997	1998
			(in thousands)			
Balance Sheet Data:						
Cash, cash equivalents and short-term investments available for sale	$ 6,025	269,404	457,388	391,891	230,850	262,831
Net current assets (liabilities) of discontinued operations [5]	15,551	131,571	54,226	54,481	38,331	(23,272)
Working capital	6,988	381,006	499,810	415,247	263,674	294,934
Property and equipment, net	118,875	201,038	334,646	402,251	631,454	934,134
Net non-current assets of discontinued operations [5]	12,413	59,936	97,561	97,425	76,577	54,243
Total assets	229,955	767,072	1,081,896	1,086,734	1,217,440	1,615,425
Current portion of long-term debt and capital lease obligations	23,118	23,487	8,282	25,500	7,421	5,132
Long-term debt and capital lease obligations, less current portion	97,811	405,535	739,827	761,504	957,507	1,662,357
Redeemable preferred securities of subsidiaries	-	24,336	153,318	159,120	420,171	466,352
Common stock and additional paid-in capital	129,483	420,516	504,851	508,182	534,290	578,404
Accumulated deficit	(61,737)	(152,487)	(380,859)	(430,682)	(791,417)	(1,209,462)
Stockholders' equity (deficit)	67,746	268,001	125,203	78,711	(256,983)	(631,177)

(1) During fiscal 1996, the Company changed its method of accounting for long-term telecom services contracts to recognize revenue as services are provided. Other than the cumulative effect of adopting this new method of accounting, the effect of this change in accounting for the periods presented was not significant. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Accounting Change."

(2) Weighted average number of shares outstanding for fiscal years 1994 and 1995 represents Holdings-Canada common shares outstanding. Weighted average number of shares outstanding for fiscal 1996, the three months ended December 31, 1996, and fiscal 1997 and 1998 represents Holdings-Canada common shares outstanding for the period October 1, 1995 through August 2, 1996, and represents ICG Common Stock and Class A Shares (not owned by ICG) outstanding for the periods subsequent to August 5, 1996. During fiscal 1998, all of the remaining Class A Shares outstanding held by third parties were exchanged into shares of ICG Common Stock.

(3) EBITDA consists of earnings (loss) from continuing operations before interest, income taxes, depreciation and amortization, other expense, net and accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses, or simply, operating loss plus depreciation and amortization. EBITDA (before nonrecurring charges) represents EBITDA before certain nonrecurring charges such as the net loss (gain) on disposal of long-lived assets, provision for impairment of long-lived assets and restructuring costs. EBITDA and EBITDA (before nonrecurring charges) are provided because they are measures commonly used in the telecommunications industry. EBITDA and EBITDA (before nonrecurring charges) are presented to enhance an understanding of the Company's operating results and are not intended to represent cash flows or results of operations in accordance with generally accepted accounting principles ("GAAP") for the periods indicated. EBITDA and EBITDA (before nonrecurring charges) are not measurements under GAAP and are not necessarily comparable with similarly titled measures of other companies. Net cash flows from operating, investing and financing

activities of continuing operations as determined using GAAP are also presented in Other Data.

(4) Capital expenditures includes assets acquired under capital leases and through the issuance of debt or warrants and excludes payments for construction of the Company's corporate headquarters. Capital expenditures of discontinued operations includes the capital expenditures of Zycom and NETCOM combined for all periods presented.

(5) Net non-current assets of discontinued operations and net current assets (liabilities) of discontinued operations represents the assets and liabilities of Zycom and NETCOM combined for all periods presented.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion includes certain forward-looking statements which are affected by important factors including, but not limited to, dependence on increased traffic on the Company's facilities, the successful implementation of the Company's strategy of offering an integrated telecommunications package of local, long distance, enhanced telephony and wholesale and retail data services, continued development of the Company's network infrastructure and actions of competitors and regulatory authorities that could cause actual results to differ materially from the forward-looking statements. The results for the 12 months ended December 31, 1996 and for fiscal 1997 and 1998 have been derived from the Company's audited consolidated financial statements included elsewhere herein and the Company's unaudited consolidated financial statements included in the Company's Forms 10-Q filed with the Securities and Exchange Commission. The Company's consolidated financial statements reflect the operations of Zycom and NETCOM as discontinued for all periods presented. The Company changed its fiscal year end to December 31 from September 30, effective January 1, 1997. All dollar amounts are in U.S. dollars.

Company Overview

The Company is one of the nation's leading competitive ICPs, based on estimates of the industry's 1998 revenue. ICPs seek to provide an alternative to ILECs, long distance carriers and other communications service providers for a full range of communications services in the increasingly deregulated telecommunications industry. The Company's Telecom Services primarily include its CLEC operations, in which the Company operates fiber networks in regional clusters covering major metropolitan statistical areas in California, Colorado, Ohio, the Southeast and Texas, offering local, long distance, data and enhanced telephony services to business end users and ISPs. Additionally, in February 1999, the Company began providing wholesale network services over its nationwide data network. The Company also provides a wide range of network systems integration services and maritime and international satellite transmission services. Network Services consists of information technology services and selected networking products, focusing on network design, installation, maintenance and support. Satellite Services consists of satellite voice, data and video services provided to major cruise lines, the U.S. Navy, the offshore oil and gas industry and ICPs. As a leading participant in the rapidly growing competitive local telecommunications industry, the Company has experienced significant growth, with total revenue increasing from approximately $154.1 million for fiscal 1996 to approximately $397.6 million for fiscal 1998. The Company's rapid growth is the result of the initial installation, acquisition and subsequent expansion of its fiber optic networks and the expansion of its communications service offerings.

The Telecommunications Act and pro-competitive state regulatory initiatives have substantially changed the telecommunications regulatory environment in the United States. Under the Telecommunications Act, the Company is permitted to offer all interstate and intrastate telephone services, including competitive local dial tone. In early 1997, the Company began marketing and selling local dial tone services in major metropolitan areas in California, Colorado, Ohio and the Southeast and, in December 1998, began offering services through an acquired business. During fiscal 1997 and 1998, the Company sold 178,470 and 206,458 local access lines, respectively, net of cancellations, of which 354,482 were in service at December 31, 1998. In addition, the Company's regional fiber networks have grown from 2,143 fiber route miles at the end of fiscal 1996 to 4,255 fiber route miles at December 31, 1998. The Company had 29 operating high capacity digital voice switches and 16 data communications switches at December 31, 1998, and plans to install additional switches as demand warrants. As a complement to its local exchange services offered to business end users, the Company markets bundled service offerings provided over its regional fiber network which include long distance, enhanced telecommunications services and data services. Additionally, the Company owns and operates a nationwide data network with 236 POPs over which the Company recently began providing wholesale Internet access and enhanced network services to MindSpring and intends to offer similar services to other ISPs and telecommunications providers in the future.

The Company will continue to expand its network through construction, leased facilities, strategic alliances and mergers and acquisitions. For example, on December 31, 1998, the Company purchased from CSW 100% of the partnership interests in ChoiceCom, a strategic alliance with CSW formed for the purpose of developing and marketing telecommunications services in certain cities in Texas. ChoiceCom is based in Austin, Texas and currently provides local exchange and long distance services in Austin, Corpus Christi, Dallas, Houston, and San Antonio, Texas. For fiscal 1997 and 1998, ChoiceCom reported revenue of $0.3 million and $5.8 million, respectively, and EBITDA losses (before nonrecurring charges) of $(5.5) million and $(13.6) million, respectively. Additionally, ChoiceCom has five operating high capacity digital voice switches and two data communications switches as of December 31, 1998 and has 19,569 access lines in service, including 15,282 access lines previously sold by ICG on behalf of ChoiceCom.

To better focus its efforts on its core Telecom Services operations, the Company progressed toward the disposal of certain assets which management believes do not complement its overall business strategy. On August 12 and November 18, 1998, the Company completed the sales of the capital stock of MCN and Nova-Net, respectively, two wholly owned subsidiaries within the Company's Satellite Services operations. The results of operations of MCN and Nova-Net, which are not significant to the Company's consolidated results, have been included in the Company's consolidated results of operations through the closing date of each sale. Due primarily to the loss of a major customer, which generated a significant obligation under a volume discount agreement with its call transport provider, the board of directors of Zycom approved a plan on August 25, 1998 to wind down and ultimately discontinue Zycom's operations. On October 22, 1998, Zycom completed the transfer of all customer traffic to other providers and on January 4, 1999, the Company completed the sale of the remainder of Zycom's operating assets to an unrelated third party. Additionally, effective November 3, 1998, the Company's board of directors adopted the formal plan to dispose of the operations of NETCOM. On February 17, 1999, the Company sold certain of the operating assets and liabilities of NETCOM to MindSpring for total proceeds of $245.0 million, and on March 16, 1999, the Company sold all of the capital stock of NETCOM's international operations in Canada and the United Kingdom to other unrelated third parties for total proceeds of approximately $41.1 million. Since the Company expects to record a gain on the disposition of NETCOM, the Company has deferred the net operating losses of NETCOM from November 3, 1998 through December 31, 1998 of approximately $10.8 million. The Company expects to record a combined gain on the NETCOM transactions of approximately $200 million, including the recognition of the deferred losses of NETCOM from November 3, 1998 through the sale dates and net of income taxes of approximately $6.5 million, during the three months ended March 31, 1999. Since the operations sold were acquired by the Company in a transaction accounted for as a pooling of interests, the gain on the NETCOM transaction will be classified in the Company's consolidated statement of operations as an extraordinary item. For fiscal 1996, 1997 and 1998, Zycom and NETCOM combined reported revenue of $135.4 million, $189.0 million and $181.6 million, respectively, and EBITDA losses (before nonrecurring charges) of $(30.4) million, $(12.1) million and $(18.0) million, respectively. The Company's consolidated financial statements reflect the operations of Zycom and NETCOM as discontinued for all periods presented. The Company will from time to time evaluate all of its assets as to their core need and, based on such analysis, may sell or otherwise dispose of assets which do not complement its overall business strategy.

In conjunction with the sale to MindSpring, the legal name of the NETCOM subsidiary was changed to ICG PST, Inc. ("PST"). PST has retained the domestic Internet backbone assets formerly owned by NETCOM which include 236 POPs serving approximately 700 cities nationwide. PST intends to utilize the retained network operating assets to provide wholesale Internet access and enhanced network services to MindSpring and other ISPs and telecommunications providers. On February 17, 1999, the Company entered into an agreement to lease to MindSpring for a one-year period the capacity of certain network operating assets for a minimum of $27.0 million, although subject to increase dependent upon network usage. MindSpring will utilize the capacity to provide Internet access to the dial-up services customers formerly owned by NETCOM. In addition, the Company will receive for a one-year period 50% of the gross revenue earned by MindSpring from the dedicated access customers formerly owned by NETCOM.

In August 1998, the Company began offering enhanced telephony services via IP technology. The Company currently offers these services in 230 major cities in the United States, covering more than 90% of the commercial long distance market. The Company carries the IP traffic over its nationwide data network and terminates a large portion of the traffic via its own POPs, thereby eliminating terminating charges from the use of other carriers' network facilities. Calls that cannot be terminated over the Company's own facilities are billed at higher per minute rates to compensate for the charges associated with using other carriers' facilities. The Company currently does not generate any significant revenue from this service.

In December 1998, the Company announced its plans to offer three new network services (RAS, EOS and DSL), to be available beginning in 1999. RAS allows the Company to provide modem access at its own switch location, rather than requiring ISPs to deploy modems physically at each of their POPs. This service will enable the Company to act as an aggregator for ISP traffic, while limiting the ISP's capital deployment. Through its strategic relationship with Lucent, the Company is currently retrofitting all of its Lucent-5ESS switches with the new Lucent product that allows for RAS functionality. This service eliminates the need for ISPs to separately purchase modems and shifts network management responsibilities to the Company. The Company plans to be the first to market RAS using Lucent's modem technology and expects the service will be available to customers in the second quarter of 1999. Through the same technology that allows it to provide RAS, the Company plans to offer EOS, enabling regional or local ISPs to expand their geographical footprint outside their current physical locations by carrying the ISP's out-of-region traffic on the Company's own nationwide data network. The Company will initially offer this service within its CLEC regional clusters during the first quarter of 1999, and plans to expand EOS offerings to other areas as demand warrants. Through DSL technology, the Company plans to provide high-speed data transmission services primarily to business end users and, on a wholesale basis, to ISPs. DSL technology utilizes the existing ILEC twisted copper pair connection to the customer, giving the customer significantly greater bandwidth, and consequently speed, when connecting to the Internet. The Company expects to offer DSL in over 400 central offices by the end of 1999 through alliances with other companies focusing on DSL service. For example, on February 18, 1999, the Company entered into a letter of intent with NorthPoint which, if the agreement is finalized, will designate NorthPoint as the Company's preferred DSL provider for a two-year period and the Company will purchase up to 75,000 DSL lines from NorthPoint over the two-year term. This alliance will enable the Company to accelerate the expansion of its DSL service offerings and allow NorthPoint to gain access to the Company's collocation facilities in markets where NorthPoint currently has limited or no operations. If the agreement is finalized, NorthPoint will provision and manage all of the Company's DSL services offered under this agreement. The Company expects to begin offering DSL services under this agreement in the second quarter of 1999. The Company is not presently able to determine the impact that the offerings of RAS, EOS and DSL will have on revenue or EBITDA in 1999, 2000 or future years. These service offerings are dependent upon demand from ISPs and, while the Company believes this market sector will benefit from these new services, there is no assurance that the Company will be able to successfully deploy and market these services efficiently, or at all, or obtain and retain new customers in a competitive marketplace.

In conjunction with the increase in its service offerings, the Company has and will continue to need to spend significant amounts on sales, marketing, customer service, engineering and support personnel prior to the generation of corresponding revenue. EBITDA, EBITDA (before nonrecurring charges), and operating and net losses have generally increased immediately preceding and during periods of relatively rapid network expansion and development of new services. Since the quarter ended June 30, 1996, EBITDA losses (before nonrecurring charges) have improved for each consecutive quarter, through and including the quarter ended December 31, 1998 for which the Company reported positive EBITDA (before nonrecurring charges) of $4.1 million. As the Company provides a greater volume of higher margin services, principally local exchange services, carries more traffic on its own facilities rather than ILEC facilities and obtains the right to use unbundled ILEC facilities, while experiencing decelerating increases in personnel and other selling, general and administrative expenses supporting its operations, any or all of which may not occur, the Company anticipates that EBITDA performance will continue to improve in the near term.

Results of Operations

The following table provides a breakdown of revenue, operating costs and selling, general and administrative expenses for Telecom Services, Network Services and Satellite Services and certain other financial data for the Company for the periods indicated. The table also shows certain revenue, expenses, operating loss and EBITDA as a percentage of the Company's total revenue.

	12 Months Ended December 31, 1996 [1]		Fiscal Years Ended December 31, 1997		1998	
	$	%	$	%	$	%
			(Dollars in thousands)			
Statement of Operations Data:						
Revenue:						
Telecom services	$ 87,379	52	149,358	61	303,317	76
Network services	60,380	36	65,678	27	53,851	14
Satellite services	21,317	12	29,986	12	40,451	10
Total revenue	169,076	100	245,022	100	397,619	100
Operating costs:						
Telecom services	81,110		147,338		187,260	
Network services	46,545		53,911		47,321	
Satellite services	10,241		16,678		20,108	
Total operating costs	137,896	82	217,927	89	254,689	64
Selling, general and administrative:						
Telecom services	32,633		94,073		137,207	
Network services	15,841		13,136		12,275	
Satellite services	13,152		13,234		13,255	
Corporate services [2]	19,640		27,811		20,946	
Total selling, general and administrative	81,266	48	148,254	60	183,683	46
Depreciation and amortization	34,888	20	56,501	23	101,545	25
Provision for impairment of long-lived assets	9,994	6	9,261	4	-	-
Net loss on disposal of long-lived assets	3,326	2	243	-	4,055	1
Restructuring costs	-	-	-	-	2,339	1
Operating loss	(98,294)	(58)	(187,164)	(76)	(148,692)	(37)
Other Data:						
Net cash used by operating activities of continuing operations	(40,829)		(117,191)		(105,358)	
Net cash used by investing activities of continuing operations	(191,932)		(429,512)		(349,082)	
Net cash provided by financing activities of continuing operations	362,338		308,136		530,915	
EBITDA [3]	(63,406)	(38)	(130,663)	(53)	(47,147)	(12)
EBITDA (before nonrecurring charges) [3]	(50,086)	(30)	(121,159)	(49)	(40,753)	(10)
Capital expenditures of continuing operations	220,350		268,796		368,946	
Capital expenditures of discontinued operations	49,770		18,055		25,981	

(1) The Company changed its fiscal year end to December 31 from September 30, effective January 1, 1997. The results for the 12 months ended December 31, 1996 have been derived from the Company's unaudited consolidated financial statements included in the Company's Forms 10-Q filed with the Securities and Exchange Commission and reclassified to present such periods in conformity with the fiscal 1998 presentation.

(2) Corporate Services consists of the operating activities of ICG Communications, Inc., ICG Funding, LLC, ICG Canadian Acquisition, Inc., ICG Holdings (Canada) Co., ICG Holdings, Inc., ICG Services, Inc. and ICG Equipment, Inc., which primarily hold securities and provide certain legal, accounting and finance, personnel and other administrative support

services to the business units.

(3) See note 3 under "Selected Financial Data" for the definitions of EBITDA and EBITDA (before nonrecurring charges).

Fiscal 1998 Compared to Fiscal 1997

Revenue. Total revenue for fiscal 1998 increased $152.6 million, or 62%, from fiscal 1997. Telecom Services revenue increased 103% to $303.3 million due to an increase in revenue from local services (dial tone), long distance and special access services, offset in part by a decline in average unit pricing and in wholesale switched services revenue. Local services revenue increased from $21.3 million (14% of Telecom Services revenue) for fiscal 1997 to $157.1 million (52% of Telecom Services revenue) for fiscal 1998, primarily due to an increase in local access lines from 141,035 lines in service at December 31, 1997 to 354,482 lines in service at December 31, 1998. In addition, local access revenue includes revenue of approximately $4.9 million and $58.3 million for fiscal 1997 and 1998, respectively, for reciprocal compensation relating to the transport and termination of local traffic to ISPs from customers of ILECs pursuant to various interconnection agreements. These agreements are subject to renegotiation over the next several months. While management believes that these agreements will be replaced by agreements offering the Company some form of compensation for ISP traffic, the renegotiated agreements may reflect rates for reciprocal compensation which are lower than the rates under the current contracts. See "Liquidity - Transport and Termination Charges." Revenue from long distance services generated $22.7 million for fiscal 1998, compared to no reported revenue for fiscal 1997. Special access revenue increased from $55.4 million (37% of Telecom Services revenue) for fiscal 1997 to $74.5 million (25% of Telecom Services revenue) for 1998. Switched access (terminating long distance) revenue decreased to approximately $49.0 million for fiscal 1998, compared to $72.7 million for fiscal 1997. The Company has raised prices on its wholesale switched services product in order to improve margins and has de-emphasized its wholesale switched services to focus on its higher margin products. Revenue from data services did not generate a material portion of total revenue during either period.

Network Services revenue decreased 18% to $53.9 million for fiscal 1998 compared to $65.7 million for fiscal 1997. The decrease in Network Services revenue is partially due to the decline in network integration services projects from new and existing customers during fiscal 1998 and project delays by customers from 1998 into 1999, offset slightly by increases in integrated cabling services revenue. In addition, Network Services provides certain cabling and other service installation on behalf of Telecom Services, as Telecom Services provisions new customers and services. Due to the growth of Telecom Services during fiscal 1998, Network Services has been and will continue to be required to spend increasing management attention and resources on providing cabling and other service installation for Telecom Services. Amounts received from Telecom Services for work performed is eliminated in consolidation.

Satellite Services revenue increased $10.5 million, or 35%, to $40.5 million for fiscal 1998. This increase is due to the operations of MTN, which comprised $30.0 million of total Satellite Services revenue for fiscal 1998, compared to $19.0 million for fiscal 1997, offset by decreases in revenue of MCN and Nova-Net, which the Company sold in August and November 1998, respectively. MTN's C-band installations, which include both military and cruise vessels, increased from 57 at December 31, 1997 to 76 at December 31, 1998, an increase of 33%.

Operating costs. Total operating costs for fiscal 1998 increased $36.8 million, or 17%, from fiscal 1997. Telecom Services operating costs increased from $147.3 million, or 99% of Telecom Services revenue, for fiscal 1997, to $187.3 million, or 62% of Telecom Services revenue, for fiscal 1998. Telecom Services operating costs consist of payments to ILECs for the use of network facilities to support special and switched access services, network operating costs, right of way fees and other costs. The increase in operating costs in absolute dollars is attributable to the increase in volume of local and special access services and the addition of network operating costs which include engineering and operations personnel dedicated to the development and launch of local exchange services. The decrease in operating costs as a percentage of Telecom Services revenue is due primarily to a greater volume of higher margin services, principally local exchange services. The Company expects the Telecom Services ratio of operating costs to revenue will further improve as the Company provides a greater margin of higher volume services, principally local exchange services, carries more traffic on its own facilities rather than the ILEC facilities and obtains the right to use unbundled ILEC facilities on satisfactory terms, any or all of which may not occur.

Network Services operating costs decreased 12% to $47.3 million and increased as a percentage of revenue from 82% for fiscal 1997 to 88% for fiscal 1998. The decrease in operating costs in absolute dollars is due to a decrease in general business volume from external customers between the comparative periods. Network Services operating costs increased as a percentage of Network Services revenue due to cost overruns and the decline in higher margin network integration services projects during fiscal 1998.

Satellite Services operating costs increased to $20.1 million for fiscal 1998, from $16.7 million for fiscal 1997. Satellite Services operating costs, as a percentage of Satellite Services revenue, decreased from 56% for fiscal 1997 to 50% for fiscal 1998, due to the increase in revenue of MTN, which provides relatively higher margins than other maritime services. Satellite Services operating costs consist primarily of transponder lease costs and the cost of equipment sold.

Selling, general and administrative expenses. Total selling, general and administrative ("SG&A") expenses for fiscal 1998 increased $35.4 million, or 24%, compared to fiscal 1997, and decreased as a percentage of total revenue from 61% for fiscal 1997 to 46% for fiscal 1998. Telecom Services SG&A expense increased from $94.1 million, or 63% of Telecom Services revenue, for fiscal 1997, to $137.2 million, or 45% of Telecom Services revenue, for fiscal 1998. The increase in absolute dollars is principally due to the continued rapid expansion of the Company's Telecom Services networks and related significant additions to the Company's management information systems, customer service, marketing and sales staffs dedicated to the expansion of the Company's networks and implementation of the Company's expanded services strategy, primarily the development of local and long distance telephone services. As the Company begins to benefit from the revenue generated by newly developed services requiring substantial administrative, selling and marketing expense prior to initial service offerings, Telecom Services has experienced and expects to continue to experience declining SG&A expenses as a percentage of Telecom Services revenue.

Network Services SG&A expense decreased $0.9 million to $12.3 million for fiscal 1998 compared to fiscal 1997. This decrease is primarily due to a reduction in personnel as a result of the decentralization of Network Services during fiscal 1998. In addition, certain long-term operating leases on field offices expired during fiscal 1998.

Satellite Services SG&A expense was $13.2 million for both fiscal 1997 and 1998. SG&A expense decreased as a percentage of Satellite Services revenue from 44% for fiscal 1997 to 33% for fiscal 1998 due to the growth of MTN revenue, without proportional increases in SG&A expenses, and the sales of MCN and Nova-Net in August and November, 1998, respectively, which companies generated higher SG&A expenses in relation to revenue than MTN.

Corporate Services SG&A expense decreased $6.9 million to $20.9 million for fiscal 1998 compared to $27.8 million for fiscal 1997. This decrease is primarily due to a change in the allocation of payroll costs associated with the Company's information technology and human resources personnel, which costs were allocated to Corporate Services for fiscal 1997 and to Telecom Services for fiscal 1998.

Depreciation and amortization. Depreciation and amortization increased $45.0 million, or 80%, for fiscal 1998 compared to fiscal 1997, primarily due to increased investment in depreciable assets resulting from the continued expansion of the Company's networks and services. Additionally, the Company experienced increased amortization arising from goodwill recorded in conjunction with the purchases of NikoNET and DataChoice during fiscal 1998 as well as the full year impact of goodwill amortization from the purchase of Communications Buying Group, Inc. in October 1997. The Company expects that depreciation and amortization will continue to increase as the Company continues to invest in the expansion and upgrade of its regional fiber and nationwide data networks and begins amortization of the goodwill arising from the purchase of ChoiceCom on December 31, 1998.

Provision for impairment of long-lived assets. For fiscal 1997, provision for impairment of long-lived assets includes the write-down of the Company's investment in StarCom International Optics Corporation, Inc. ("StarCom") ($5.2 million), MCN ($2.9 million) and Nova-Net ($0.9 million) as well as a write-down of other operating assets ($0.3 million). Provision for impairment of long-lived assets was recorded based on management's estimate of the net realizable value of the Company's assets at December 31, 1997. No such provision for impairment was recorded for fiscal 1998.

Net loss on disposal of long-lived assets. Net loss on disposal of long-lived assets increased from $0.2 million for fiscal 1997 to $4.1 million for fiscal 1998. Net loss on disposal of long-lived assets for fiscal 1997 primarily relates to losses recorded on the disposal of the Company's investment in its Melbourne network. For fiscal 1998, net loss on disposal of long-lived assets relates to the write-off of certain installation costs of disconnected special access customers ($0.5 million), the write-off of certain costs associated with an abandoned operating support system project ($0.8 million), general disposal of furniture, fixtures and office equipment ($3.5 million) and the loss on the sale of Nova-Net ($0.2 million), offset by the gain on the sale of MCN ($0.9 million).

Restructuring costs. For fiscal 1998, restructuring costs of $2.3 million include $0.2 million in costs, primarily severance costs, related to the facility closure of a subsidiary of NikoNET, $0.6 million in costs, primarily severance costs, related to the decentralization of the Company's Network Services subsidiary and $1.5 million related to the combined restructuring of Telecom Services and Corporate Services, designed to support the Company's increased strategic focus on its ISP customer base, as well as to improve the efficiency of operations and general and administrative support functions. Restructuring costs under this plan include severance and other employee benefit costs, of which $0.9 million has been paid as of December 31, 1998.

Interest expense. Interest expense increased $52.6 million, from $117.5 million for fiscal 1997, to $170.1 million for fiscal 1998, which includes $158.2 million of non-cash interest. This increase was primarily attributable to an increase in long-term debt, primarily the 10% Notes issued in February 1998 and the 9 7/8% Notes issued in April 1998. In addition, the Company's interest expense increased, and will continue to increase, because the principal amount of its indebtedness increases until the Company's senior indebtedness begins to pay interest in cash.

Interest income. Interest income increased $6.5 million, from $21.9 million for fiscal 1997 to $28.4 million for fiscal 1998. The increase is attributable to the increase in cash and invested cash balances from the proceeds from the issuances of the 10% Notes in February 1998 and the 9 7/8% Notes in April 1998.

Other expense, net. Other expense, net increased from $0.4 million net expense for fiscal 1997 to $4.7 million net expense for fiscal 1998. Other expense, net recorded in fiscal 1997 consists primarily of litigation settlement costs and the loss on disposal of non-operating assets. For fiscal 1998, other expense, net primarily includes $3.2 million in settlement costs paid to the former minority shareholders and warrantholders of MTN, $1.1 million in litigation settlement costs and a write-off of notes receivable of $0.4 million.

Income tax expense. Income tax expense of $0.1 million for fiscal 1998 relates to current state income taxes of NikoNET.

Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses. Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses increased $17.1 million, from $38.1 million for fiscal 1997 to $55.2 million for fiscal 1998. The increase is due primarily to the issuances of the 6 3/4% Preferred Securities in September and October 1997. Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses recorded during fiscal 1998 consists of the accretion of issuance costs ($1.3 million) and the accrual of the preferred securities dividends ($53.9 million) associated with the 6 3/4% Preferred Securities, the 14% Preferred Stock and the 14 1/4% Preferred Stock.

Loss from continuing operations. Loss from continuing operations increased $29.1 million, or 9%, to $350.3 million due to the increases in operating costs, SG&A expenses, depreciation and amortization, interest expense and accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses, offset by an increase in revenue, as noted above.

Loss from discontinued operations. For fiscal 1997 and 1998, loss from discontinued operations was $39.5 million and $67.7 million, respectively, or 11% and 16%, respectively, of the Company's net loss. Loss from discontinued operations consists of the combined net loss of Zycom and NETCOM for the respective periods and, for fiscal 1998, includes $1.8 million for estimated losses on the disposal of Zycom. The remaining increase in loss from discontinued operations between the comparative periods is due to increases in SG&A expenses and depreciation and amortization incurred by NETCOM and approximately $9.4 million for merger costs incurred by NETCOM relating to NETCOM's merger with ICG in January 1998. Loss from discontinued operations for fiscal 1998 includes the net loss of NETCOM from January 1, 1998 through November 2, 1998. Since the Company expects to record a gain on the disposition of NETCOM, the Company has deferred the net operating losses of NETCOM from November 3, 1998 through December 31, 1998, to be recognized as a component of the gain on the disposition.

Fiscal 1997 Compared to 12 Months Ended December 31, 1996

Revenue. Total revenue for fiscal 1997 increased $75.9 million, or 45%, from the 12 months ended December 31, 1996. Telecom Services revenue increased 71% to $149.4 million due to an increase in network usage for both switched and special access services, offset in part by a decline in average unit pricing. Local services revenue was $21.3 million (14% of Telecom Services revenue) for fiscal 1997, but did not generate a material portion of total revenue for the 12 months ended December 31, 1996. Special access revenue increased from $39.3 million (45% of Telecom Services revenue) for the 12 months ended December 31, 1996 to $55.4 million (37% of Telecom Services revenue) for fiscal 1997. Switched access (terminating long distance) revenue increased to approximately $72.7 million for fiscal 1997, compared to $48.1 million for the 12 months ended December 31, 1996. Revenue from long distance and data services did not generate a material portion of total revenue during either period.

Network Services revenue increased 9% to $65.7 million for fiscal 1997 compared to $60.4 million for the 12 months ended December 31, 1996. The increase in Network Services revenue is due to a single equipment sale during fiscal 1997 for $3.2 million as well as general increases in business volume from external customers.

Satellite Services revenue increased $8.7 million, or 41%, to $30.0 million for fiscal 1997, compared to $21.3 million for the 12 months ended December 31, 1996. This increase is primarily due to the operations of MCN, which comprised $6.3 million of total Satellite Services revenue for fiscal 1997 compared to $1.8 million during the same 12-month period in 1996. The remaining increase can be attributed to the general growth of MTN and its increased sales of C-Band equipment to offshore oil and gas customers.

Operating costs. Total operating costs for fiscal 1997 increased $80.0 million, or 58%, from the 12 months ended December 31, 1996. Telecom Services operating costs increased from $81.1 million, or 93% of Telecom Services revenue, for the 12 months ended December 31, 1996 to $147.3 million, or 99% of Telecom Services revenue, for fiscal 1997. The increase in operating costs in absolute dollars is attributable to the increase in local and special access services and the addition of network operating costs which include engineering and operations personnel dedicated to the development and launch of local exchange services. The increase in operating costs as a percentage of Telecom Services revenue is due primarily to the increase in switched access services revenue, and the investment in the development of local exchange services without the benefit of substantial corresponding revenue in the same period.

Network Services operating costs increased 16% to $53.9 million and increased as a percentage of Network Services revenue from 77% for the 12 months ended December 31, 1996 to 82% for fiscal 1997. The increase is due to a substantially lower margin earned on equipment sales (which constituted a larger portion of 1997 revenue) relative to other services and certain indirect project costs included in operating costs during fiscal 1997 which were treated as SG&A expenses during the comparable 12-month period in 1996.

Satellite Services operating costs increased to $16.7 million for fiscal 1997, from $10.2 million for the 12 months ended December 31, 1996. Satellite Services operating costs as a percentage of Satellite Services revenue also increased from 48% for the 12 months ended December 31, 1996 to 56% for fiscal 1997. This increase is due to an increase in MCN's sales as well the increased volume of equipment sales, both of which provide lower margins than other maritime services.

Selling, general and administrative expenses. Total SG&A expenses for fiscal 1997 increased $67.0 million, or 82%, compared to the 12 months ended December 31, 1996. This increase was principally due to the continued rapid expansion of the Company's Telecom Services networks and related significant additions to the Company's management information systems, customer service, marketing and sales staffs dedicated to the expansion of the Company's networks and implementation of the Company's expanded services strategy, primarily the development of local and long distance telephone services. Total SG&A expenses as a percentage of total revenue increased from 48% for the 12 months ended December 31, 1996 to 61% for fiscal 1997. There is typically a period of higher administrative and marketing expense prior to the generation of appreciable revenue from newly developed networks or services.

Depreciation and amortization. Depreciation and amortization increased $21.6 million, or 62%, for fiscal 1997, compared to the 12 months ended December 31, 1996, due to increased investment in depreciable assets resulting from the continued expansion of the Company's networks and services. The Company reports high levels of depreciation expense relative to revenue during the early years of operation of a new network because the full cost of a network is depreciated using the straight-line method despite the low rate of capacity utilization in the early stages of network operation.

Provision for impairment of long-lived assets. For the 12 months ended December 31, 1996, provision for impairment of long-lived assets includes valuation allowances for the amounts receivable for advances made to the formerly owned Phoenix network joint venture included in long-term note receivable ($5.8 million), the investments in the formerly owned Melbourne network ($2.7 million) and the formerly owned Satellite Services Mexico subsidiary ($0.1 million) and the note receivable from NovoComm, Inc. ($1.3 million). Provision for impairment of long-lived assets for fiscal 1997 includes the write-down of the Company's investment in StarCom ($5.2 million), MCN ($2.9 million) and Nova-Net ($0.9 million) as well as a write-down of other operating assets

($0.3 million). Provision for impairment of long-lived assets was recorded based on management's estimate of the net realizable value of the Company's assets at December 31, 1996 and 1997.

Net loss on disposal of long-lived assets. Net loss on disposal of long-lived assets decreased from $3.3 million for the 12 months ended December 31, 1996 to $0.2 million for fiscal 1997. Net loss on disposal of long-lived assets for the 12 months ended December 31, 1996 includes the loss recorded on the sale of four of the Company's teleports used in its Satellite Services operations ($1.1 million), the loss recorded on the disposal of other operating assets ($2.7 million) and a write-off of an investment ($0.3 million), offset by a gain on the sale of the Company's 50% interest in the Phoenix network joint venture ($0.8 million). For fiscal 1997, net loss on disposal of long-lived assets primarily relates to losses recorded on the disposal of the Company's investment in its formerly owned Melbourne network.

Interest expense. Interest expense increased $22.6 million, from $95.0 million for the 12 months ended December 31, 1996, to $117.5 million for fiscal 1997, which includes $109.3 million of non-cash interest. This increase was primarily attributable to an increase in long-term debt, primarily the 11 5/8% Notes issued in March 1997. In addition, the Company's interest expense increased, and will continue to increase, because the principal amount of its indebtedness increases until the Company's senior indebtedness begins to pay interest in cash.

Interest income. Interest income increased $0.5 million, from $21.4 million for the 12 months ended December 31, 1996 to $21.9 million for fiscal 1997. The increase is attributable to the increase in cash and invested cash balances from the proceeds from the issuances of the 11 5/8% Notes and 14% Preferred Stock in March 1997 and the 6 3/4% Preferred Securities in September and October 1997.

Other expense, net. Other expense, net decreased from $3.7 million net expense for the 12 months ended December 31, 1996 to $0.4 million net expense for fiscal 1997. Other expense, net recorded for the 12 months ended December 31, 1996 consists primarily of the write-off of deferred financing costs associated with the conversion or repayment of debt and litigation settlement costs. For fiscal 1997, other, net consists primarily of litigation settlement costs and the loss on disposal of non operating assets.

Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses. Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses increased $11.0 million, from $27.1 million for the 12 months ended December 31, 1996 to $38.1 million for fiscal 1997. The increase is due primarily to the issuances of the 14% Preferred Stock in March 1997 and the 6 3/4% Preferred Securities in September and October 1997. Offsetting this increase is $12.3 million recorded during the 12 months ended December 31, 1996 for the excess of the redemption price over the carrying amount of the 12% redeemable preferred stock of Holdings redeemed in April 1996. Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses recorded during fiscal 1997 consists of the accretion of issue costs ($0.9 million) and the accrual of the preferred security dividends ($38.9 million) associated with the 6 3/4% Preferred Securities, the 14% Preferred Stock and the 14 1/4% Exchangeable Preferred Stock Mandatorily Redeemable 2007 (the "14 1/4% Preferred Stock"), offset by minority interest in losses of subsidiaries of $1.7 million.

Share of losses of joint venture. Effective October 1, 1996, the Company sold its 50% interest in the Phoenix network joint venture. As a result, no share of losses in joint venture was recorded during fiscal 1997, as compared to the $1.6 million loss recorded during the comparable 12-month period in 1996.

Loss from continuing operations. Loss from continuing operations increased $122.2 million, or 61%, to $321.3 million due to the increases in operating costs, SG&A expenses, depreciation and amortization, interest expense and accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses, offset by an increase in revenue, as noted above.

Loss from discontinued operations. For the 12 months ended December 31, 1996 and fiscal 1997, loss from discontinued operations was $50.5 million and $39.5 million, respectively, or 20% and 11%, respectively, of the Company's net loss. Loss from discontinued operations consists of the combined net loss of Zycom and NETCOM for the respective periods. The decrease in loss from discontinued operations between the comparative periods is due to an increase in revenue and a decrease in operating costs as a percentage of revenue incurred by NETCOM.

Quarterly Results

The following table presents selected unaudited operating results for three-month quarterly periods during fiscal 1997 and 1998. The Company believes that all necessary adjustments have been included in the amounts stated below to present fairly the quarterly results when read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this Annual Report. Results of operations for any particular quarter are not necessarily indicative of results of operations for a full year or predictive of future periods. ICG's development and expansion activities, including acquisitions, during the periods shown below materially affect the comparability of this data from one period to another.

	Three Months Ended				Three Months Ended			
	Mar. 31, 1997	June 30, 1997	Sept. 30, 1997	Dec. 31, 1997	Mar. 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998
				(Dollars in thousands)				
Statement of Operations Data:								
Revenue	$ 55,450	57,937	60,615	71,020	78,867	90,657	106,467	121,628
Operating loss	(39,747)	(45,515)	(46,045)	(55,857)	(39,082)	(39,649)	(27,717)	(42,244)
Loss from continuing operations	(66,039)	(75,919)	(79,372)	(99,922)	(81,564)	(89,435)	(80,082)	(99,249)
Loss from discontinued operations	(9,953)	(10,830)	(7,502)	(11,198)	(20,191)	(11,401)	(16,582)	(19,541)
Net loss	$ (75,992)	(86,749)	(86,874)	(111,120)	(101,755)	(100,836)	(96,664)	(118,790)
Loss per share from continuing operations – basic and diluted	$ (1.57)	(1.80)	(1.87)	(2.29)	(1.84)	(1.99)	(1.76)	(2.16)
Weighted average number of shares outstanding – basic and diluted	42,003	42,122	42,359	43,553	44,311	44,865	45,588	46,010
Other Data:								
Net cash used by operating activities of continuing operations	(13,089)	(20,755)	(30,823)	(52,524)	(6,539)	(30,950)	(13,941)	(53,928)
Net cash (used) provided by investing activities of continuing operations	(60,197)	(50,554)	(193,445)	(125,316)	36,681	(70,471)	(151,395)	(163,897)
Net cash provided (used) by financing activities of continuing operations	172,689	(4,418)	110,288	29,577	294,197	238,628	(7,432)	5,522
EBITDA (1)	(29,000)	(32,581)	(32,528)	(36,554)	(25,479)	(16,814)	(2,834)	(2,020)
EBITDA (before nonrecurring charges) (1)	(29,319)	(32,581)	(31,174)	(28,085)	(24,974)	(16,268)	(3,648)	4,137
Capital expenditures of continuing operations (2)	(58,556)	(64,233)	(64,347)	(81,660)	(65,748)	(87,166)	(107,108)	(108,924)
Capital expenditures of discontinued operations	(5,303)	(5,771)	(3,259)	(3,722)	(6,511)	(8,696)	(5,021)	(5,753)
Statistical Data (3):								
Full time employees	2,347	2,623	2,861	3,032	3,050	3,089	3,251	3,415
Telecom services:								
Access lines in service (4)	5,371	20,108	50,551	141,035	186,156	237,458	290,983	354,482
Buildings connected (5):								
On-net	545	560	590	626	637	665	684	777
Hybrid (6)	1,550	1,704	1,726	2,527	3,294	3,733	4,217	4,620
Total buildings connected	2,095	2,264	2,316	3,153	3,931	4,398	4,901	5,397
Operational switches:								
Voice	16	17	18	19	20	20	21	29
Data	10	15	15	15	15	15	15	16
Total operational switches	26	32	33	34	35	35	36	45
Fiber route miles (7):								
Operational	2,483	2,898	3,021	3,043	3,194	3,812	3,995	4,255
Under construction	-	-	-	-	-	-	-	625
Fiber strand miles (8):								
Operational	83,334	101,788	109,510	111,435	118,074	124,642	127,756	134,152
Under construction	-	-	-	-	-	-	-	15,284
Satellite services:								
C-Band installations (9)	57	57	54	57	59	66	69	76

(1) EBITDA consists of earnings (loss) from continuing operations before interest, income taxes, depreciation and amortization, other expense, net and accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses, or simply, operating loss plus depreciation and amortization. EBITDA (before nonrecurring charges) represents EBITDA before certain nonrecurring charges such as the net loss (gain) on disposal of long-lived assets, provision for impairment of long-lived assets and restructuring costs. EBITDA and EBITDA (before nonrecurring charges) are provided because they are measures commonly used in the telecommunications industry. EBITDA and EBITDA (before nonrecurring charges) are presented to enhance an understanding of

the Company's operating results and are not intended to represent cash flows or results of operations in accordance with GAAP for the periods indicated. EBITDA and EBITDA (before nonrecurring charges) are not measurements under GAAP and are not necessarily comparable with similarly titled measures of other companies. Net cash flows from operating, investing and financing activities of continuing operations as determined using GAAP are also presented in Other Data.

(2) Capital expenditures includes assets acquired under capital leases and excludes payments for construction of the Company's corporate headquarters. Capital expenditures of discontinued operations includes the capital expenditures of Zycom and NETCOM combined for all periods presented.

(3) Amounts presented are for three-month periods ended, or as of the end of, the period presented.

(4) Access lines in service at December 31, 1998 includes 271,928 lines which are provisioned through the Company's switch and 82,554 lines which are provisioned through resale and other agreements with various local exchange carriers. Resale lines typically generate lower margins and are used primarily to obtain customers. Although the Company plans to migrate lines from resale to higher margin on-switch lines, there is no assurance that it will be successful in executing this strategy.

(5) Prior to the fourth quarter of 1997, buildings connected includes only special access buildings connected. Beginning December 31, 1997, buildings connected includes both dial tone and special access buildings connected.

(6) Hybrid buildings connected represent buildings connected to the Company's network via another carrier's facilities.

(7) Fiber route miles refers to the number of miles of fiber optic cable, including leased fiber. As of December 31, 1998, the Company had 4,255 fiber route miles, of which 47 fiber route miles were leased under operating leases. Fiber route miles under construction represents fiber under construction which is expected to be operational within six months.

(8) Fiber strand miles refers to the number of fiber route miles, including leased fiber, along a telecommunications path multiplied by the number of fiber strands along that path. As of December 31, 1998, the Company had 134,152 fiber strand miles, of which 1,595 fiber strand miles were leased under operating leases. Fiber strand miles under construction represents fiber under construction which is expected to be operational within six months.

(9) C-Band installations service cruise ships, U.S. Navy vessels and offshore oil platform installations.

The Company's consolidated revenue has increased every quarter since the first fiscal quarter of 1992, primarily due to the installation and acquisition of new networks, the expansion of existing networks and increased services provided over existing networks. EBITDA, EBITDA (before nonrecurring charges), and operating and net losses have generally increased immediately preceding and during periods of relatively rapid network expansion and development of new services. Since the quarter ended June 30, 1996, EBITDA losses (before nonrecurring charges) have improved for each consecutive quarter, through and including the quarter ended December 31, 1998 for which the Company reported positive EBITDA (before nonrecurring charges) of $4.1 million. As the Company provides a greater volume of higher margin services, principally local exchange services, carries more traffic on its own facilities rather than ILEC facilities and obtains the right to use unbundled ILEC facilities, while experiencing decelerating increases in personnel and other SG&A expenses supporting its operations, any or all of which may not occur, the Company anticipates that EBITDA performance will continue to improve in the near term.

Individual operating units may experience variability in quarter to quarter revenue due to (i) the type and mix of services available to customers, (ii) the timing and size of contract orders, (iii) the timing of price changes and associated impact on volume, and (iv) customer usage patterns.

Net Operating Loss Carryforwards

As of December 31, 1998, the Company had federal and foreign net operating loss carryforwards ("NOLs") of approximately $617.8 million and $35.0 million, respectively, which expire at various times in varying amounts through 2019. However, due to the provisions of Section 382, regulations issued under Section 1502 and certain other provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the utilization of a portion of the NOLs may be limited. In addition, the Company is also subject to certain state income tax laws which may also limit the utilization of NOLs for state income tax purposes.

Section 382 of the Code limits the use of NOLs, as well as other tax attributes, following significant changes in ownership of a corporation's stock, as defined in the Code. The limitation is expressed as the amount of NOL or other tax attributes arising during a period prior to the change in ownership that may be used by the Company in any tax year subsequent to the change in ownership. Other factors may act to increase or decrease the annual limitation for any year subsequent to a change in ownership. Future events beyond the control of the Company could reduce or eliminate the Company's ability to utilize its NOLs. Future ownership changes under Section 382 will require a new Section 382 computation which could further restrict the use of the NOLs. In addition, the Section 382 limitation could be reduced to zero if the Company fails to satisfy the continuity of business enterprise requirement for the two-year period following an ownership change.

Liquidity and Capital Resources

The Company's growth has been funded through a combination of equity, debt and lease financing. As of December 31, 1998, the Company had current assets of $422.8 million, including $262.8 million of cash, cash equivalents and short-term investments available for sale which exceeded current liabilities of $127.9 million, providing working capital of $294.9 million. In addition, during the first quarter of 1999, the Company completed the sales of NETCOM's operations for total proceeds of $286.1 million. The Company invests excess funds in short-term, interest-bearing investment-grade securities until such funds are used to fund the capital investments and operating needs of the Company's business. The Company's short term investment objectives are safety, liquidity and yield, in that order.

Net Cash Used By Operating Activities of Continuing Operations

The Company's operating activities of continuing operations used $39.1 million in fiscal 1996, $4.7 million and $6.4 million for the three months ended December 31, 1995 and 1996, respectively, and $117.2 million and $105.4 million for fiscal 1997 and 1998, respectively. Net cash used by operating activities of continuing operations is primarily due to net losses from continuing operations and increases in receivables, which are partially offset by changes in other working capital items and non-cash expenses, such as depreciation and amortization expense, deferred interest expense, accretion and preferred dividends on subsidiary preferred securities.

The Company does not anticipate that cash provided by operations will be sufficient to fund operating activities, the future expansion of existing networks or the construction and acquisition of new networks in the near term. As the Company provides a greater volume of higher margin services, principally local exchange services, carries more traffic on its own facilities rather than ILEC facilities and obtains the right to use unbundled ILEC facilities, while experiencing decelerating increases in personnel and other SG&A expenses supporting its operations, any or all of which may not occur, the Company anticipates that net cash used by operating activities of continuing operations will continue to improve in the near term.

Net Cash Used By Investing Activities of Continuing Operations

Investing activities of continuing operations used $134.8 million (net of $21.6 million received in connection with the sale of certain satellite equipment, including four teleports) in fiscal 1996, $25.2 million (net of $21.1 million received in connection with the aforementioned equipment sale) and $82.3 million for the three months ended December 31, 1995 and 1996, respectively, and $429.5 million and $349.1 million for fiscal 1997 and 1998, respectively. Net cash used by investing activities of continuing operations includes cash expended for the acquisition of property, equipment and other assets of $121.9 million for fiscal 1996, $26.8 million and $50.8 million for the three months ended December 31, 1995 and 1996, respectively, and $268.8 million and $367.5 million for fiscal 1997 and 1998, respectively. Additionally, net cash used by investing activities of continuing operations includes payments for construction of the Company's corporate headquarters of $1.5 million for fiscal 1996, $7.9 million for the three months ended December 31, 1996, and $29.4 million and $4.9 million for fiscal 1997 and 1998, respectively. The Company used $45.9 million in fiscal 1997 to acquire CBG and $67.8 million in fiscal 1998 for the acquisitions of ChoiceCom, NikoNET and DataChoice combined. During fiscal 1998, the Company used $9.5 million to purchase the minority interest of two of the Company's operating subsidiaries. Offsetting the expenditures for investing activities of continuing operations for fiscal 1998 are the proceeds from the sale of the Company's corporate headquarters of $30.3 million and the sale of short-term investments of $60.3 million. The Company will continue to use cash in 1999 and subsequent periods for the construction of new networks, the expansion of existing networks and, potentially, for acquisitions. The Company acquired assets under capital leases and through the issuance of debt or warrants of $55.0 million in fiscal 1996, $0.1 million and $19.5 million for the three months ended December 31, 1995 and 1996, respectively, and $1.4 million for fiscal 1998.

Net Cash Provided (Used) By Financing Activities of Continuing Operations

Financing activities of continuing operations provided $355.8 million in fiscal 1996, used $8.4 million and $1.9 million in the three months ended December 31, 1995 and 1996, respectively, and provided $308.1 million and $530.9 million in fiscal 1997 and 1998, respectively. Net cash provided by financing activities of continuing operations for these periods includes cash received in connection with the private placement of the 11 5/8% Notes and the 14% Preferred Stock in March 1997, the 6 3/4% Preferred Securities in September and October 1997 and the 10% Notes and the 9 7/8% Notes in February and April 1998, respectively. Historically, the funds to finance the Company's business acquisitions, capital expenditures, working capital requirements and operating losses have been obtained through public and private offerings of ICG and Holdings-Canada common shares, convertible subordinated notes, convertible preferred shares of Holdings-Canada, capital lease financings and various working capital sources, including credit facilities, in addition to the private placement of the securities previously mentioned and other securities offerings.

On February 12, 1998, ICG Services completed a private placement of 10% Notes, with a maturity value of approximately $490.0 million for net proceeds, after underwriting and other offering costs, of approximately $290.9 million. Interest will accrue at 10% per annum, beginning February 15, 2003, and is payable in cash each February 15 and August 15, commencing August 15, 2003. The 10% Notes will be redeemable at the option of ICG Services, in whole or in part, on or after February 15, 2003.

On April 27, 1998, ICG Services completed a private placement of 9 7/8% Notes, with a maturity value of approximately $405.3 million, for net proceeds, after underwriting and other offering costs, of approximately $242.1 million. Interest will accrue at 9 7/8% per annum, beginning May 1, 2003, and is payable in cash each May 1 and November 1, commencing November 1, 2003. The 9 7/8% Notes will be redeemable at the option of ICG Services, in whole or in part, on or after May 1, 2003.

As of December 31, 1998, the Company had an aggregate of approximately $68.4 million of capital lease obligations of continuing operations and an aggregate accreted value of approximately $1.6 billion was outstanding under the 13 1/2% Senior Discount Notes due 2005 (the "13 1/2% Notes"), the 12 1/2% Notes, the 11 5/8% Notes, the 10% Notes and the 9 7/8% Notes. The 13 1/2% Notes require payments of interest to be made in cash commencing March 15, 2001 and mature on September 15, 2005. The 12 1/2% Notes require payments of interest to be made in cash commencing November 1, 2001 and mature on May 1, 2006. The 11 5/8% Notes require payments of interest to be made in cash commencing September 15, 2002 and mature on March 15, 2007. The 10% Notes require payments of interest in cash commencing August 15, 2003 and mature February 15, 2008. The 9 7/8% Notes require payments of interest in cash commencing November 1, 2003 and mature May 1, 2008. The 6 3/4% Preferred Securities require payments of dividends to be made in cash through November 15, 2000. In addition, the 14% Preferred Stock and the 14 1/4% Preferred Stock require payments of dividends to be made in cash commencing June 15, 2002 and August 1, 2001, respectively. As of December 31, 1998, the Company had $1.1 million of other indebtedness outstanding. With respect to indebtedness outstanding on December 31, 1998, the Company has cash interest payment obligations of approximately $113.3 million in 2001, $158.0 million in 2002 and $212.6 million in 2003. With respect to preferred securities currently outstanding, the Company has cash dividend obligations of approximately $6.7 million remaining in 1999 and $8.9 million in 2000, for which the Company has restricted cash balances available for such dividend payments, $21.5 million in 2001, $57.0 million in 2002 and $70.9 million in 2003. Accordingly, the Company may have to refinance a substantial amount of indebtedness and obtain substantial additional funds prior to March 2001. The Company's ability to do so will depend on, among other things, its financial condition at the time, restrictions in the instruments governing its indebtedness, and other factors, including market conditions, beyond the control of the Company. There can be no assurance that the Company will be able to refinance such indebtedness, including such capital leases, or obtain such additional funds, and if the Company is unable to effect such refinancings or obtain additional funds, the Company's ability to make principal and interest payments on its indebtedness or make payments of cash dividends on, or the mandatory redemption of, its preferred securities, would be adversely affected.

Capital Expenditures

The Company's capital expenditures of continuing operations (including assets acquired under capital leases and excluding payments for construction of the Company's corporate headquarters) were $176.9 million for fiscal 1996, $26.9 million and $70.3 million for the three months ended December 31, 1995 and 1996, respectively, and $268.8 million and $368.9 million for fiscal 1997 and 1998, respectively. The Company anticipates that the expansion of existing networks, construction of new networks and further development of the Company's products and services will require capital expenditures of approximately $380.0 million during 1999. To facilitate the expansion of its services and networks, the Company has entered into equipment purchase agreements with various vendors under which the Company has committed to purchase a substantial amount of equipment and other assets, including a full range of switching systems, fiber optic cable, network electronics, software and services. If the Company fails to meet the minimum purchase level in any given year, the vendor may discontinue certain discounts, allowances and incentives otherwise provided to the Company. Actual capital expenditures will depend on numerous factors, including certain factors beyond the Company's control. These factors include the nature of future expansion and acquisition opportunities, economic conditions, competition, regulatory developments and the availability of equity, debt and lease financing.

Other Cash Commitments and Capital Requirements

The Company's operations have required and will continue to require significant capital expenditures for development, construction, expansion and acquisition of telecommunications assets. Significant amounts of capital are required to be invested before revenue is generated, which results in initial negative cash flows. In addition to the Company's planned capital expenditures, it has other cash commitments as described in the footnotes to the Company's audited consolidated financial statements for the fiscal year ended December 31, 1998 included elsewhere herein.

In view of the continuing development of the Company's products and services, the expansion of existing networks and the construction, leasing and licensing of new networks, the Company will require additional amounts of cash in the future from outside sources. Management believes that the Company's cash on hand and amounts expected to be available through asset sales, including the proceeds from the sales of the operations of NETCOM, cash flows from operations, including collection of receivables from transport and termination charges, vendor financing arrangements and credit facilities will provide sufficient funds necessary for the Company to expand its business as currently planned and to fund its operations through 2000. Additional sources of cash may include public and private equity and debt financings, sales of non-strategic assets, capital leases and other financing arrangements. In the past, the Company has been able to secure sufficient amounts of financing to meet its capital needs. There can be no assurance that additional financing will be available to the Company or, if available, that it can be obtained on terms acceptable to the Company.

The failure to obtain sufficient amounts of financing could result in the delay or abandonment of some or all of the Company's development and expansion plans, which could have a material adverse effect on the Company's business. In addition, the inability to fund operating deficits with the proceeds of financings and sales of non-strategic assets until the Company establishes a sufficient revenue-generating customer base could have a material adverse effect on the Company's liquidity.

Transport and Termination Charges

The Company has recorded revenue of approximately $4.9 million and $58.3 million for fiscal 1997 and 1998, respectively, for reciprocal compensation relating to the transport and termination of local traffic to ISPs from customers of ILECs pursuant to various interconnection agreements. The ILECs have not paid most of the bills they have received from the Company and have disputed substantially all of these charges based on the belief that such calls are not local traffic as defined by the various agreements and under state and federal laws and public policies. As a result, the Company expects receivables from transport and termination charges will continue to increase until these disputes have been resolved.

The resolution of these disputes will be based on rulings by state public utility commissions and/or by the FCC. To date, there have been favorable final rulings from 29 states that ISP traffic is subject to the payment of reciprocal compensation under interconnection agreements. On February 25, 1999, the FCC issued a decision that ISP-bound traffic is largely jurisdictionally interstate traffic. The decision relies on the long-standing federal policy that ISP traffic, although jurisdictionally interstate, is treated as though it is local traffic for pricing purposes. The decision also emphasizes that because there are no federal rules governing intercarrier compensation for ISP traffic, the determination as to whether such traffic is subject to reciprocal compensation under the terms of interconnection agreements properly is made by the state commissions and that carriers are bound by their interconnection agreements and state commission decisions regarding the payment of reciprocal compensation for ISP traffic. The FCC has initiated a rulemaking proceeding regarding the adoption of prospective federal rules for intercarrier compensation for ISP traffic. In its notice of rulemaking, the FCC expresses its preference that compensation rates for this traffic continue to be set by negotiations between carriers, with disputes resolved by arbitrations conducted by state commissions, pursuant to the Telecommunications Act.

On March 4, 1999, the Alabama Public Service Commission (the "Alabama PSC") issued a decision that found that reciprocal compensation is owed for Internet traffic under four CLEC interconnection agreements with BellSouth Corporation ("BellSouth"), which agreements were at issue in the proceeding. With respect to the Company's interconnection agreement, which also was at issue, the state commission interpreted certain language in the Company's agreement to exempt ISP-bound traffic from reciprocal compensation under certain conditions. The Company believes that the Alabama PSC failed to consider the intent of the parties in negotiating and executing the Company's interconnection agreement, the specific language of the Company's interconnection agreement and the impact of Alabama PSC and FCC policies, and thereby misinterpreted the agreement. The Company intends to file a request with the Alabama PSC by April 1, 1999 seeking determination that the ruling with respect to the Company's agreement be reconsidered, and that the Company should be treated the same as the other CLECs that participated in the proceeding and for which the Alabama PSC ordered the payment of reciprocal compensation. While the Company intends to pursue vigorously a petition for reconsideration with the Alabama PSC, and if the Company deems it necessary, judicial review, the Company cannot predict the final outcome of this issue.

The Company has also recorded revenue of approximately $19.1 million for fiscal 1998, related to other transport and termination charges to the ILECs, pursuant to the Company's interconnection agreements with these ILECs. Included in the Company's trade receivables at December 31, 1997 and 1998 are $4.3 million and $72.8 million, respectively, for all receivables related to transport and termination charges. The receivables balance at December 31, 1998 is net of an allowance of $5.6 million for disputed amounts.

Although the Company's interconnection agreement with BellSouth has expired, the Company has received written notification from BellSouth that the Company may continue billing BellSouth under the pricing terms within the expired interconnection agreement, until such agreement is renegotiated or arbitrated by the relevant state commissions. The Company's remaining interconnection agreements expire in 1999 and 2000. While the Company believes that all revenue recorded through December 31, 1998 is collectible and that future revenue from transport and termination charges billed under the Company's current interconnection agreements will be realized, there can be no assurance that future regulatory and judicial rulings will be favorable to the Company, that the Alabama PSC will reconsider its ruling, or that different pricing plans for transport and termination charges between carriers will not be adopted when the Company's interconnection agreements are renegotiated or as a result of the FCC's rulemaking proceeding on future compensation methods. In fact, the Company believes that different pricing plans will be considered and adopted and although the Company expects that revenue from transport and termination charges likely will decrease as a percentage of total revenue from local services in periods subject to future interconnection agreements, the Company's local termination services still will be required by the ILECs and must be provided under the Telecommunications Act, and likely will result in increasing volume in minutes due to the growth of the Internet and related services markets. The Company expects to negotiate reasonable compensation and collection terms for local termination services, although there is no assurance that such compensation will remain consistent with current levels. Additionally, the Company expects to supplement its current operations with revenue, and ultimately EBITDA, from new services offerings such as RAS, EOS and DSL, however, the Company may or may not be successful in its efforts to deploy such services profitably.

Year 2000 Compliance

Importance

Many computer systems, software applications and other electronics currently in use worldwide are programmed to accept only two digits in the portion of the date field which designates the year. The "Year 2000 problem" arises because these systems and products cannot properly distinguish between a year that begins with "20" and the familiar "19." If these systems and products are not modified or replaced, many will fail, create erroneous results and/or may cause interfacing systems to fail.

Year 2000 compliance issues are of particular importance to the Company since its operations rely heavily upon computer systems, software applications and other electronics containing date-sensitive embedded technology. Some of these technologies were internally developed and others are standard purchased systems which may or may not have been customized for the Company's particular application. The Company also relies heavily upon various vendors and suppliers that are themselves very reliant on computer systems, software applications and other electronics containing date-sensitive embedded technology. These vendors and suppliers include: (i) ILECs and other local and long distance carriers with which the Company has interconnection or resale agreements; (ii) manufacturers of the hardware and related operating systems that the Company uses directly in its operations; (iii) providers that create custom software applications that the Company uses directly in its operations; and (iv) providers that sell standard or custom equipment or software which allow the Company to provide administrative support to its operations.

Strategy

The Company's approach to addressing the potential impact of Year 2000 compliance issues is focused upon ensuring, to the extent reasonably possible, the continued, normal operation of its business and supporting systems. Accordingly, the Company has developed a four-phase plan which it is applying to each functional category of the Company's computer systems and components. Each of the Company's computer systems, software applications and other electronics containing date-sensitive embedded technology is included within one of the following four functional categories:

- <u>Networks and Products</u>, which consists of all components whether hardware, software or embedded technology used directly in the Company's operations, including components used by the Company's voice and data switches and collocations and telecommunications products;

- <u>IT Systems</u>, which consists of all components used to support the Company's operations, including provisioning and billing systems;

- <u>Building and Facilities</u>, which consists of all components with embedded technology used at the Company's headquarters building and other leased facilities, including security systems, elevators and internal use telephone systems;

- Office Equipment, which consists of all office equipment with date-sensitive embedded technology.

For each of the categories described above, the Company will apply the following four-phase approach to identifying and addressing the potential impact of Year 2000 compliance issues:

- Phase I - Assessment
  During this phase, the Company's technology staff will perform an inventory of all components currently in use by the Company. Based upon this inventory, the Company's business executives and technology staff will jointly classify each component as a "high," "medium" or "low" priority item, determined primarily by the relative importance that the particular component has to the Company's normal business operations, the number of people internally and externally which would be affected by any failure of such component and the interdependence of such component with other components used by the Company that may be of higher or lower priority.

  Based upon such classifications, the Company's business executives and information technology staff will jointly set desired levels of Year 2000 readiness for each component inventoried, using the following criteria, as defined by the Company:

  - Capable, meaning that such computer system or component will be capable of managing and expressing calendar years in four digits;

  - Compliant, meaning that the Company will be able to use such component for the purpose for which the Company intended it by adapting to its ability to manage and express calendar years in only two digits;

  - Certified, meaning that the Company has received testing results to demonstrate, or the vendor or supplier is subject to contractual terms which requires, that such component requires no Year 2000 modifications to manage and express calendar years in four digits; or

  - Non-critical, meaning that the Company expects to be able to continue to use such component unmodified or has determined that the estimated costs of modification exceed the estimated costs associated with its failure.

- Phase II - Remediation
  During this phase, the Company will develop and execute a remediation plan for each component based upon the priorities set in Phase I. Remediation may include component upgrade, reprogramming, replacement, receipt of vendor and supplier certification or other actions as deemed necessary or appropriate.

- Phase III - Testing
  During this phase, the Company will perform testing sufficient to confirm that the component meets the desired state of Year 2000 readiness. This phase will consist of: (i) testing the component in isolation, or unit testing; (ii) testing the component jointly with

other components, or system testing; and (iii) testing interdependent systems, or environment testing.

- Phase IV - Implementation
  During the last phase, the Company will implement each act of remediation developed and tested for each component, as well as implement adequate controls to ensure that future upgrades and changes to the Company's computer systems, for operational reasons other than Year 2000 compliance, do not alter the Company's Year 2000 state of readiness.

Current State of Readiness

The Company has commenced certain of the phases within its Year 2000 compliance strategy for each of its functional system categories, as shown by the table set forth below. The Company does not intend to wait until the completion of a phase for all functional category components together before commencing the next phase. Accordingly, the information set forth below represents only a general description of the phase status for each functional category.

	Phase			
System and Level of Priority	I Assessment	II Remediation	III Testing	IV Implementation
Networks and Products				
High	Complete	In progress To complete Q2 1999	In progress To complete Q2 1999	To begin Q2 1999 To complete Q3 1999
Medium	Complete	In progress To complete Q2 1999	To begin Q2 1999 To complete Q3 1999	To begin Q2 1999 To complete Q3 1999
Low	Complete	Complete	Complete	Complete
IT Systems				
High	Complete	In progress To complete Q2 1999	In progress To complete Q2 1999	In progress To complete Q3 1999
Medium	Complete	In progress To complete Q2 1999	In progress To complete Q2 1999	In progress To complete Q3 1999
Low	Complete	In progress To complete Q2 1999	To be determined based on the results of Phase II	
Building and Facilities				
High	In progress To complete Q2 1999	In progress To complete Q2 1999	To be determined based on the results of Phase II	
Medium	In progress To complete Q2 1999	To be determined based on the results of Phase I		
Low	To begin Q2 1999 To complete Q3 1999	To be determined based on the results of Phase I		
Office Equipment				
High	Complete	In progress To complete Q2 1999	To begin Q2 1999 To complete Q2 1999	To begin Q2 1999 To complete Q3 1999
Medium	Complete	In progress To complete Q2 1999	To begin Q2 1999 To complete Q3 1999	To begin Q2 1999 To complete Q4 1999
Low	Complete	In progress To complete Q2 1999	To be determined based on the results of Phase II	

Separately, the Company is in the process of reviewing the Company's material contracts with contractors and vendors/suppliers and considering the necessity of renegotiating certain existing contracts, to the extent that the contracts fail to address the allocation of potential Year

2000 liabilities between parties. Prior to entering into any new material contracts, the Company will seek to address the allocation of potential Year 2000 liabilities as part of the initial negotiation.

Costs

The Company expenses all incremental costs to the Company associated with Year 2000 compliance issues as incurred. Through December 31, 1998, such costs incurred were approximately $0.5 million, consisting of approximately $0.4 million of replacement hardware and software and approximately $0.1 million of consulting fees and other miscellaneous costs of Year 2000 compliance reference and planning materials. The Company has also incurred certain internal costs, including salaries and benefits for employees dedicating various portions of their time to Year 2000 compliance issues, of which costs the Company believes has not exceeded $0.5 million through December 31, 1998. The Company expects that total future incremental costs of Year 2000 compliance efforts will be approximately $3.8 million, consisting of $2.3 million in consulting fees, $1.5 million in replacement hardware and software and other miscellaneous costs. These anticipated costs have been included in the Company's fiscal 1999 budget and represent approximately 4% of the Company's budgeted expenses for information technology through fiscal 1999. Such cost estimates are based upon presently available information and may change as the Company continues with its Year 2000 compliance plan. The Company intends to use cash on hand for Year 2000 compliance costs, as necessary.

Risk, Contingency Planning and Reasonably Likely Worst Case Scenario

While the Company is heavily reliant upon its computer systems, software applications and other electronics containing date-sensitive embedded technology as part of its business operations, such components upon which the Company primarily relies were developed with current state-of-the-art technology and, accordingly, the Company has reasonably assumed that its four-phase approach will demonstrate that many of its high-priority systems do not present material Year 2000 compliance issues. For computer systems, software applications and other electronics containing date-sensitive embedded technology that have met the Company's desired level of Year 2000 readiness, the Company will use its existing contingency plans to mitigate or eliminate problems it may experience if an unanticipated system failure were to occur. For components that have not met the Company's desired level of readiness, the Company will develop a specific contingency plan to determine the actions the Company would take if such component failed.

At the present time, the Company is unable to develop a most reasonably likely worst case scenario for failure to achieve adequate Year 2000 compliance. The Company will be better able to develop such a scenario once the status of Year 2000 compliance of the Company's material vendors and suppliers is complete. The Company will monitor its vendors and suppliers, particularly the other telecommunications companies upon which the Company relies, to determine whether they are performing and implementing an adequate Year 2000 compliance plan in a timely manner.

The Company acknowledges the possibility that the Company may become subject to potential claims by customers if the Company's operations are interrupted for an extended period of time. However, it is not possible to predict either the probability of such potential litigation, the amount that could be in controversy or upon which party a court would place ultimate responsibility for any such interruption.

The Company views Year 2000 compliance as a process that is inherently dynamic and will change in response to changing circumstances. While the Company believes that through execution and satisfactory completion of its Year 2000 compliance strategy its computer systems, software applications and electronics will be Year 2000 compliant, there can be no assurance until the Year 2000 occurs that all systems and all interfacing technology when running jointly will function adequately. Additionally, there can be no assurance that the assumptions made by the Company within its Year 2000 compliance strategy will prove to be correct, that the strategy will succeed or that the remedial actions being implemented will be able to be completed by the time necessary to avoid system or component failures. In addition, disruptions with respect to the computer systems of vendors or customers, which systems are outside the control of the Company, could impair the Company's ability to obtain necessary products or services to sell to its customers. Disruptions of the Company's computer systems, or the computer systems of the Company's vendors or customers, as well as the cost of avoiding such disruption, could have a material adverse effect on the Company's financial condition and results of operations.

Accounting Change

During fiscal 1996, the Company changed its method of accounting for long-term telecom services contracts. Under the new method, the Company recognizes revenue as services are provided and continues to charge direct selling expenses to operations as incurred. The Company had previously recognized revenue in an amount equal to the noncancelable portion of the contract, which is a minimum of one year on a three-year or longer contract, at the inception of the contract and upon activation of service to the customer, to the extent of direct installation and selling expense incurred in obtaining customers during the period in which such revenue was recognized. Revenue recognized in excess of normal monthly billings during the year was limited to an amount which did not exceed such installation and selling expense. The remaining revenue from the contract had been recognized ratably over the remaining noncancelable portion of the contract. The Company believes the new method is preferable because it provides a better matching of revenue and related operating expenses and is more consistent with accounting practices within the telecommunications industry.

As required by generally accepted accounting principles, the Company has reflected the effects of the change in accounting as if such change had been adopted as of October 1, 1995. The Company's results for fiscal 1996 include a charge of $3.5 million ($0.13 per share) relating to the cumulative effect of this change in accounting as of October 1, 1995. The effect of this change in accounting was not significant for fiscal 1996. If the new revenue recognition method had been applied retroactively, Telecom Services revenue would have decreased by $0.5 million and $0.7 million for fiscal 1994 and 1995, respectively. See the Company's Consolidated Financial Statements and the related notes thereto contained elsewhere in this Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's financial position and cash flows are subject to a variety of risks in the normal course of business, which include market risks associated with movements in interest rates and, subsequent to February 17, 1999, equity prices. The Company routinely assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. The Company does not, in the normal course of business, use derivative financial instruments for trading or speculative purposes.

Interest Rate Risk

The Company's exposure to market risk associated with changes in interest rates relates primarily to the Company's investments in marketable securities and its senior indebtedness.

The Company invests primarily in high grade short-term investments which consist of money market instruments, commercial paper, certificates of deposit, government obligations and corporate bonds, all of which are considered to be available for sale and generally have maturities of one year or less. The Company's short-term investment objectives are safety, liquidity and yield, in that order. As of December 31, 1998, the Company had approximately $262.8 million in cash and cash equivalents and short-term investments available for sale, at a weighted average fixed interest rate of 5.12%. A hypothetical 10% fluctuation in market rates of interest would cause a change in the fair value of the Company's investment in marketable securities at December 31, 1998 of approximately $0.7 million, and accordingly, would not cause a material impact on the Company's financial position, results of operations or cash flows.

At December 31, 1998, the Company's outstanding indebtedness includes $1.6 billion under the 13 1/2 % Notes, 12 1/2% Notes, 11 5/8% Notes, 10% Notes and 9 7/8% Notes and $466.4 million under the 14 1/4% Preferred Stock, 14% Preferred Stock and 6 3/4% Preferred Securities. These instruments contain fixed annual interest and dividend rates, respectively, and accordingly, any change in market interest rates would have no impact on the Company's financial position, results of operations or cash flows. Future increases in interest rates could increase the cost of any new borrowings by the Company. The Company does not hedge against future changes in market rates of interest.

Equity Price Risk

On February 17, 1999, the Company completed the sale of the domestic operations of NETCOM to MindSpring, in exchange for a combination of cash and 376,116 shares of unregistered common stock of MindSpring, valued at approximately $79.76 per share at the time of the transaction. Currently, the Company bears some risk of market price fluctuations in its investment in MindSpring. The common stock of MindSpring is traded on the Nasdaq National Market and has, at March 29, 1999, a fair market value of $92.50 per share. Although changes in the fair market value of MindSpring common stock may affect the fair market value of the Company's investment and cause unrealized gains or losses, such gains or losses will not be realized until the securities are sold. In order to mitigate the risk associated with a decrease in the market value of the Company's investment in MindSpring, the Company has entered into a hedging contract. During the term of the hedging contract, a hypothetical 10% fluctuation in the fair value of the common stock of MindSpring would not cause a material impact on the Company's financial position, results of operations or cash flows. The Company intends to liquidate its investment in MindSpring upon the effectiveness of the registration of common stock of MindSpring with the Securities and Exchange Commission, which is expected to occur in the near future.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company appear on page F-1 of this Annual Report. The financial statement schedule required under Regulation S-X is filed pursuant to Item 14 of this Annual Report, and appears on page S-1 of this Annual Report.

Selected quarterly financial data required under this Item is included under Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANTS

The information required under Item 10 with respect to the Company is incorporated by reference from the definitive Proxy Statement for the 1999 Annual Meeting of Stockholders of ICG Communications, Inc. to be filed with the Securities and Exchange Commission not later than April 30, 1999. The Directors and executive officers of each of Holdings-Canada and Holdings are set forth below.

Holdings-Canada

The Directors of Holdings-Canada are:

Harry R. Herbst
H. Don Teague

The executive officers of Holdings-Canada are:

J. Shelby Bryan - President and Chief Executive Officer
Harry R. Herbst - Executive Vice President and Chief Financial Officer
H. Don Teague - Executive Vice President, General Counsel and Secretary

Holdings

The Directors of Holdings are:

J. Shelby Bryan (Chairman)
Douglas I. Falk
Harry R. Herbst
H. Don Teague

The executive officers of Holdings are:

J. Shelby Bryan - President and Chief Executive Officer
Douglas I. Falk - Executive Vice President - Telecom
Harry R. Herbst - Executive Vice President and Chief Financial Officer
H. Don Teague - Executive Vice President, General Counsel and Secretary

J. Shelby Bryan, 53, was appointed President and Chief Executive Officer of Holdings-Canada and Holdings in May 1995. He has 19 years of experience in the telecommunications industry, primarily in the cellular business. He co-founded Millicom International Cellular S.A., a publicly owned corporation providing cellular service internationally, served as its President and Chief Executive Officer from 1985 to 1994 and has served as a Director through the present.

Douglas I. Falk, 49, has been Executive Vice President-Telecom and Director of Holdings since

September 1998 and was President of ICG Satellite Services, Inc. from August 1996 to May 1998. Prior to joining the Company, Mr. Falk held several positions in the cruise line industry, including President of Norwegian Cruise Line, Senior Vice President - Marketing and Sales with Holland America Lines/Westours and Executive Vice President of Royal Viking Line. Prior to his work in the cruise line industry, Mr. Falk held executive positions with MTI Vacations, Brown and Williamson Tobacco, Pepsico International, Glendenning Associates and The Procter and Gamble Company.

Harry R. Herbst, 47, was appointed Executive Vice President, Chief Financial Officer and Director of Holdings-Canada and Holdings in August 1998 and has been a member of the Board of Directors of Holdings-Canada and Holdings since October 1995. Prior to joining the Company, Mr. Herbst was Vice President of Finance and Strategic Planning for Gulf Canada Resources Ltd. from November 1995 to June 1998 and Vice President and Treasurer of Gulf Canada Resources Ltd. from January to November 1995. Previously, Mr. Herbst was Vice President of Taxation for Torch Energy Advisors Inc. from 1991 to 1994, and tax manager for Apache Corp. from 1987 to 1990. Mr. Herbst is a certified public accountant, formerly with Coopers & Lybrand.

H. Don Teague, 56, joined the Company as Executive Vice President, General Counsel, Secretary and Director of Holdings-Canada and Holdings in May 1997. Prior to this position, Mr. Teague was Senior Vice President, Administration and Legal with Falcon Seaboard Holdings, L.P. and its predecessors from April 1994 through April 1997. From 1974 to April 1994, Mr. Teague was a partner in the law firm of Vinson & Elkins L.L.P.

ITEM 11. EXECUTIVE COMPENSATION

The information required under Item 11 is incorporated by reference from the definitive Proxy Statement for the 1999 Annual Meeting of Stockholders of ICG Communications, Inc. to be filed with the Securities and Exchange Commission not later than April 30, 1999. Neither Holdings-Canada nor Holdings pays any form of compensation to any of their respective Directors or executive officers.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required under Item 12 is incorporated by reference from the definitive Proxy Statement for the 1999 Annual Meeting of Stockholders of ICG Communications, Inc. to be filed with the Securities and Exchange Commission not later than April 30, 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORT ON FORM 8-K

(A) (1) **Financial Statements**. The following financial statements are included in Item 8 of Part II:

(2) **Financial Statement Schedule**. The following Financial Statement Schedule is submitted herewith:

(3) **List of Exhibits.**

(2) **Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession.**

2.1: Plan of Arrangement under Section 192 of the Canada Business Corporations Act. [Incorporated by reference to Exhibit 2.1 to Registration Statement on Form S-4 of ICG Communications, Inc. (Commission File No. 333-4226)].

(3) **Corporate Organization.**

3.1: Certificate of Incorporation of ICG Communications, Inc. dated April 11, 1996. [Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-4 of ICG Communications, Inc., File No. 333-4226].

3.2: By-laws of ICG Communications, Inc. [Incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-4 of ICG Communications, Inc., File No. 333-4226].

3.3: Agreement and Plan of Reorganization by and among ICG Communications, Inc., ICG Canadian Acquisition, Inc., ICG Holdings (Canada), Inc. and ICG Holdings (Canada) Co., dated November 4, 1998.

3.4: Order of Amalgamation between ICG Holdings (Canada), Inc. and ICG Holdings (Canada) Co., dated December 22, 1998.

3.5: Memorandum and Articles of Association of ICG Holdings (Canada) Co. filed with the Registrar of Joint Stock Companies, Halifax, Nova Scotia.

(4) **Instruments Defining the Rights of Security Holders, Including Indentures.**

4.1: Note Purchase Agreement, dated as of July 14, 1995, among the Registrant, IntelCom Group (U.S.A.), Inc., Morgan Stanley Group Inc., Princes Gate Investors, L.P., Acorn Partnership I, L.P., PGI Investments Limited, PGI Investments Limited, PGI Sweden AB, and Gregor von Opel and Morgan Stanley Group, Inc., as Agent for the Purchasers [Incorporated by reference to Exhibit 4.1 to Form 8-K of IntelCom Group Inc., dated July 18, 1995].

4.2: Warrant Agreement, dated as of July 14, 1995, among the Registrant, the Committed Purchasers, and IntelCom Group (U.S.A.), Inc., as Warrant Agent [Incorporated by reference to Exhibit 4.2 to Form 8-K of IntelCom Group Inc., dated July 18, 1995].

4.3: First Amended and Restated Articles of Incorporation of ICG Holdings, Inc. [Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-4 of IntelCom Group (U.S.A.), Inc., File No. 333-04569].

4.4: Indenture, dated August 8, 1995, among IntelCom Group (U.S.A.) Inc., IntelCom Group Inc. and Norwest Bank Colorado, National Association [Incorporated by reference to Exhibit 4.6 to Registration Statement on Form S-4 of IntelCom Group (U.S.A.) Inc., File Number 33-96540].

4.5: Indenture, dated April 30, 1996, among IntelCom Group (U.S.A.) Inc., IntelCom Group Inc. and Norwest Bank Colorado, National Association [Incorporated by reference to Exhibit 4.14 to

Registration Statement on Form S-4 of IntelCom Group (U.S.A.) Inc., File No. 333-04569].

4.6: Indenture, dated March 11, 1997, among ICG Holdings, Inc., ICG Communications, Inc. and Norwest Bank Colorado, National Association [Incorporated by reference to Exhibit 4.15 to Registration Statement on Form S-4 of ICG Communications, Inc., File No. 333-24359].

4.7: Written Action of the Manager of ICG Funding, LLC, dated as of September 24, 1997, with respect to the terms of the 6 3/4% Exchangeable Limited Liability Company Preferred Securities [Incorporated by reference to Exhibit 4.8 to Registration Statement on Form S-3 of ICG Funding, LLC, File No. 333-40495].

4.8: Amended and Restated Limited Liability Company Agreement of ICG Funding, LLC, dated as of September 23, 1997 [Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 of ICG Funding, LLC, File No. 333-40495].

4.9: Indenture, between ICG Services, Inc. and Norwest Bank Colorado, National Association, dated as of February 12, 1998 [Incorporated by reference to Exhibit 4.4 to ICG Services, Inc. Registration Statement on Form S-4 File No. 333-51037].

4.10: Indenture, between ICG Services, Inc. and Norwest Bank Colorado, National Association, dated as of April 27, 1998 [Incorporated by reference to Exhibit 4.4 to ICG Services, Inc. Registration Statement on Form S-4 File No. 333-60653, as amended].

4.11: Second Amended and Restated Articles of Incorporation of ICG Holdings, Inc., dated March 10, 1997.

(9) Voting Trust Agreement.

None.

(10) Material Contracts.

10.1: Arrangement and Support Agreement dated June 27, 1996 between ICG Communications, Inc. and IntelCom Group Inc. [Incorporated by reference to Exhibit 2.1 to Registration Statement on Form S-4 of ICG Communications, Inc. (Commission File No. 333-4226)].

10.2: Incentive Stock Option Plan #2 [Incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.3: Form of Stock Option Agreement for Incentive Stock Option Plan #2 [Incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.4: Incentive Stock Option Plan #3 [Incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.5: Form of Stock Option Agreement for Incentive Stock Option Plan #3 [Incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.6: 1994 Employee Stock Option Plan [Incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.7: Form of Stock Option Agreement for 1994 Employee Stock Option Plan [Incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.8: Employment Agreement, dated as of May 30, 1995, between IntelCom Group Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.5 to Form 8-K of IntelCom Group Inc., as filed on August 2, 1995].

10.9: Stock Option Agreement, dated as of May 30, 1995, between IntelCom Group Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.6 to Form 8-K of IntelCom Group Inc., as filed on August 2, 1995].

10.10: Indemnification Agreement, dated as of May 30, 1995, between IntelCom Group Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.7 to Form 8-K of IntelCom Group Inc., as filed on August 2, 1995].

10.11: Placement Agreement, dated as of August 3, 1995, among IntelCom Group Inc., IntelCom Group (U.S.A.), Inc., certain subsidiaries of IntelCom Group (U.S.A.), Inc. and Morgan Stanley & Co. Incorporated [Incorporated by reference to Exhibit 10.1 to Form 8-K of IntelCom Group Inc., as filed on August 9, 1995].

10.12: Employment Agreement between IntelCom Group Inc. and James D. Grenfell, dated November 1, 1995. [Incorporated by reference to Exhibit 10.38 to IntelCom Group Inc.'s Annual Report on Form 10-K/A for the fiscal year ended September 30, 1995].

10.13: Purchase and Sale Agreement, dated as of October 19, 1995, by and among ICG Wireless Services, Inc., IntelCom Group (U.S.A.), Inc., UpSouth Corporation and Vyvx, Inc. [Incorporated by reference to Exhibit 10.40 to IntelCom Group Inc.'s Annual Report on Form 10-K for the fiscal year ended September 30, 1995].

10.14: ICG Communications, Inc., 401(k) Wrap Around Deferred Compensation Plan. [Incorporated by reference to Exhibit 10.42 to ICG Communications, Inc.'s Annual Report on Form 10-K/A for the fiscal year ended September 30, 1996.]

10.15: ICG Communications, Inc. 1996 Employee Stock Purchase Plan. [Incorporated by reference to the Registration Statement on Form S-8 of ICG Communications, Inc., File No. 33-14127, filed on October 14, 1996].

10.16: Consulting Services Agreement, by and between IntelCom Group

Inc. and International Communications Consulting, Inc., effective January 1, 1996 [Incorporated by reference to Exhibit 10.44 to ICG Communications, Inc.'s Transition Report on Form 10-K/A for the three months ended December 31, 1996].

10.17: Confidential General Release and Covenant Not to Sue, by and between ICG Communications, Inc. and John D. Field, dated November 5, 1996 [Incorporated by reference to Exhibit 10.45 to ICG Communications, Inc.'s Transition Report on Form 10-K/A for the three months ended December 31, 1996].

10.18: Amendment, dated as of March 26, 1997, between ICG Communications, Inc. and J. Shelby Bryan, to Employment Agreement, dated as of May 30, 1995, between IntelCom Group Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997].

10.19: 1996 Stock Option Plan [Incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-8 of ICG Communications, Inc., File No. 333-25957, filed on April 28, 1997].

10.20: Amendment No. 1 to the ICG Communications, Inc. 1996 Stock Option Plan.

10.21: Employment Agreement, dated as of April 22, 1997, between ICG Communications, Inc. and Don Teague [Incorporated by reference to Exhibit 10.2 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997].

10.22: Amendment No. 2 to the ICG Communications, Inc. 1996 Stock Option Plan [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997].

10.23a: Purchase Agreement between ICG Holdings, Inc. and TriNet Corporate Realty Trust, Inc., dated December 9, 1997.

10.23a: First Amendment to Purchase Agreement, by and between ICG Holdings, Inc. and TriNet Essential Facilities X, Inc., dated January 15, 1998.

10.23c: Assignment of Purchase Agreement, by and between TriNet Corporate Realty Trust, Inc., dated January 15, 1998.

10.23c: Commercial Lease - Net between TriNet Essential Facilities X, Inc. and ICG Holdings, Inc., dated January 15, 1998.

10.23e: Continuing Lease Guaranty, by ICG Communications, Inc. to TriNet Essential Facilities X, Inc., dated January 20, 1998.

10.23f: Continuing Lease Guaranty, by ICG Holdings (Canada), Inc. to TriNet Essential Facilities X, Inc., dated January 20, 1998.

10.24: Agreement and Plan of Merger, dated October 12, 1997, by and among ICG Communications, Inc., ICG Acquisition, Inc. and NETCOM On-Line Communication Services, Inc. [Incorporated by reference to Exhibit 2.1 to Form 8-K, dated January 21, 1998].

10.25: Amendment to Agreement and Plan of Merger, dated December 15, 1997, by and among ICG Communications, Inc., ICG Acquisition, Inc. and NETCOM On-Line Communication Services, Inc. [Incorporated by reference to Exhibit 2.2 to Form 8-K, dated January 21, 1998].

10.26: Employment Agreement, dated July 1, 1998, between ICG Communications, Inc. and Harry R. Herbst [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998].

10.27: Employment Agreement, dated September 23, 1998, between ICG Communications, Inc. and Douglas I. Falk [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998].

10.28: Asset Purchase Agreement by and between MindSpring Enterprises, Inc. and NETCOM On-Line Communication Services, Inc., dated as of January 5, 1999 [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Current Report on Form 8-K, dated March 4, 1999].

10.29: ICG Communications, Inc. 1998 Stock Option Plan.

10.30: Form of Stock Option Agreement for 1998 Stock Option Plan.

10.31: Amendment No. 1 to the ICG Communications, Inc. 1998 Stock Option Plan, dated December 15, 1998.

10.32: Form of Agreement regarding Gross-Up Payments, by and between ICG Communications, Inc. and each of J. Shelby Bryan, Harry R. Herbst, Douglas I. Falk and H. Don Teague, dated December 16, 1998.

(11) Statement re Computation of per Share Earnings.
Not Applicable

(12) Statement re Computation of Ratios.
Not Applicable

(13) Annual Report to Security Holders.
Not Applicable

(21) Subsidiaries of the Registrant.

21.1: Subsidiaries of the Registrant.

(22) Published Report re Matters Submitted to Vote of Security Holders.
Not Applicable

Independent Auditors' Report – Report of KPMG LLP

The Board of Directors and Stockholders
ICG Communications, Inc.:

We have audited the accompanying consolidated balance sheets of ICG Communications, Inc. and subsidiaries (the "Company") as of December 31, 1997 and 1998 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the fiscal year ended September 30, 1996, the three-month period ended December 31, 1996, and the fiscal years ended December 31, 1997 and 1998. 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 did not audit the consolidated financial statements of NETCOM On-Line Communication Services, Inc. ("NETCOM"), a discontinued wholly owned subsidiary of the Company, as of December 31, 1997 or for the fiscal year ended December 31, 1996, the three-month period ended December 31, 1996, or the fiscal year ended December 31, 1997, whose total assets constitute 11.7 percent at December 31, 1997, and whose loss from operations constitutes 100.5 percent in fiscal 1996, 96.0 percent in the three months ended December 31, 1996, and 83.8 percent in fiscal 1997 of the consolidated loss from discontinued operations. Those consolidated financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for NETCOM, is based solely on the reports of the other auditors.

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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ICG Communications, Inc. and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for the fiscal year ended September 30, 1996, the three-month period ended December 31, 1996, and the fiscal years ended December 31, 1997 and 1998, in conformity with generally accepted accounting principles.

FINANCIAL STATEMENTS

Independent Auditors' Report - Report of Ernst & Young LLP

The Board of Directors and Stockholders
NETCOM On-Line Communication Services, Inc.

We have audited the consolidated balance sheet of NETCOM On-Line Communication Services, Inc. as of December 31, 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 1997 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NETCOM On-Line Communication Services, Inc. at December 31, 1997 and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Ernst & Young LLP

San Jose, California
February 13, 1998

As explained in note 2 to the consolidated financial statements, during fiscal year ended September 30, 1996, the Company changed its method of accounting for long-term telecom services contracts.

KPMG LLP

Denver, Colorado
February 15, 1999

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 1997 and 1998

Assets	December 31, 1997	December 31, 1998
	(in thousands)	
Current assets:		
Cash and cash equivalents	$ 118,569	210,831
Short-term investments available for sale (note 6)	112,281	52,000
Receivables:		
Trade, net of allowance of $5,254 and $15,473 at December 31, 1997 and 1998, respectively (note 14)	57,163	132,920
Revenue earned, but unbilled	8,599	11,063
Due from affiliate (note 13)	9,384	-
Other (note 13)	1,696	1,156
	76,842	145,139
Inventory	3,901	2,821
Prepaid expenses and deposits	10,495	12,036
Net current assets of discontinued operations (note 3)	38,331	-
Total current assets	360,419	422,827
Property and equipment (notes 7, 9 and 10)	737,424	1,112,067
Less accumulated depreciation	(105,970)	(177,933)
Net property and equipment	631,454	934,134
Long-term notes receivable from affiliate and others, net (note 13)	10,375	-
Restricted cash (note 11)	24,649	16,912
Other assets, net of accumulated amortization:		
Goodwill (note 4)	75,673	130,503
Deferred financing costs (note 10)	23,196	35,958
Transmission and other licenses	6,031	5,659
Deposits and other (note 8)	9,066	25,189
	113,966	197,309
Net non-current assets of discontinued operations (note 3)	76,577	54,243
Total assets (note 15)	$ 1,217,440	1,625,425

(Continued)

Independent Auditors' Report - Report of Ernst & Young LLP

The Board of Directors and Stockholders
NETCOM On-Line Communication Services, Inc.

We have audited the consolidated balance sheet of NETCOM On-Line Communication Services, Inc. as of December 31, 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for the three months then ended (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 consolidated financial position of NETCOM On-Line Communication Services, Inc. at December 31, 1996 and the consolidated results of its operations and its cash flows for the three months then ended, in conformity with generally accepted accounting principles.

Ernst & Young LLP

San Jose, California
April 16, 1998

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations
Fiscal Year Ended September 30, 1996,
the Three Months Ended December 31, 1995 (unaudited) and 1996,
and Fiscal Years Ended December 31, 1997 and 1998

	Fiscal year ended September 30,	Three months ended December 31,		Fiscal years ended December 31,	
	1996	1995 (unaudited)	1996	1997	1998
	(in thousands, except per share data)				
Revenue (notes 2, 14 and 15)	$ 154,143	34,544	49,477	245,022	397,619
Operating costs and expenses:					
Operating costs	121,983	26,572	42,485	217,927	254,689
Selling, general and administrative expenses	75,646	18,248	23,868	148,254	183,683
Depreciation and amortization (notes 7 and 15)	30,030	4,833	9,691	56,501	101,545
Provision for impairment of long-lived assets (note 16)	9,994	-	-	9,261	-
Net loss (gain) on disposal of long-lived assets (note 5)	5,128	1,030	(772)	243	4,055
Restructuring costs (note 17)	-	-	-	-	2,339
Total operating costs and expenses	242,781	50,683	75,272	432,186	546,311
Operating loss	(88,638)	(16,139)	(25,795)	(187,164)	(148,692)
Other income (expense):					
Interest expense (notes 10 and 15)	(85,714)	(15,215)	(24,454)	(117,520)	(170,127)
Interest income	19,212	3,750	5,962	21,907	28,414
Other (expense) income, net	(3,627)	7	(64)	(358)	(4,652)
	(70,129)	(11,458)	(18,556)	(95,971)	(146,365)
Loss from continuing operations before income taxes, preferred dividends, share of losses and cumulative effect of change in accounting	(158,767)	(27,597)	(44,351)	(283,135)	(295,057)
Income tax benefit (expense) (note 18)	5,131	-	-	-	(90)
Loss from continuing operations before preferred dividends, share of losses and cumulative effect of change in accounting	(153,636)	(27,597)	(44,351)	(283,135)	(295,147)
Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses (note 11)	(25,409)	(3,294)	(4,988)	(38,117)	(55,183)
Share of losses of joint venture	(1,814)	(228)	-	-	-
Loss from continuing operations before cumulative effect of change in accounting	$ (180,859)	(31,119)	(49,339)	(321,252)	(350,330)

(Continued)

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets, Continued

Liabilities and Stockholders' Deficit	December 31, 1997	December 31, 1998
	(in thousands)	
Current liabilities:		
Accounts payable	$ 27,458	33,781
Accrued liabilities	56,817	55,816
Deferred revenue	5,049	9,892
Current portion of capital lease obligations (notes 9 and 14)	5,637	5,086
Current portion of long-term debt (note 10)	1,784	46
Net current liabilities of discontinued operations (note 3)	-	23,272
Total current liabilities	96,745	127,893
Capital lease obligations, less current portion (notes 9 and 14)	66,939	63,359
Long-term debt, net of discount, less current portion (note 10)	890,568	1,598,998
Total liabilities	1,054,252	1,790,250
Redeemable preferred stock of subsidiary ($301.2 million and $346.2 million liquidation value at December 31, 1997 and 1998, respectively) (note 11)	292,442	338,310
Company-obligated mandatorily redeemable preferred securities of subsidiary limited liability company which holds solely Company preferred stock ($133.4 million liquidation value at December 31, 1997 and 1998) (note 11)	127,729	128,042
Stockholders' deficit (note 12):		
Common stock, $.01 par value, 100,000,000 shares authorized; 43,974,659 and 46,360,185 shares issued and outstanding at December 31, 1997 and 1998, respectively (notes 1 and 12)	749	584
Additional paid-in capital	533,541	577,820
Accumulated deficit	(791,417)	(1,209,462)
Accumulated other comprehensive income (loss)	144	(119)
Total stockholders' deficit	(256,983)	(631,177)
Commitments and contingencies (notes 10, 11, 13 and 14)		
Total liabilities and stockholders' deficit	$ 1,217,440	1,625,425

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)
Fiscal Year Ended September 30, 1996, the Three Months Ended December 31, 1996, and Fiscal Years Ended December 31, 1997 and 1998

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive (loss) income	Total stockholders' equity (deficit)
	Shares	Amount				
			(in thousands)			
Balances at October 1, 1995	34,565	$ 190,849	229,667	(152,487)	(28)	268,001
Shares issued for cash in connection with the exercise of options and warrants (note 12)	1,983	1,747	2,498	-	-	4,245
Shares issued as repayment of debt and related accrued interest	130	687	-	-	-	687
Shares issued in connection with business combinations (note 4)	64	749	-	-	-	749
Conversion of ICG Holdings (Canada), Inc. preferred shares	496	3,780	-	-	-	3,780
Shares issued as contribution to 401(k) plan (note 19)	87	856	300	-	-	1,156
Shares issued upon conversion of subordinated notes	4,413	76,336	-	-	-	76,336
Repurchase of warrants	-	-	(2,671)	-	-	(2,671)
Compensation expense related to issuance of common stock options	-	-	53	-	-	53
Exchange of ICG Holdings (Canada), Inc. common shares for ICG common stock	-	(248,682)	248,682	-	-	-
Unrealized gains on short-term investments available for sale	-	-	-	-	540	540
Cumulative foreign currency translation adjustment	-	-	-	-	699	699
Net loss	-	-	-	(228,372)	-	(228,372)
Balances at September 30, 1996	41,738	26,322	478,529	(380,859)	1,211	125,203
Shares issued for cash in connection with the exercise of options and warrants (note 12)	132	1,800	284	-	-	2,084
Shares issued in connection with business combination (note 4)	18	-	350	-	-	350
Shares issued as contribution to 401(k) plan (note 19)	19	-	480	-	-	480
Shares issued upon conversion of subordinated notes	23	417	-	-	-	417
Exchange of ICG Holdings (Canada), Inc. common shares for ICG common stock	-	(20,350)	20,350	-	-	-
Net loss	-	-	-	(61,313)	-	(61,313)
Net loss of NETCOM for the three months ended December 31, 1996 (note 2)	-	-	-	11,490	-	11,490
Balances at December 31, 1996	41,930	8,189	499,993	(430,682)	1,211	78,711
Shares issued for cash in connection with the exercise of options and warrants (note 12)	938	5	4,111	-	-	4,116
Shares issued in connection with business combination (note 4)	687	7	15,953	-	-	15,960
Shares issued for cash in connection with employee stock purchase plan (note 12)	240	2	3,020	-	-	3,022
Shares issued as contribution to 401(k) plan (note 19)	179	2	3,008	-	-	3,010
Exchange of ICG Holdings (Canada), Inc. common shares for ICG common stock	-	(7,456)	7,456	-	-	-
Reversal of unrealized gains on short-term investments available for sale	-	-	-	-	(540)	(540)
Cumulative foreign currency translation adjustment	-	-	-	-	(527)	(527)
Net loss	-	-	-	(360,735)	-	(360,735)
Balances at December 31, 1997	43,974	749	533,541	(791,417)	144	(256,983)
Shares issued for cash by subsidiary, net of selling costs	127	1	3,384	-	-	3,385
Shares issued for cash in connection with the exercise of options and warrants (note 12)	1,519	15	19,268	-	-	19,283
Shares issued in connection with business combinations (note 4)	502	5	15,527	-	-	15,532
Shares issued for cash in connection with the employee stock purchase plan (note 12)	111	1	2,249	-	-	2,250
Shares issued as contribution to 401(k) plan (note 19)	127	2	3,662	-	-	3,664
Exchange of ICG Holdings (Canada), Inc. common shares for ICG common stock	-	(189)	189	-	-	-
Cumulative foreign currency translation adjustment	-	-	-	-	(263)	(263)
Net loss	-	-	-	(418,045)	-	(418,045)
Balances at December 31, 1998	46,360	$ 584	577,820	(1,209,462)	(119)	(631,177)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations, Continued

	Fiscal year ended September 30,	Three months ended December 31,		Fiscal years ended December 31,	
	1996	1995	1996	1997	1998
		(unaudited)			
		(in thousands, except per share data)			
Discontinued operations (notes 1 and 3):					
Loss from discontinued operations	$ (44,060)	(5,516)	(11,974)	(39,483)	(65,938)
Loss on disposal of discontinued operations	-	-	-	-	(1,777)
	(44,060)	(5,516)	(11,974)	(39,483)	(67,715)
Loss before cumulative effect of change in accounting	(224,919)	(36,635)	(61,313)	(360,735)	(418,045)
Cumulative effect of change in accounting (note 2)	(3,453)	(3,453)	-	-	-
Net loss	$ (228,372)	(40,088)	(61,313)	(360,735)	(418,045)
Other comprehensive income (loss):					
Foreign currency translation adjustment	699	(28)	544	(527)	(263)
Unrealized gain (loss) on short-term investments available for sale (note 6)	540	-	540	(540)	-
Other comprehensive income (loss)	1,239	(28)	1,084	(1,067)	(263)
Comprehensive loss	$ (227,133)	(40,116)	(60,229)	(361,802)	(418,308)
Loss per share – basic and diluted:					
Continuing operations before cumulative effect of change in accounting	$ (4.90)	(0.96)	(1.18)	(7.56)	(7.75)
Discontinued operations	(1.20)	(0.17)	(0.29)	(0.93)	(1.50)
Cumulative effect of change in accounting	(0.09)	(0.11)	-	-	-
Net loss per share – basic and diluted	$ (6.19)	(1.24)	(1.47)	(8.49)	(9.25)
Weighted average number of shares outstanding – basic and diluted	36,875	32,343	41,760	42,508	45,194

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

	Fiscal year ended September 30,	Three months ended December 31,		Fiscal years ended December 31,	
	1996	1995	1996	1997	1998
		(unaudited)			
		(in thousands)			
Cash flows from investing activities:					
Decrease (increase) in notes receivable from affiliate and others	$ 4	(1,263)	133	(9,552)	(4,880)
Advances to affiliates	(109)	(15)	-	-	-
Investment in and advances to joint venture	(4,308)	-	-	-	-
Payments for business acquisitions, net of cash acquired	(8,441)	-	-	(45,861)	(67,841)
Acquisition of property, equipment and other assets	(121,905)	(26,798)	(50,818)	(268,796)	(367,519)
Payments for construction of corporate headquarters	(1,501)	-	(7,945)	(29,432)	(4,944)
Proceeds from disposition of property, equipment and other assets	21,593	21,146	2,057	15,125	386
Proceeds from sale of subsidiary, net of selling costs and cash included in sale	-	-	-	-	6,874
Proceeds from sale of corporate headquarters, net of selling and other costs	-	-	-	-	30,283
(Purchase) sale of short-term investments available for sale	(6,832)	(4,979)	(25,769)	(65,580)	60,281
(Increase) decrease in restricted cash	(13,333)	(13,333)	-	(25,416)	7,737
Purchase of minority interest in subsidiaries	-	-	-	-	(9,459)
Net cash used by investing activities of continuing operations	(134,832)	(25,242)	(82,342)	(429,512)	(349,082)
Cash flows from financing activities:					
Proceeds from issuance of common stock:					
Sale by subsidiary	-	-	-	-	3,385
Business combination	-	-	-	15,960	-
Exercise of options and warrants	1,894	101	2,084	4,116	19,283
Employee stock purchase plan	-	-	-	1,319	2,250
Proceeds from issuance of redeemable preferred securities of subsidiaries, net of issuance costs	144,000	-	-	223,628	-
Payments of preferred dividends	-	-	-	(1,240)	(8,927)
Redemption of preferred shares	(5,570)	(5,570)	-	-	-
Repurchase of redeemable preferred stock of subsidiary and payment of accrued dividend	(32,629)	-	-	-	-
Repurchase of redeemable warrants	(2,671)	-	-	-	-
Proceeds from issuance of short-term debt	17,500	17,500	-	-	-
Principal payments on short-term debt	(21,192)	(3,692)	-	-	-
Proceeds from issuance of long-term debt	300,034	-	-	99,908	550,574
Deferred long-term debt issuance costs	(11,915)	-	-	(3,554)	(17,591)
Principal payments on capital lease obligations	(16,720)	(2,991)	(3,691)	(30,403)	(11,195)
Principal payments on long-term debt	(16,920)	(13,761)	(279)	(1,598)	(6,864)
Net cash provided (used) by financing activities of continuing operations	355,811	(8,413)	(1,886)	308,136	530,915
Net (decrease) increase in cash and cash equivalents of continuing operations	181,880	(38,361)	(90,664)	(238,567)	76,475
Net cash (used) provided by discontinued operations	(728)	(359)	(602)	(2,154)	15,787
Cash and cash equivalents, beginning of period	269,404	269,404	450,556	359,290	118,569
Cash and cash equivalents, end of period	$ 450,556	230,684	359,290	118,569	210,831

(Continued)

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Fiscal Year Ended September 30, 1996,
the Three Months Ended December 31, 1995 (unaudited) and 1996,
and Fiscal Years Ended December 31, 1997 and 1998

	Fiscal year ended September 30,	Three months ended December 31,		Fiscal years ended December 31,	
	1996	1995	1996	1997	1998
		(unaudited)			
			(in thousands)		
Cash flows from operating activities:					
Net loss	$ (228,372)	(40,088)	(61,313)	(360,735)	(418,045)
Loss from discontinued operations	44,060	5,516	11,974	39,483	67,715
Adjustments to reconcile net loss to net cash used by operating activities of continuing operations:					
Cumulative effect of change in accounting	3,453	3,453	-	-	-
Share of losses of joint venture	1,814	228	-	-	-
Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses	24,383	2,268	4,988	37,002	55,183
Depreciation and amortization	30,030	4,833	9,691	56,501	101,545
Provision for uncollectible accounts	1,531	977	914	3,985	12,031
Compensation expense related to issuance of common stock options	53	14	-	-	-
Interest expense deferred and included in long-term debt, net of amounts capitalized on assets under construction	63,951	12,004	22,087	102,947	152,601
Interest expense deferred and included in capital lease obligations	4,416	-	1,716	6,345	5,637
Amortization of deferred financing costs included in interest expense	2,573	527	612	2,514	4,478
Write-off of non-operating assets	2,650	-	-	200	250
Contribution to 401(k) plan through issuance of common shares	1,156	405	480	3,010	3,664
Deferred income tax benefit	(5,329)	-	-	-	-
Provision for impairment of long-lived assets	9,994	-	-	9,261	-
Net loss (gain) on disposal of long-lived assets	5,128	1,030	(772)	243	4,055
Change in operating assets and liabilities, excluding the effects of business combinations, dispositions and non-cash transactions:					
Receivables	(14,150)	(3,865)	(8,632)	(28,891)	(96,659)
Inventory	(1,200)	(272)	361	(2,822)	1,198
Prepaid expenses and deposits	(2,938)	(459)	(901)	(5,405)	(1,492)
Accounts payable and accrued liabilities	16,244	7,944	9,784	19,541	(2,452)
Deferred revenue	1,454	779	2,575	(370)	4,933
Net cash used by operating activities of continuing operations	$ (39,099)	(4,706)	(6,436)	(117,191)	(105,358)

(Continued)

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 1997 and 1998

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(1) Organization and Nature of Business

ICG Communications, Inc., a Delaware corporation ("ICG"), was incorporated on April 11, 1996, for the purpose of becoming the new publicly-traded U.S. parent company of ICG Holdings (Canada), Inc., a Canadian federal corporation ("Holdings-Canada"), ICG Holdings, Inc., a Colorado corporation ("Holdings"), and its subsidiaries. On September 17, 1997, ICG formed a new special purpose entity, ICG Funding, LLC, a Delaware limited liability company and wholly owned subsidiary of ICG ("ICG Funding").

On January 21, 1998, ICG completed a merger with NETCOM On-Line Communication Services, Inc. ("NETCOM"). At the effective time of the merger, each outstanding share of NETCOM common stock, $.01 par value, was automatically converted into shares of ICG common stock, $.01 par value ("ICG Common Stock"), at an exchange ratio of 0.8628 shares of ICG Common Stock per NETCOM common share. The Company issued approximately 10.2 million shares of ICG Common Stock in connection with the merger, valued at approximately $284.9 million on the date of the merger. The business combination was accounted for as a pooling of interests. Effective November 3, 1998, the Company's board of directors adopted a formal plan to dispose of the operations of NETCOM (see note 3) and, accordingly, the Company's consolidated financial statements reflect the operations and net assets of NETCOM as discontinued for all periods presented. The Company completed the sales of the operations of NETCOM on February 17 and March 16, 1999. In conjunction with the sales, the legal name of the NETCOM subsidiary was changed to ICG PST, Inc. ("PST").

On January 23, 1998, ICG formed ICG Services, Inc., a Delaware corporation and wholly owned subsidiary of ICG ("ICG Services"). ICG Services is the parent company of PST (formerly NETCOM) and ICG Equipment, Inc., a Colorado corporation formed on January 23, 1998 to purchase or lease telecommunications equipment, software, network capacity and related services, and in turn, lease such assets to Holdings' subsidiaries. ICG and its subsidiaries, including ICG Services and its subsidiaries, are collectively referred to as the "Company."

Pursuant to a Plan of Arrangement (the "Arrangement"), which was approved by Holdings-Canada shareholders on July 30, 1996, and by the Ontario Court of Justice on August 2, 1996, each shareholder of Holdings-Canada exchanged their common shares on a one-for-one basis for either (i) shares of ICG Common Stock, or (ii) Class A common shares of Holdings-Canada (the "Class A Shares"), which were exchangeable,

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

	Fiscal year ended September 30,	Three months ended December 31,		Fiscal years ended December 31,	
	1996	1995	1996	1997	1998
		(unaudited)			
		(in thousands)			
Supplemental disclosure of cash flows information of continuing operations:					
Cash paid for interest	$ 14,774	2,684	39	5,714	7,411
Cash paid for income taxes	$ -	-	-	-	90
Supplemental schedule of non-cash investing and financing activities of continuing operations:					
Common stock issued in connection with business combinations, repayment of debt or conversion of liabilities to equity	$ 77,772	-	350	-	15,532
Assets acquired under capital leases	$ 55,030	84	19,479	-	1,427

See accompanying notes to consolidated financial statements.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements give retroactive effect to the merger of ICG and NETCOM on January 21, 1998, which was accounted for as a pooling of interests, and include the accounts of NETCOM and its subsidiaries as of the end of and for the periods presented. Effective November 3, 1998, the Company's board of directors adopted a formal plan to dispose of the operations of NETCOM (see note 3) and, accordingly, the accompanying consolidated financial statements reflect the operations of NETCOM as discontinued for all periods presented. Financial information prior to the completion of the Arrangement on August 2, 1996 represents the combined financial position and results of operations of NETCOM as well as Holdings-Canada and Holdings, which are considered to be predecessor entities to ICG.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Fiscal Year Ends of ICG and NETCOM

The Company changed its fiscal year end to December 31 from September 30, effective January 1, 1997. References to fiscal 1996, 1997 and 1998 relate to the years ended September 30, 1996 and December 31, 1997 and 1998, respectively.

Unaudited consolidated statements of operations and cash flows for the three months ended December 31, 1995 have been included in the accompanying consolidated financial statements for comparative purposes.

Prior to the merger, NETCOM's consolidated financial statements were prepared using a year end of December 31. Accordingly, the consolidated statements of operations for fiscal 1996 reflect the combination of NETCOM's results of operations for the year ended December 31, 1996 with ICG's results of operations for the year ended September 30, 1996. Consequently, NETCOM's results of operations for the three months ended December 31, 1996 have been combined with ICG's results of operations for the same period in the accompanying consolidated statement of operations, although they have been presented as discontinued (see note 3). The

(1) Organization and Nature of Business (continued)

prior to January 1, 1999, at any time on a one-for-one basis into shares of ICG Common Stock. On August 2, 1996, 28,795,132, or approximately 98%, of the total issued and outstanding common shares of Holdings-Canada were exchanged for an equal number of shares of Common Stock of ICG. In accordance with generally accepted accounting principles, the Arrangement was accounted for in a manner similar to a pooling of interests since ICG and Holdings-Canada had common shareholders, and the number of shares outstanding and the weighted average number of shares outstanding reflected the equivalent shares outstanding for the combined companies. On November 25, 1998, the shareholders of Holdings-Canada approved the Plan of Reorganization (the "Reorganization") among ICG, Holdings-Canada, ICG Canadian Acquisition, Inc., a newly formed Delaware corporation and wholly owned subsidiary of ICG ("ICG Acquisition"), and ICG Holdings (Canada) Co., a newly formed Nova Scotia unlimited liability company and wholly owned subsidiary of ICG Acquisition. Pursuant to the Reorganization, on December 1, 1998, ICG Acquisition acquired 100% of the issued and outstanding Class A Shares of Holdings-Canada, including those Holdings-Canada common shares owned by ICG, in exchange solely for voting common stock of ICG Acquisition which was contributed to ICG Acquisition as part of the Reorganization. On January 1, 1999, Holdings-Canada merged with and into ICG Holdings (Canada) Co. The merger and Reorganization was accounted for in a manner similar to a pooling of interests since the transactions involved entities under common control.

The Company's principal business activity is telecommunications services, including Telecom Services, Network Services and Satellite Services. Telecom Services consists primarily of the Company's competitive local exchange carrier operations which provide services to business end users, Internet service providers ("ISPs") and long distance carriers and resellers. Network Services supplies information technology services and selected networking products, focusing on network design, installation, maintenance and support for a variety of end users, including Fortune 1000 firms and other large businesses and telecommunications companies. Satellite Services consists of satellite voice, data and video services provided to major cruise ship lines, the U.S. Navy, the offshore oil and gas industry and integrated communications providers.

(2) **Summary of Significant Accounting Policies (continued)**

investee company, in which case the equity method is used. As of December 31, 1998, the Company held no equity interests in investee companies of 50% or less.

(f) Property and Equipment

Property and equipment are stated at cost. Costs of construction are capitalized, including interest costs related to construction. Equipment held under capital leases is stated at the lower of the fair value of the asset or the net present value of the minimum lease payments at the inception of the lease. For equipment held under capital leases, depreciation is provided using the straight-line method over the estimated useful lives of the assets owned, or the related lease term, whichever is shorter.

Estimated useful lives of major categories of property and equipment are as follows:

Furniture, fixtures and office equipment	3 to 7 years
Machinery and equipment	3 to 8 years
Fiber optic equipment	8 years
Switch equipment	10 years
Fiber optic network	20 years
Buildings and improvements	31.5 years

(g) Capitalized Labor Costs

Also included in property and equipment are capitalized labor and other costs associated with network development, service installation and internal-use software development.

The Company capitalizes costs of direct labor and other employee benefits associated with the development, installation and expansion of the Company's networks. Depreciation begins in the period the network is substantially complete and available for use and is recorded on a straight-line basis over the estimated useful life of the equipment or network, ranging from 8 to 20 years.

(2) Summary of Significant Accounting Policies (continued)

net loss of NETCOM for the three months ended December 31, 1996 has been eliminated in the consolidated statement of stockholders' equity (deficit).

(c) Cash Equivalents and Short-term Investments Available for Sale

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company invests primarily in high grade short-term investments which consist of money market instruments, commercial paper, certificates of deposit, government obligations and corporate bonds, all of which are considered to be available for sale and generally have maturities of one year or less. The Company's short-term investment objectives are safety, liquidity and yield, in that order. The Company carries all cash equivalents at cost, which approximates fair value. Short-term investments available for sale are carried at amortized cost, which approximates fair market value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity (deficit). Realized gains and losses and declines in value judged to be other than temporary are included in the statement of operations.

(d) Inventory

Inventory, consisting of satellite systems equipment and equipment to be utilized in the installation of communications systems, services and networks for customers, is recorded at the lower of cost or market, using the first-in, first-out method of accounting for cost.

(e) Investments

Investments representing an interest of 20% or more, but less than 50% are accounted for using the equity method of accounting, under which the Company's share of earnings or losses are reflected in operations and dividends are credited against the investment when received. Losses recognized in excess of the Company's investment due to additional investment or financing requirements, or guarantees, are recorded as a liability in the consolidated financial statements. Investments of less than a 20% equity interest are accounted for using the cost method, unless the Company exercises significant influence and/or control over the operations of the

(2) **Summary of Significant Accounting Policies (continued)**

the balance sheet date. Revenue and costs and expenses are translated at weighted average rates of exchange prevailing during the period. Translation adjustments are included in other comprehensive income (loss), which is a separate component of stockholders' equity (deficit). Gains and losses resulting from foreign currency transactions are included in discontinued operations and are not significant for the periods presented.

(j) Use of Estimates

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

(k) Revenue Recognition

The Company recognizes Telecom Services and Satellite Services revenue as services are provided and charges direct selling expenses to operations as incurred. Revenue from Network Services contracts for the design and installation of communications systems and networks, which are generally short-term in duration, is recognized using the percentage of completion method of accounting. Maintenance revenue is recognized as services are provided. Uncollectible trade receivables are accounted for using the allowance method.

Revenue which has been earned under the percentage of completion method, but has not been billed to the customer, is included in revenue earned, but unbilled in the consolidated financial statements. Deferred revenue includes monthly advance billings to customers for certain services provided by the Company's Telecom Services and Satellite Services, as well as Network Services revenue which has been billed to the customer in compliance with contract terms, but not yet earned under the percentage of completion method.

(2) Summary of Significant Accounting Policies (continued)

The Company capitalizes costs of direct labor and other employee benefits associated with installing and provisioning local access lines for new customers and providing new services to existing customers, since these costs are directly associated with multi-period, contractual, revenue-producing activities. Direct labor costs are capitalized only when directly related to the provisioning of customer services with multi-period contracts. Capitalization begins upon the acceptance of the customer order and continues until the installation is complete and the service is operational. Capitalized service installation costs are depreciated on a straight-line basis over 2 years, the average customer contract term.

The Company capitalizes costs of direct labor and other employee benefits associated with the development of internal-use computer software in accordance with Statement of Position 98-1, *"Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."* Internal-use software costs are depreciated over the estimated useful life of the software, typically 2 to 5 years, beginning in the period when the software is substantially complete and ready for use.

(h) Other Assets

Amounts related to the acquisition of transmission and other licenses are recorded at cost and amortized over 20 years using the straight-line method. Goodwill results from the application of the purchase method of accounting for business combinations and is amortized over a maximum of 20 years using the straight-line method.

Rights of way, minutes of use, and non-compete agreements are recorded at cost, and amortized using the straight-line method over the terms of the agreements, ranging from 2 to 12 years.

Amortization of deferred financing costs is provided over the life of the related financing agreement, the maximum term of which is 10 years.

(i) Foreign Currency Translation Adjustments

The functional currency for all foreign operations of NETCOM, which were sold subsequent to December 31, 1998, is the local currency. As such, all assets and liabilities denominated in foreign currencies are translated at the exchange rate on

(2) Summary of Significant Accounting Policies (continued)

(m) Net Loss Per Share

Net loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding. Weighted average number of shares outstanding for the three months ended December 31, 1995 represents outstanding Holdings-Canada common shares and ICG Common Stock resulting from the exchange of NETCOM common shares. Weighted average number of shares outstanding for fiscal 1996, the three months ended December 31, 1996, and fiscal 1997 and 1998 represents Holdings-Canada common shares outstanding for the period from October 1, 1995 through August 2, 1996, and combined ICG Common Stock and Holdings-Canada Class A common shares outstanding for the periods presented subsequent to August 5, 1996.

Net loss per share is determined in accordance with Financial Accounting Standards Board Statement No. 128, *Earnings Per Share* ("SFAS 128"), which revises the calculation and presentation provisions of Accounting Principles Board Opinion No. 15 and related interpretations. Under SFAS 128, basic loss per share is computed on the basis of weighted average common shares outstanding. Diluted loss per share considers potential common stock instruments in the calculation of weighted average common shares outstanding. Potential common stock instruments, which include options, warrants and convertible subordinated notes and preferred securities, are not included in the net loss per share calculation as their effect is anti-dilutive.

(n) Stock-Based Compensation

The Company accounts for its stock-based employee and non-employee director compensation plans using the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations ("APB 25"). The Company has provided pro forma disclosures of net loss and net loss per share as if the fair value based method of accounting for these plans, as prescribed by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), had been applied. Pro forma disclosures include the effects of employee and non-employee director stock options granted during fiscal 1996, the three months ended December 31, 1996, and fiscal 1997 and 1998.

(2) Summary of Significant Accounting Policies (continued)

NETCOM recognizes revenue and operating costs on the same basis as Telecom Services and Satellite Services, although such amounts are included in loss from discontinued operations for all periods presented.

Prior to January 1, 1996, the Company recognized Telecom Services revenue in an amount equal to the non-cancelable portion of the contract, which is a minimum of one year on a three-year or longer contract, at the inception of the contract and upon activation of service to the customer to the extent of direct installation and selling expenses incurred in obtaining customers during the period in which such revenue was recognized. Revenue recognized in excess of normal monthly billings during the year was limited to an amount which did not exceed such installation and selling expense. The remaining revenue from the contract was recognized ratably over the remaining non-cancelable portion of the contract. The Company believes the new method is preferable because it provides a better matching of revenue and related operating expenses and is more consistent with accounting practices within the telecommunications industry. As required by generally accepted accounting principles, the Company has reflected the effects of the change in accounting as if such change had been adopted as of October 1, 1995, and has included in the results of operations for fiscal 1996 a charge of approximately $3.5 million relating to the cumulative effect of this change in accounting. Other than the cumulative effect of adopting this new method of accounting, the effect of this change in accounting for the periods presented was not significant.

(l) Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"). Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(3) Discontinued Operations (continued)

(a) Zycom

The Company owns a 70% interest in Zycom Corporation ("Zycom") which, through its wholly owned subsidiary, Zycom Network Services, Inc. ("ZNSI"), operated an 800/888/900 number services bureau and a switch platform in the United States and supplied information providers and commercial accounts with audiotext and customer support services. In June 1998, Zycom was notified by its largest customer of the customer's intent to transfer its call traffic to another service bureau. In order to minimize the obligation that this loss in call traffic would generate under Zycom's volume discount agreements with AT&T Corp. ("AT&T"), its call transport provider, ZNSI entered into an agreement on July 1, 1998 with an unaffiliated entity, ICN Limited ("ICN"), whereby ZNSI assigned the traffic of its largest audiotext customer and its other 900-number customers to ICN, effective October 1, 1998. As part of this agreement, ICN assumed all minimum call traffic volume obligations to AT&T.

The call traffic assigned to ICN represents approximately 86% of Zycom's revenue for the year ended December 31, 1997. The loss of this significant portion of Zycom's business, despite management's best efforts to secure other sources of revenue, raised substantial doubt as to Zycom's ability to operate in a manner which would benefit Zycom's or the Company's shareholders. Accordingly, on August 25, 1998, Zycom's board of directors approved a plan to wind down and ultimately discontinue Zycom's operations. On October 22, 1998, Zycom completed the transfer of all customer traffic to other providers and Zycom anticipates that the disposition of its remaining assets and the discharge of its remaining liabilities will be completed in 1999.

The Company's consolidated financial statements reflect the operations of Zycom as discontinued for all periods presented. Zycom incurred net losses from operations of approximately $1.2 million for the period from August 25, 1998 to December 31, 1998. Included in net current assets (liabilities) and net non-current assets of discontinued operations in the Company's consolidated balance sheets are the following accounts of Zycom:

(2) Summary of Significant Accounting Policies (continued)

(o) Impairment of Long-Lived Assets

The Company provides for the impairment of long-lived assets, including goodwill, pursuant to Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* ("SFAS 121"), which requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated undiscounted future cash flows expected to be generated by the asset are less than its carrying value. Measurement of the impairment loss is based on the estimated fair value of the asset, which is generally determined using valuation techniques such as the discounted present value of expected future cash flows.

(p) Reclassifications

Certain prior period amounts have been reclassified to conform with the current period's presentation.

(3) Discontinued Operations

Loss from discontinued operations consists of the following:

	Fiscal year ended September 30,	Three months ended December 31,		Fiscal years ended December 31,	
	1996	1995	1996	1997	1998
		(unaudited)			
		(in thousands)			
Zycom (a)	$ 205	(70)	(484)	(6,391)	(4,848)
NETCOM (b)	(44,265)	(5,446)	(11,490)	(33,092)	(61,090)
Loss from discontinued operations	$ (44,060)	(5,516)	(11,974)	(39,483)	(65,938)

(3) Discontinued Operations (continued)

	December 31, 1997	December 31, 1998
	(in thousands)	
Cash and cash equivalents	$ 63,368	-
Receivables	2,397	3,936
Inventory	341	423
Prepaid expenses and deposits	3,554	2,436
Deferred losses of NETCOM	-	10,847
Accounts payable and accrued liabilities	(28,471)	(37,009)
Current portion of capital lease obligations	(2,491)	(2,961)
Net current assets (liabilities) of NETCOM	$ 38,698	(22,328)
Property and equipment, net	$ 72,945	50,394
Other assets, net	4,242	5,703
Capital lease obligations, less current portion	(3,550)	(2,074)
Net non-current assets of NETCOM	$ 73,637	54,023

On February 17, 1999, the Company sold certain of the operating assets and liabilities of NETCOM to MindSpring Enterprises, Inc., an Internet service provider ("ISP") located in Atlanta, Georgia ("MindSpring"). Total proceeds from the sale were $245.0 million, consisting of $215.0 million in cash and 376,116 shares of unregistered common stock of MindSpring, valued at approximately $79.76 per share at the time of the transaction. Assets and liabilities sold to MindSpring include those directly related to the domestic operations of NETCOM's Internet dial-up, dedicated access and Web site hosting services. On March 16, 1999, the Company sold all of the capital stock of NETCOM's international operations for total proceeds of approximately $41.1 million. MetroNET Communications Corp. ("MetroNET"), a Canadian entity, and Providence Equity Partners ("Providence"), located in Providence, Rhode Island, together purchased the 80% interest in NETCOM Canada Inc. owned by NETCOM for approximately $28.9 million in cash. Additionally, Providence purchased all of the capital stock of NETCOM Internet Access Services Limited, NETCOM's operations in the United Kingdom, for approximately $12.2 million in cash. The Company expects to record a combined gain on the NETCOM

(3) Discontinued Operations (continued)

	December 31,	
	1997	1998
	(in thousands)	
Cash and cash equivalents	$ 265	47
Receivables	1,879	90
Prepaid expenses and deposits	48	11
Accounts payable and accrued liabilities	(2,559)	(1,092)
Net current liabilities of Zycom	$ (367)	(944)
Property and equipment, net	$ 1,050	220
Other assets, net	1,890	-
Net non-current assets of Zycom	$ 2,940	220

On January 4, 1999, the Company completed the sale of the remainder of Zycom's operating assets to an unrelated third party for total proceeds of $0.2 million. As Zycom's assets were recorded at estimated fair market value at December 31, 1998, no gain or loss was recorded on the sale.

(b) NETCOM

Effective November 3, 1998, the Company's board of directors adopted the formal plan to dispose of the operations of NETCOM and, accordingly, the Company's consolidated financial statements reflect the operations of NETCOM as discontinued for all periods presented. Since the Company expects to record a gain on the disposition of NETCOM, the Company has deferred the net operating losses of NETCOM from November 3, 1998 through December 31, 1998, to be recognized as a component of the gain on the disposition. Included in net current assets (liabilities) and net non-current assets of discontinued operations in the Company's consolidated balance sheets are the following accounts of NETCOM:

(4) **Purchase Acquisitions and Investments (continued)**

over five years. DataChoice, a Colorado limited liability company, provides point-to-point data transmission resale services through its long-term agreements with multiple regional carriers and nationwide providers.

The Company completed a series of transactions on July 30, 1998 to acquire NikoNET, Inc., CompuFAX Acquisition Corp. and Enhanced Messaging Services, Inc. (collectively, "NikoNET"). The Company paid approximately $13.8 million in cash, which included dividends payable by NikoNET to its former owners and amounts to satisfy NikoNET's former line of credit, assumed approximately $0.7 million in liabilities and issued 356,318 shares of ICG Common Stock with a fair market value of approximately $10.7 million on the date of the acquisition, for all the capital stock of NikoNET. The excess of the purchase price over the fair value of the net identifiable assets acquired of $22.6 million has been recorded as goodwill and is being amortized on a straight-line basis over five years. Located in Atlanta, Georgia, NikoNET provides broadcast facsimile services and enhanced messaging services to financial institutions, corporate investor and public relations departments and other customers. The Company believes the acquisition of NikoNET enables the Company to offer expanded services to its Telecom Services customers.

On August 27, 1998, the Company purchased, for $9.0 million in cash, the remaining 20% equity interest in ICG Ohio LINX, Inc. ("ICG Ohio LINX") which it did not already own. ICG Ohio LINX is a facilities-based competitive local exchange carrier which operates a fiber optic telecommunications network in Cleveland and Dayton, Ohio. The Company's additional investment in ICG Ohio LINX, including incremental costs of obtaining that investment of $0.1 million, is included in goodwill in the accompanying consolidated balance sheet at December 31, 1998.

In January 1997, the Company announced a strategic alliance with Central and South West Corporation ("CSW") formed for the purpose of developing and marketing telecommunications services in certain cities in Texas. Based in Austin, Texas, the venture entity was a limited partnership named CSW/ICG ChoiceCom, L.P ("ChoiceCom"). On December 31, 1998, the Company purchased 100% of the partnership interests in ChoiceCom from CSW for approximately $55.7 million in cash and the assumption of certain liabilities of approximately $7.3 million. In

(3) Discontinued Operations (continued)

transactions of approximately $200 million, net of income taxes of approximately $6.5 million, during the three months ended March 31, 1999. Since the operations sold were acquired by the Company in a transaction accounted for as a pooling of interests, the gain on the NETCOM transactions will be classified in the Company's consolidated statement of operations as an extraordinary item.

In conjunction with the sale to MindSpring, the Company entered into an agreement to lease to MindSpring for a one-year period the capacity of certain network operating assets formerly owned by NETCOM and retained by the Company for a minimum of $27.0 million, although subject to increase dependent upon network usage. MindSpring will utilize the capacity to provide Internet access to the dial-up services customers formerly owned by NETCOM. In addition, the Company will receive for a one-year period 50% of the gross revenue earned by MindSpring from the dedicated access customers formerly owned by NETCOM. The Company intends to utilize the retained network operating assets to provide similar wholesale capacity and other enhanced network services to MindSpring and other ISPs and telecommunications providers, beginning in 1999.

(4) Purchase Acquisitions and Investments

The acquisitions described below have been accounted for using the purchase method of accounting and, accordingly, the net assets and results of operations of the acquired businesses are included in the Company's consolidated financial statements from the respective dates of acquisition. Revenue, net loss and net loss per share on a pro forma basis, assuming the acquisitions were completed at the beginning of the periods presented, are not significantly different from the Company's historical results for the periods presented herein.

(a) Fiscal 1998

On July 27, 1998, the Company acquired DataChoice Network Services, L.L.C. ("DataChoice") for total consideration of $5.9 million, consisting of 145,997 shares of ICG Common Stock and approximately $1.1 million in cash. The excess of the purchase price over the fair value of the net identifiable assets acquired of $5.7 million has been recorded as goodwill and is being amortized on a straight-line basis

(4) Purchase Acquisitions and Investments (continued)

of Linkatel. In April 1996, the partnership was renamed ICG Telecom of San Diego, L.P.

In March 1996, the Company acquired a 90% equity interest in MarineSat Communications Network, Inc. ("MCN"), (formally Maritime Cellular Tele-network, Inc.), a Florida-based provider of cellular and satellite communications for commercial ships, private vessels, offshore oil platforms and land-based mobile units, for approximately \$0.7 million in cash and approximately \$0.1 million of assumed debt, for total consideration of approximately \$0.8 million. In April 1997, the Company received the remaining 10% interest in MCN as partial consideration for the sale of its investment in Mexico.

In August 1996, the Company acquired certain Signaling System 7 ("SS7") assets of Pace Network Services, Inc. ("Pace"), a division of Pace Alternative Communications, Inc. SS7 is used by local exchange companies, long-distance carriers, wireless carriers and others to signal between network elements, creating faster call set-up resulting in a more efficient use of network resources. The Company paid cash consideration of \$1.6 million as of September 30, 1996 and an additional \$1.0 million in January 1997, based on the operating results of the underlying business since the date of acquisition.

(5) Dispositions

(a) Fiscal 1998

On July 17, 1998, the Company entered into separate definitive agreements to sell the capital stock of MCN and Nova-Net Communications, Inc. ("Nova-Net"), two wholly owned subsidiaries within the Company's Satellite Services operations. The sale of MCN was completed on August 12, 1998 and, accordingly, the Company's consolidated financial statements include the results of operations of MCN through that date. The Company recorded a gain on the sale of MCN of approximately \$0.9 million during fiscal 1998. The sale of Nova-Net was completed on November 18, 1998 and, accordingly, the Company's consolidated financial statements include the results of operations of Nova-Net through that date. The Company recorded a loss on the sale of Nova-Net of approximately \$0.2 million during the three months

(4) **Purchase Acquisitions and Investments (continued)**

addition, the Company converted approximately $31.6 million of receivables from prior advances made to ChoiceCom by the Company to its investment in ChoiceCom. The excess of the purchase price over the fair value of the net identifiable assets acquired of $28.9 million has been recorded as goodwill and is being amortized on a straight-line basis over 10 years. The acquired company currently provides local exchange and long distance services in Austin, Corpus Christi, Dallas, Houston and San Antonio, Texas.

(b) Fiscal 1997

On October 17, 1997, the Company purchased approximately 91% of the outstanding capital stock of Communications Buying Group, Inc. ("CBG"), an Ohio based local exchange and Centrex reseller. The Company paid total consideration of approximately $46.5 million, plus the assumption of certain liabilities. Separately, on October 17, 1997, the Company sold 687,221 shares of ICG Common Stock for approximately $16.0 million to certain shareholders of CBG. On March 24, 1998, the Company purchased the remaining approximate 9% interest in CBG for approximately $2.9 million in cash. The excess of the purchase price over the fair value of the net identifiable assets acquired in the combined transactions of $48.9 million has been recorded as goodwill and is being amortized on a straight-line basis over six years.

(c) Fiscal 1996

In January 1996, the Company purchased the remaining 49% minority interest of Fiber Optic Technologies, Inc. ("FOTI"), making FOTI a wholly owned subsidiary. Consideration for the purchase was approximately $2.0 million in cash and 66,236 common shares of Holdings-Canada valued at approximately $0.8 million, for total consideration of approximately $2.8 million. The Company's Network Services are provided by FOTI.

In February 1996, the Company entered into an agreement with Linkatel California, L.P. ("Linkatel") and its other partners, Linkatel Communications, Inc. and The Copley Press, Inc., under which the Company acquired a 60% interest in Linkatel for an aggregate purchase price of $10.0 million in cash and became the general partner

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Notes to Consolidated Financial Statements, Continued

(6) Short-term Investments Available for Sale

Short-term investments available for sale are comprised of the following:

	December 31, 1997	December 31, 1998
	(in thousands)	
Certificates of deposit	$ -	31,000
Commercial paper	4,000	16,000
U.S. Treasury securities	108,281	5,000
	$ 112,281	52,000

At December 31, 1997 and 1998, the estimated fair value of the Company's certificates of deposit, commercial paper and U.S. Treasury securities approximated cost. All certificates of deposit, commercial paper and U.S. Treasury securities mature within one year.

(7) Property and Equipment

Property and equipment, including assets held under capital leases, is comprised of the following:

(5) **Dispositions (continued)**

ended December 31, 1998. The combined revenue, net loss or net loss per share of MCN and Nova-Net do not represent a significant portion of the Company's historical consolidated revenue, net loss or net loss per share.

(b) Fiscal 1996

In October 1996, the Company sold its interest in its Phoenix network joint venture to its venture partner, GST Telecommunications, Inc. The Company received approximately $2.1 million in cash, representing $1.3 million of consideration for its 50% interest and $0.8 million for equipment and amounts advanced to the joint venture. In addition, the Company received equipment with a net book value of $2.4 million and assumed liabilities of $0.3 million. A gain on sale of the joint venture of approximately $0.8 million was recorded in the consolidated financial statements during the three months ended December 31, 1996.

In December 1995, the Company received approximately $21.1 million as partial payment for the sale of four of its teleports and certain related assets, and entered into a management agreement with the purchaser whereby the purchaser assumed control of the teleport operations. Upon approval of the transaction by the Federal Communications Commission ("FCC"), the Company completed the sale in March 1996 and received an additional $0.4 million due to certain closing adjustments, for total proceeds of $21.5 million. The Company recognized a loss of approximately $1.1 million on the sale. Revenue associated with these operations was approximately $2.5 million for fiscal 1996. The Company has reported results of operations from these assets through December 31, 1995.

(7) Property and Equipment (continued)

Also included in property and equipment at December 31, 1997 and 1998 are unamortized costs associated with the development of internal-use computer software of \$2.3 million and \$11.5 million, respectively. The Company capitalized \$0.7 million, \$0.1 million, \$2.4 million and \$10.0 million of such costs during fiscal 1996, the three months ended December 31, 1996, fiscal 1997 and 1998, respectively.

Certain of the assets described above have been pledged as security for long-term debt and are held under capital leases at December 31, 1998. The following is a summary of property and equipment held under capital leases:

	December 31,	
	1997	1998
	(in thousands)	
Machinery and equipment	$ 3,926	7,072
Fiber optic equipment	6,314	798
Switch equipment	21,380	12,957
Fiber optic network	58,806	77,523
Construction in progress	17,895	-
	108,321	98,350
Less accumulated depreciation	(8,409)	(7,875)
	$ 99,912	90,475

Amortization of capital leases is included in depreciation and amortization in the Company's consolidated statements of operations for all periods presented.

(7) Property and Equipment (continued)

	December 31, 1997	December 31, 1998
	(in thousands)	
Land	$ 709	709
Buildings and improvements	2,238	2,296
Furniture, fixtures and office equipment	42,295	123,108
Internal-use software costs	3,681	13,655
Machinery and equipment	12,600	20,998
Fiber optic equipment	181,000	259,015
Satellite equipment	29,760	32,418
Switch equipment	85,546	156,313
Fiber optic network	179,705	225,453
Site improvements	13,898	20,029
Service installation costs	-	20,679
Construction in progress	185,992	237,394
	737,424	1,112,067
Less accumulated depreciation	(105,970)	(177,933)
	$ 631,454	934,134

Property and equipment includes approximately $237.4 million of equipment which has not been placed in service at December 31, 1998, and accordingly, is not being depreciated. The majority of this amount is related to uninstalled transport and switch equipment and new network construction.

For fiscal 1996, the three months ended December 31, 1996, fiscal 1997 and 1998, the Company capitalized interest costs on assets under construction of $4.9 million, $2.0 million, $3.2 million and $10.4 million, respectively. Such costs are included in property and equipment as incurred. The Company recognized interest expense of $85.7 million, $24.5 million, $117.5 million and $170.1 million for fiscal 1996, the three months ended December 31, 1996, fiscal 1997 and 1998, repectively.

(10) Long-term Debt

Long-term debt is summarized as follows:

	December 31, 1997	December 31, 1998
	(in thousands)	
9 7/8% Senior discount notes of ICG Services, net of discount (a)	$ -	266,918
10% Senior discount notes of ICG Services, net of discount (b)	-	327,699
11 5/8% Senior discount notes of Holdings, net of discount (c)	109,436	122,528
12 1/2% Senior discount notes of Holdings, net of discount (d)	367,494	414,864
13 1/2% Senior discount notes of Holdings, net of discount (e)	407,409	465,886
Note payable with interest at the 90-day commercial paper rate plus 4 3/4%, paid in full on August 19, 1998	4,932	-
Note payable with interest at 11%, paid in full on June 12, 1998	1,860	-
Mortgage payable with interest at 8 1/2%, due monthly through 2009, secured by building	1,131	1,084
Other	90	65
	892,352	1,599,044
Less current portion	(1,784)	(46)
	$ 890,568	1,598,998

(a) 9 7/8% Notes

On April 27, 1998, ICG Services completed a private placement of 9 7/8% Senior Discount Notes due 2008 (the "9 7/8% Notes") for gross proceeds of approximately $250.0 million. Net proceeds from the offering, after underwriting and other offering costs of approximately $7.9 million, were approximately $242.1 million.

The 9 7/8% Notes are unsecured senior obligations of ICG Services that mature on May 1, 2008, at a maturity value of $405.3 million. Interest will accrue at 9 7/8% per annum, beginning May 1, 2003, and is payable each May 1 and November 1, commencing November 1, 2003. The indenture for the 9 7/8% Notes contains certain covenants which provide limitations on indebtedness, dividends, asset sales and certain other transactions.

(8) Other Assets

Other assets are comprised of the following:

	December 31, 1997	December 31, 1998
	(in thousands)	
Deposits	$ 2,429	17,035
Pace customer base	2,805	2,805
Collocation costs	2,998	5,472
Non-compete agreements	1,386	1,050
Right of entry costs	1,984	2,684
Other	588	2,486
	12,190	31,532
Less accumulated amortization	(3,124)	(6,343)
	$ 9,066	25,189

(9) Capital Lease Obligations

The Company has payment obligations under various capital lease agreements for equipment. Required payments due each year on or before December 31 under the Company's capital lease obligations are as follows (in thousands):

1999	$ 14,406
2000	15,000
2001	17,098
2002	11,085
2003	11,008
Thereafter	82,607
Total minimum lease payments	151,204
Less amounts representing interest	(82,759)
Present value of net minimum lease payments	68,445
Less current portion	(5,086)
	$ 63,359

(10) Long-term Debt (continued)

The 11 5/8% Notes are unsecured senior obligations of Holdings (guaranteed by ICG) that mature on March 15, 2007, at a maturity value of $176.0 million. Interest will accrue at 11 5/8% per annum, beginning March 15, 2002, and is payable each March 15 and September 15, commencing September 15, 2002. The indenture for the 11 5/8% Notes contains certain covenants which provide for limitations on indebtedness, dividends, asset sales and certain other transactions and effectively prohibit the payment of cash dividends.

The 11 5/8% Notes were originally recorded at approximately $99.9 million. The discount on the 11 5/8% Notes is being accreted through March 15, 2002, the date on which the 11 5/8% Notes may first be redeemed. The accretion of the discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations.

(d) 12 1/2% Notes

On April 30, 1996, Holdings completed a private placement (the "1996 Private Offering") of 12 1/2% Senior Discount Notes due 2006 (the "12 1/2% Notes") and of 14 1/4% Exchangeable Preferred Stock Mandatorily Redeemable 2007 (the "14 1/4% Preferred Stock") for gross proceeds of $300.0 million and $150.0 million, respectively. Net proceeds from the 1996 Private Offering, after issuance costs of approximately $17.0 million, were approximately $433.0 million.

The 12 1/2% Notes are unsecured senior obligations of Holdings (guaranteed by ICG and Holdings-Canada) that mature on May 1, 2006, with a maturity value of $550.3 million. Interest will accrue at 12 1/2% per annum, beginning May 1, 2001, and is payable each May 1 and November 1, commencing November 1, 2001. The indenture for the 12 1/2% Notes contains certain covenants which provide for limitations on indebtedness, dividends, asset sales and certain other transactions and effectively prohibit the payment of cash dividends.

The 12 1/2% Notes were originally recorded at approximately $300.0 million. The discount on the 12 1/2% Notes is being accreted through May 1, 2001, the date on which the 12 1/2% Notes may first be redeemed. The accretion of the discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations.

(10) **Long-term Debt (continued)**

The 9 7/8% Notes were originally recorded at approximately $250.0 million. The discount on the 9 7/8% Notes is being accreted through May 1, 2003, the date on which the 9 7/8% Notes may first be redeemed. The accretion of the discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations.

(b) 10% Notes

On February 12, 1998, ICG Services completed a private placement of 10% Senior Discount Notes due 2008 (the "10% Notes") for gross proceeds of approximately $300.6 million. Net proceeds from the offering, after underwriting and other offering costs of approximately $9.7 million, were approximately $290.9 million.

The 10% Notes are unsecured senior obligations of ICG Services that mature on February 15, 2008, at a maturity value of $490.0 million. Interest will accrue at 10% per annum, beginning February 15, 2003, and is payable each February 15 and August 15, commencing August 15, 2003. The indenture for the 10% Notes contains certain covenants which provide limitations on indebtedness, dividends, asset sales and certain other transactions.

The 10% Notes were originally recorded at approximately $300.6 million. The discount on the 10% Notes is being accreted through February 15, 2003, the date on which the 10% Notes may first be redeemed. The accretion of the discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations.

(c) 11 5/8% Notes

On March 11, 1997, Holdings completed a private placement (the "1997 Private Offering") of 11 5/8% Senior Discount Notes due 2007 (the "11 5/8% Notes") and 14% Exchangeable Preferred Stock Mandatorily Redeemable 2008 (the "14% Preferred Stock") for gross proceeds of $99.9 million and $100.0 million, respectively. Net proceeds from the 1997 Private Offering, after costs of approximately $7.5 million, were approximately $192.4 million.

(10) Long-term Debt (continued)

assigned to the Unit Warrants, representing additional debt discount, is also being accreted over the five-year period. The accretion of the total discount and the amortization of the debt issuance costs are included in interest expense in the accompanying consolidated statements of operations. Holdings may redeem the 13 1/2% Notes on or after September 15, 2000, in whole or in part, at the redemption prices set forth in the agreement, plus unpaid interest, if any, at the date of redemption.

The Unit Warrants entitled the holder to purchase one common share of Holdings-Canada, which was exchangeable into one share of ICG Common Stock, through August 8, 2005 at the exercise price of $12.51 per share. In connection with the Reorganization of Holdings-Canada, all Unit Warrants outstanding are exchangeable only for shares of ICG Common Stock on a one-for-one basis and are no longer exchangeable for shares of Holdings-Canada.

(f) Subsequent to December 31, 1998

As of December 31, 1998, the Company's corporate headquarters building, land and improvements (collectively, the "Corporate Headquarters") were leased by the Company under an operating lease from an unrelated third party. Subsequent to December 31, 1998, the Company entered into a letter of intent to purchase the Corporate Headquarters for approximately $43.7 million, which amount represents historical cost and approximates fair value. The Company intends to finance the purchase through the conversion of a $10.0 million security deposit previously paid on the existing operating lease and through a mortgage on the Corporate Headquarters' assets. Payments on the mortgage will be due monthly through January 1, 2013, at an initial interest rate of approximately 14% per annum.

(10) Long-term Debt (continued)

Approximately $35.3 million of the proceeds from the 1996 Private Offering were used to redeem the 12% redeemable preferred stock of Holdings (the "Redeemable Preferred Stock") issued in August 1995 ($30.0 million), pay accrued preferred dividends ($2.6 million) and to repurchase 916,666 warrants of the Company ($2.7 million) issued in connection with the Redeemable Preferred Stock. The Company recognized a charge to accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses of approximately $12.3 million for the excess of the redemption price of the Redeemable Preferred Stock over the carrying amount at April 30, 1996, and recognized a charge to interest expense of approximately $11.5 million for the payments made to noteholders with respect to consents to amendments to the indenture governing the 13 1/2% Notes to permit the 1996 Private Offering.

(e) 13 1/2% Notes

On August 8, 1995, Holdings completed a private placement (the "1995 Private Offering") through the issuance of 58,430 units (the "Units"), each Unit consisting of ten $1,000, 13 1/2% Senior Discount Notes due 2005 (the "13 1/2% Notes") and warrants to purchase 33 common shares of Holdings-Canada (the "Unit Warrants"). Net proceeds from the 1995 Private Offering, after issuance costs of approximately $14.0 million, were approximately $286.0 million.

The 13 1/2% Notes are unsecured senior obligations of Holdings (guaranteed by ICG and Holdings-Canada) that mature on September 15, 2005, with a maturity value of $584.3 million. Interest will accrue at the rate of 13 1/2% per annum, beginning September 15, 2000, and is payable in cash each March 15 and September 15, commencing March 15, 2001. The indenture for the 13 1/2% Notes contains certain covenants which provide for limitations on indebtedness, dividends, asset sales and certain other transactions and effectively prohibit the payment of cash dividends.

The 13 1/2% Notes were originally recorded at approximately $294.0 million, which represents the $300.0 million in proceeds less the approximate $6.0 million value assigned to the Unit Warrants, which is included in additional paid-in capital. The discount on the 13 1/2% Notes is being accreted over five years until September 15, 2000, the date on which the 13 1/2% Notes may first be redeemed. The value

(11) Redeemable Preferred Securities of Subsidiaries (continued)

into 14% Senior Subordinated Exchange Debentures at any time after the exchange is permitted by certain indenture restrictions. The 14% Preferred Stock is subject to mandatory redemption on March 15, 2008.

(b) 14 1/4% Preferred Stock

In connection with the 1996 Private Offering, Holdings sold 150,000 shares of exchangeable preferred stock that bear a cumulative dividend at the rate of 14 1/4% per annum. The dividend is payable quarterly in arrears each February 1, May 1, August 1 and November 1, and commenced August 1, 1996. Through May 1, 2001, the dividend is payable, at the option of Holdings, in cash or additional shares of 14 1/4% Preferred Stock. Holdings may exchange the 14 1/4% Preferred Stock into 14 1/4% Senior Subordinated Exchange Debentures at any time after the exchange is permitted by certain indenture restrictions. The 14 1/4% Preferred Stock is subject to mandatory redemption on May 1, 2007.

(c) 6 3/4% Preferred Securities

On September 24, 1997 and October 3, 1997, ICG Funding completed a private placement of 6 3/4% Exchangeable Limited Liability Company Preferred Securities Mandatorily Redeemable 2009 (the "6 3/4% Preferred Securities") for gross proceeds of $132.25 million. Net proceeds from the private placement, after offering costs of approximately $4.7 million, were approximately $127.6 million. Restricted cash at December 31, 1998 of $16.9 million consists of the proceeds from the private placement which are designated for the payment of cash dividends on the 6 3/4% Preferred Securities through November 15, 2000.

The 6 3/4% Preferred Securities consist of 2,645,000 exchangeable preferred securities of ICG Funding that bear a cumulative dividend at the rate of 6 3/4% per annum. The dividend is paid quarterly in arrears each February 15, May 15, August 15 and November 15, and commenced November 15, 1997. The dividend is payable in cash through November 15, 2000 and, thereafter, in cash or shares of ICG Common Stock, at the option of ICG Funding. The 6 3/4% Preferred Securities are exchangeable, at the option of the holder, at any time prior to November 15, 2009 into shares of ICG Common Stock at an exchange rate of

(10) Long-term Debt (continued)

Scheduled principal maturities of long-term debt as of December 31, 1998 are as follows (in thousands):

Fiscal year:	
1999	$ 111
2000	50
2001	50
2002	50
2003	50
Thereafter	2,206,688
	2,206,999
Less unaccreted discount	(607,955)
Less current portion	(46)
	$ 1,598,998

(11) Redeemable Preferred Securities of Subsidiaries

Redeemable preferred stock of subsidiary is summarized as follows:

	December 31, 1997	December 31, 1998
	(in thousands)	
14% Exchangeable preferred stock of Holdings, mandatorily redeemable in 2008 (a)	$ 108,022	124,867
14 1/4% Exchangeable preferred stock of Holdings, mandatorily redeemable in 2007 (b)	184,420	213,443
	$ 292,442	338,310

(a) *14% Preferred Stock*

In connection with the 1997 Private Offering, Holdings sold 100,000 shares of exchangeable preferred stock that bear a cumulative dividend at the rate of 14% per annum. The dividend is payable quarterly in arrears each March 15, June 15, September 15, and December 15, and commenced June 15, 1997. Through March 15, 2002, the dividend is payable at the option of Holdings in cash or additional shares of 14% Preferred Stock. Holdings may exchange the 14% Preferred Stock

(11) Redeemable Preferred Securities of Subsidiaries (continued)

The accreted value of the 6 3/4% Preferred Securities is included in Company-obligated mandatorily redeemable preferred securities of subsidiary limited liability company which holds solely Company preferred stock in the accompanying consolidated balance sheet at December 31, 1998.

Included in accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses is approximately $27.0 million, $5.8 million, $39.8 million and $55.2 million for fiscal 1996, the three months ended December 31, 1996, and fiscal 1997 and 1998, respectively, associated with the accretion of issuance costs, discount and preferred security dividend accruals for the 6 3/4% Preferred Securities, the 14% Preferred Stock, the 14 1/4% Preferred Stock and the Redeemable Preferred Stock (issued in connection with the 1995 Private Offering and redeemed in April 1996). These costs are partially offset by the minority interest share in losses of subsidiaries of approximately $1.6 million, $0.8 million and $1.7 million for fiscal 1996, the three months ended December 31, 1996, and fiscal 1997, respectively. There was no reported minority interest share in losses of subsidiaries for fiscal 1998.

(12) Stockholders' Equity (Deficit)

(a) Stock Options and Employee Stock Purchase Plan

In fiscal years 1991, 1992 and 1993, the Company's Board of Directors approved incentive stock option plans and replenishments to those plans which provide for the granting of options to directors, officers, employees and consultants of the Company to purchase 285,000, 724,400 and 1,692,700 shares, respectively, of the Company's Common Stock, with exercise prices between 80% and 100% of the fair value of the shares at the date of grant. A total of 1,849,600 options have been granted under these plans with exercise prices ranging from approximately $2.92 to $14.03. Compensation expense has been recorded for options granted at an exercise price below the fair market value of the Company's Common Stock at the date of grant, pursuant to the provisions of APB 25. The options granted under these plans are subject to various vesting requirements and expire in five and ten years from the date of grant.

(11) Redeemable Preferred Securities of Subsidiaries (continued)

2.0812 shares of ICG Common Stock per preferred security, or $24.025 per share, subject to adjustment. ICG Funding may, at its option, redeem the 6 3/4% Preferred Securities at any time on or after November 18, 2000. Prior to that time, ICG Funding may redeem the 6 3/4% Preferred Securities if the current market value of ICG Common Stock equals or exceeds, for at least 20 days of any 30-day trading period, 160% of the exchange price prior to November 15, 1999, and 150% of the exchange price from November 16, 1999 through November 15, 2000. The 6 3/4% Preferred Securities are subject to mandatory redemption on November 15, 2009.

On February 13, 1998, ICG made a capital contribution of 126,750 shares of ICG Common Stock to ICG Funding. Immediately thereafter, ICG Funding sold the contributed shares to unrelated third parties for proceeds of approximately $3.4 million. ICG Funding recorded the contribution of the ICG Common Stock as additional paid-in capital at the then fair market value and, consequently, no gain or loss was recorded by ICG Funding on the subsequent sale of those shares.

Also, on February 13, 1998, ICG Funding used the remaining proceeds from the private placement of the 6 3/4% Preferred Securities, which were not restricted for the payment of cash dividends, along with the proceeds from the sale of the contributed ICG Common Stock to purchase approximately $112.4 million of ICG Communications, Inc. Preferred Stock ("ICG Preferred Stock") which pays dividends each February 15, May 15, August 15 and November 15 in additional shares of ICG Preferred Stock through November 15, 2000. Subsequent to November 15, 2000, dividends on the ICG Preferred Stock are payable in cash or shares of ICG Common Stock, at the option of ICG. The ICG Preferred Stock is exchangeable, at the option of ICG Funding, at any time prior to November 15, 2009 into shares of ICG Common Stock at an exchange rate based on the exchange rate of the 6 3/4% Preferred Securities and is subject to mandatory redemption on November 15, 2009. The ICG Preferred Stock has been eliminated in consolidation of the Company's consolidated financial statements.

(12) **Stockholders' Equity (Deficit) (continued)**

Market on September 18, 1998. A total of 2,413,260 options, with original exercise prices ranging from $22.00 to $35.75 were canceled and regranted on September 18, 1998. There was no effect on the Company's consolidated financial statements as a result of the cancellation and regranting of options.

In October 1996, the Company established an Employee Stock Purchase Plan whereby employees can elect to designate 1% to 30% of their annual salary to be used to purchase shares of ICG Common Stock, up to a limit of $25,000 in ICG Common Stock each year, at a 15% discount to fair market value. Stock purchases occur four times a year on February 1, May 1, August 1 and November 1, with the price per share equaling the lower of 85% of the market price at the beginning or end of the offering period. The Company is authorized to issue a total of 1,000,000 shares of ICG Common Stock to participants in the plan. During fiscal 1997 and 1998, the Company sold 109,213 and 111,390 shares of ICG Common Stock, respectively, to employees under this plan.

During fiscal 1994, NETCOM's Board of Directors approved and adopted an Employee Stock Purchase Plan which was dissolved upon NETCOM's merger with ICG. Shares purchased under this plan were converted into an estimated 119,000 shares of ICG Common Stock.

The Company recorded compensation expense in connection with its stock-based employee and non-employee director compensation plans of $0.1 million for fiscal 1996 pursuant to the intrinsic value based method of APB 25. Had compensation expense for the Company's plans been determined based on the fair market value of the options at the grant dates for awards under those plans consistent with the provisions of SFAS 123, the Company's pro forma net loss and loss per share would have been as presented below. Pro forma disclosures include the effects of employee and non-employee director stock options granted during fiscal 1996, the three months ended December 31, 1996, and fiscal 1997 and 1998.

(12) **Stockholders' Equity (Deficit) (continued)**

The NETCOM 1993 Stock Option Plan was assumed by ICG at the time of the merger, and approved by ICG's Board of Directors as an incentive and non-qualified stock option plan which provides for the granting of options to certain directors, officers and employees to purchase 2,720,901 shares of ICG Common Stock. A total of 2,224,273 options, net of 2,155,856 cancellations, have been granted under this plan at exercise prices ranging from $0.65 to $92.14, none of which were less than 100% of the fair market value of the shares underlying options on the date of grant, and accordingly, no compensation
expense was recorded for these options under APB 25. The options granted under this plan are subject to various vesting requirements, generally three and five years, and expire within ten years from the date of grant.

From fiscal 1994 through fiscal 1998, the Company's Board of Directors approved incentive and non-qualified stock option plans and replenishments to those plans which provide for the granting of options to certain directors, officers and employees to purchase 2,536,000 shares of the Company's Common Stock under the 1994 plan, an aggregate of 2,700,000 shares of the Company's Common Stock under the 1995 and 1996 plans and 3,400,000 shares of ICG Common Stock under the 1998 plan. A total of 6,922,696 options, net of 4,587,300 cancellations, have been granted under these plans at original exercise prices ranging from $7.94 to $35.75, none of which were less than 100% of the fair market value of the shares underlying options on the date of grant, and accordingly, no compensation expense was recorded for these options under APB 25. The options granted under these plans are subject to various vesting requirements and expire in five and ten years from the date of grant.

In order to continue to provide non-cash incentives and retain key employees, all employee stock options outstanding on April 16, 1997 with exercise prices at or in excess of $15.875 were canceled by the Stock Option Committee of the Company's Board of Directors and regranted with an exercise price of $10.375, the closing price of ICG Common Stock on the Nasdaq National Market on April 16, 1997. Approximately 598,000 options, with original exercise prices ranging from $15.875 to $26.25, were canceled and regranted on April 16, 1997. For the same business purpose, all employee stock options outstanding on September 18, 1998 with exercise prices at or in excess of $22.00 were canceled by the Stock Option Committee of the Company's Board of Directors and regranted with an exercise price of $16.875, the closing price of ICG Common Stock on the Nasdaq National

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Notes to Consolidated Financial Statements, Continued

(12) Stockholders' Equity (Deficit) (continued)

As options outstanding at December 31, 1998 will continue to vest in subsequent periods, additional options are expected to be awarded under existing and new plans; accordingly, the above pro forma results are not necessarily indicative of the impact on net loss and net loss per share in future periods.

The following table summarizes the status of the Company's stock-based compensation plans:

	Shares underlying options (in thousands)	Weighted average exercise price	Options exercisable (in thousands)
Outstanding at October 1, 1995	4,828	$ 14.92	1,230
Granted	2,054	18.30	
Exercised	(415)	7.35	
Canceled	(631)	24.73	
Outstanding at September 30, 1996	5,836	15.49	2,771
Granted	335	18.59	
Exercised	(31)	8.95	
Canceled	(56)	12.65	
Outstanding at December 31, 1996	6,084	15.68	3,476
Granted	3,377	14.94	
Exercised	(709)	8.13	
Canceled	(2,604)	25.32	
Outstanding at December 31, 1997	6,148	11.97	3,532
Granted	5,968	23.34	
Exercised	(1,395)	12.08	
Canceled	(3,941)	25.62	
Outstanding at December 31, 1998	6,780	13.95	3,299

(12) Stockholders' Equity (Deficit) (continued)

	Fiscal year ended September 30, 1996	Three months ended December 31, 1996	Fiscal years ended December 31, 1997	Fiscal years ended December 31, 1998
	(in thousands, except per share amounts)			
Net loss:				
As reported	$ (228,372)	(61,313)	(360,735)	(418,045)
Pro forma	(242,974)	(64,985)	(369,677)	(439,362)
Net loss per share - basic and diluted:				
As reported	$ (6.19)	(1.47)	(8.49)	(9.25)
Pro forma	(6.59)	(1.56)	(8.70)	(9.72)

The fair value of each option grant to employees and non-employee directors other than NETCOM employees and non-employee directors was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: an expected option life of three years for directors, officers and other executives, and two years for other employees, for all periods; expected volatility of 50% for fiscal 1996, the three months ended December 31, 1996 and fiscal 1997, and 70% for fiscal 1998; and risk-free interest rates ranging from 5.03% to 7.42% for fiscal 1996 and the three months ended December 31, 1996, 5.61% to 6.74% for fiscal 1997 and 4.09% to 5.77% for fiscal 1998. Risk-free interest rates, as were currently available on the grant date, were assigned to each granted option based on the zero-coupon rate of U.S. Treasury bills to be held for the same period as the assumed option life. Since the Company does not anticipate issuing any dividends on the ICG Common Stock, the dividend yield for all options granted was assumed to be zero. The weighted average fair market value of combined ICG and NETCOM options granted during fiscal 1996, the three months ended December 31, 1996, and fiscal 1997 and 1998 was approximately $11.10, $9.48, $10.31 and $13.23 per option, respectively.

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Notes to Consolidated Financial Statements, Continued

(12) Stockholders' Equity (Deficit) (continued)

	Outstanding warrants (in thousands)	Exercise price range
Outstanding, October 1, 1995	5,502	$ 7.38 - 21.51
Exercised	(1,854)	7.94 - 8.73
Repurchased	(917)	2.52 - 3.21
Outstanding, September 30, 1996	2,731	7.38 - 21.51
Exercised	(100)	18.00
Canceled	(8)	7.38 - 11.80
Outstanding, December 31, 1996	2,623	7.38 - 21.51
Exercised	(599)	7.38 - 14.50
Canceled	(50)	14.50
Outstanding, December 31, 1997	1,974	12.51 - 21.51
Exercised	(113)	12.51 - 21.51
Canceled	(9)	20.01 - 21.51
Outstanding, December 31, 1998	1,852	12.51

All warrants outstanding at December 31, 1998 have an expiration date of August 6, 2005 and, in connection with the Reorganization of Holdings-Canada, are exchangeable only for shares of ICG Common Stock on a one-for-one basis.

(c) Preferred Stock

The Company is authorized to issue 1,000,000 shares of preferred stock and 50,000 shares of ICG Preferred Stock. At December 31, 1998, the Company had no shares of preferred stock outstanding. All of the issued and outstanding shares of ICG Preferred Stock at December 31, 1998 are held by ICG Funding.

(12) Stockholders' Equity (Deficit) (continued)

The following table summarizes information about options outstanding at December 31, 1998:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding (in thousands)	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable (in thousands)	Weighted average exercise price
$2.60 - 7.94	1,558	6.40	$ 7.91	1,558	$ 7.91
8.50 - 14.58	1,714	7.15	11.07	1,099	11.31
14.93 - 16.75	381	8.37	15.67	296	15.67
16.88 - 46.65	3,127	9.37	18.32	346	21.02
	6,780			3,299	

(b) Warrants

Between fiscal 1993 and fiscal 1995, the Company issued a series of warrants at varying prices to purchase common shares of Holdings-Canada which, after August 5, 1996, were exchangeable on a one-for-one basis for Class A Shares of ICG Common Stock. The following table summarizes warrant activity for fiscal 1996, the three months ended December 31, 1996, and fiscal 1997 and 1998:

(14) Commitments and Contingencies (continued)

In June 1997, the Company entered into an indefeasible right of use ("IRU") agreement with Qwest Communications Corporation ("Qwest") for approximately 1,800 miles of fiber optic network and additional broadband capacity in California, Colorado, Ohio and the Southeast. Network construction is ongoing and is expected to be completed in 1999. The Company is responsible for payment on the construction as segments of the network are completed and has incurred approximately $19.2 million as of December 31, 1998, with remaining costs anticipated to be approximately $15.8 million. Additionally, the Company has committed to purchase $6.0 million in network capacity from Qwest prior to the end of 1999.

(b) Network Capacity Commitments

In November 1998, the Company entered into two service agreements with WorldCom Network Services, Inc. ("WorldCom"). Both of the agreements have three-year terms and were effective in September 1998. Under the Telecom Services Agreement, WorldCom provides, at designated rates, switched telecommunications services and other related services to the Company, including termination services, toll-free origination, switched access, dedicated access and travel card services. Under the Carrier Digital Services Agreement, WorldCom provides the Company, at designated rates, with the installation and operation of dedicated digital telecommunications interexchange services, local access and other related services, which the Company believes expedites service availability to its customers. Both agreements require that the Company provide WorldCom with certain minimum monthly revenue, which if not met, would require payment by the Company for the difference between the minimum commitment and the actual monthly revenue. Additionally, both agreements limit the Company's ability to utilize vendors other than WorldCom for certain telecommunications services specified in the agreements. The Company's policy is to accrue and include in operating costs the effect of any shortfall in minimum revenue commitments under these agreements in the period in which the shortfall occurred. The Company has successfully achieved all minimum revenue commitments to WorldCom under these agreements through December 31, 1998.

(13) Related Party Transactions

At December 31, 1997, the Company had $10.0 million outstanding under a promissory note from ChoiceCom, which was payable on demand at LIBOR plus 2% per annum (7.97% at December 31, 1997). During fiscal 1998, the Company advanced another $5.0 million to ChoiceCom under a separate promissory note with similar terms. Additionally, the Company agreed to perform certain administrative services for ChoiceCom and make certain payments to vendors on behalf of ChoiceCom, for which such services and payments were to be conducted on an arm's length basis and reimbursed by ChoiceCom. At December 31, 1997, amounts outstanding under this arrangement and included in notes receivable from affiliate were approximately $9.4 million. All amounts due from ChoiceCom were included in the purchase price of the Company's acquisition of ChoiceCom on December 31, 1998.

During fiscal 1996, Holdings-Canada and International Communications Consulting, Inc. ("ICC") entered into a consulting agreement whereby ICC will provide various consulting services to the Company through December 1999 for approximately $4.2 million to be paid during the term of the agreement. During fiscal 1996, the three months ended December 31, 1996, fiscal 1997 and 1998, the Company paid approximately $1.3 million, $0.3 million, $1.1 million and $1.0 million, respectively, related to this consulting agreement. William W. Becker, a stockholder and former director of the Company, is President and Chief Executive Officer of ICC.

(14) Commitments and Contingencies

(a) Network Construction

In March 1996, the Company and Southern California Edison Company ("SCE") entered into a 25-year agreement under which the Company will license 1,258 miles of fiber optic cable in Southern California, and can install up to 500 additional miles of fiber optic cable. This network, which will be maintained and operated primarily by the Company, stretches from Los Angeles to southern Orange County. Under the terms of this agreement, SCE will be entitled to receive an annual fee for ten years, certain fixed quarterly payments, a quarterly payment equal to a percentage of certain network revenue, and certain other installation and fiber connection fees. The aggregate fixed payments remaining under the agreement totaled approximately $135.3 million at December 31, 1998. The agreement has been accounted for as a capital lease in the accompanying consolidated balance sheets.

(14) Commitments and Contingencies (continued)

ILECs have not paid most of the bills they have received from the Company and have disputed substantially all of these charges based on the belief that such calls are not local traffic as defined by the various agreements and under state and federal laws and public policies.

The resolution of these disputes will be based on rulings by state public utility commissions and/or by the Federal Communications Commission ("FCC"). To date, there have been favorable final rulings from 29 states that ISP traffic is subject to the payment of reciprocal compensation under interconnection agreements. On February 25, 1999, the FCC issued a decision that ISP-bound traffic is largely jurisdictionally interstate traffic. The decision relies on the long-standing federal policy that ISP traffic, although jurisdictionally interstate, is treated as though it is local traffic for pricing purposes. The decision also emphasizes that because there are no federal rules governing intercarrier compensation for ISP traffic, the determination as to whether such traffic is subject to reciprocal compensation under the terms of interconnection agreements properly is made by the state commissions and that carriers are bound by their interconnection agreements and state commission decisions regarding the payment of reciprocal compensation for ISP traffic. The FCC has initiated a rulemaking proceeding regarding the adoption of prospective federal rules for intercarrier compensation for ISP traffic. In its notice of rulemaking, the FCC expresses its preference that compensation rates for this traffic continue to be set by negotiations between carriers, with disputes resolved by arbitrations conducted by state commissions pursuant to the Telecommunications Act of 1996 (the "Telecommunications Act").

On March 4, 1999, the Alabama Public Service Commission (the "Alabama PSC") issued a decision that found that reciprocal compensation is owed for Internet traffic under four CLEC interconnection agreements with BellSouth Corporation ("BellSouth"), which agreements were at issue in the proceeding. With respect to the Company's interconnection agreement, which was also at issue, the state commission interpreted certain language in the Company's agreement to exempt ISP-bound traffic from reciprocal compensation under certain conditions. The Company believes that the Alabama PSC failed to consider the intent of the parties in negotiating and executing the Company's interconnection agreement, the specific language of the Company's interconnection agreement and the impact of Alabama

(14) Commitments and Contingencies (continued)

(c) Other Commitments

The Company has entered into various equipment purchase agreements with certain of its vendors. Under these agreements, if the Company does not meet a minimum purchase level in any given year, the vendor may discontinue certain discounts, allowances and incentives otherwise provided to the Company. In addition, the agreements may be terminated by either the Company or the vendor upon prior written notice.

Additionally, the Company has entered into certain commitments to purchase capital assets with an aggregate purchase price of approximately $80.6 million at December 31, 1998.

(d) Operating Leases

The Company leases office space and equipment under non-cancelable operating leases. Lease expense was approximately $4.9 million, $1.2 million, $11.8 million and $27.0 million for fiscal 1996, the three months ended December 31, 1996 and fiscal 1997 and 1998, respectively. Minimum lease payments due each year on or before December 31 under the Company's operating leases are as follows (in thousands):

1999	$	30,327
2000		28,734
2001		25,509
2002		19,890
2003		16,384
Thereafter		64,802
	$	185,646

(e) Transport and Termination Charges

The Company has recorded revenue of approximately $4.9 million and $58.3 million for fiscal 1997 and 1998, respectively, for reciprocal compensation relating to the transport and termination of local traffic to ISPs from customers of incumbent local exchange carriers ("ILECs") pursuant to various interconnection agreements. The

(14) Commitments and Contingencies (continued)

termination services still will be required by the ILECs and must be provided under the Telecommunications Act, and likely will result in increasing volume in minutes due to the growth of the Internet and related services markets. The Company expects to negotiate reasonable compensation and collection terms for local termination services, although there is no assurance that such compensation will remain consistent with current levels.

(f) Litigation

On April 4, 1997, certain shareholders of Zycom filed a shareholder derivative suit and class action complaint for unspecified damages, purportedly on behalf of all of the minority shareholders of Zycom, in the District Court of Harris County, Texas (Cause No. 97-17777) against the Company, Zycom and certain of their subsidiaries. This complaint alleges that the Company and certain of its subsidiaries breached certain duties owed to the plaintiffs. The plaintiffs were denied class certification by the trial court and this decision has been appealed. Trial has been tentatively set for August 1999. The Company is vigorously defending the claims. While it is not possible to predict the outcome of this litigation, management believes these proceedings will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company is a party to certain other litigation which has arisen in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(15) Business Units

The Company conducts transactions with external customers through the operations of its Telecom Services, Network Services and Satellite Services business units. Shared administrative services are provided to the business units by Corporate Services. Corporate Services consists of the operating activities of ICG Communications, Inc., ICG Funding, LLC, ICG Canadian Acquisition, Inc., ICG Holdings (Canada) Co., ICG Holdings, Inc. and ICG Services, Inc., which primarily hold securities and provide certain

(14) Commitments and Contingencies (continued)

PSC and FCC policies, and thereby misinterpreted the agreement. The Company intends to file a request with the Alabama PSC by April 1, 1999 seeking determination that the ruling with respect to the Company's agreement be reconsidered, and that the Company should be treated the same as the other CLECs that participated in the proceeding and for which the Alabama PSC ordered the payment of reciprocal compensation. While the Company intends to pursue vigorously a petition for reconsideration with the Alabama PSC, and if the Company deems it necessary, judicial review, the Company cannot predict the final outcome of this issue.

The Company has also recorded revenue of approximately $19.1 million for fiscal 1998, related to other transport and termination charges to the ILECs, pursuant to the Company's interconnection agreements with these ILECs. Included in the Company's trade receivables at December 31, 1997 and 1998 are $4.3 million and $72.8 million, respectively, for all receivables related to transport and termination charges. The receivables balance at December 31, 1998 is net of an allowance of $5.6 million for disputed amounts.

Although the Company's interconnection agreement with BellSouth has expired, the Company has received written notification from BellSouth that the Company may continue billing BellSouth under the pricing terms within the expired interconnection agreement, until such agreement is renegotiated or arbitrated by the relevant state commissions. The Company's remaining interconnection agreements expire in 1999 and 2000. While the Company believes that all revenue recorded through December 31, 1998 is collectible and that future revenue from transport and termination charges billed under the Company's current interconnection agreements will be realized, there can be no assurance that future regulatory and judicial rulings will be favorable to the Company, that the Alabama PSC will reconsider its ruling, or that different pricing plans for transport and termination charges between carriers will not be adopted when the Company's interconnection agreements are renegotiated or as a result of the FCC's rulemaking proceeding on future compensation methods. In fact, the Company believes that different pricing plans will be considered and adopted, and although the Company expects that revenue from transport and termination charges likely will decrease as a percentage of total revenue from local services in periods subject to future interconnection agreements, the Company's local

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) Business Units (continued)

	Fiscal year ended September 30,	Three months ended December 31,		Fiscal years ended December 31,	
	1996	1995	1996	1997	1998
		(unaudited)			
			(in thousands)		
Revenue:					
Telecom Services	$ 72,815	12,743	27,307	149,358	305,612
Network Services	61,080	15,826	16,460	69,881	62,535
Satellite Services	21,297	6,168	6,188	29,986	40,451
Elimination of intersegment revenue	(1,049)	(193)	(478)	(4,203)	(10,979)
Total revenue	$ 154,143	34,544	49,477	245,022	397,619
EBITDA (before nonrecurring charges) (a):					
Telecom Services	$ (19,902)	(4,462)	(10,924)	(92,053)	(19,995)
Network Services	(2,417)	(423)	295	(544)	(3,245)
Satellite Services	(2,999)	(1,371)	(448)	74	7,088
Corporate Services	(17,953)	(3,996)	(5,682)	(27,811)	(20,909)
Eliminations	(215)	(24)	(117)	(825)	(3,692)
Total EBITDA (before nonrecurring charges)	$ (43,486)	(10,276)	(16,876)	(121,159)	(40,753)
Depreciation and amortization (b):					
Telecom Services	$ 21,295	2,871	7,442	45,798	86,775
Network Services	1,086	145	441	2,110	2,305
Satellite Services	4,809	1,272	1,133	4,462	7,314
Corporate Services	2,447	444	750	3,744	4,286
Eliminations	393	101	(75)	387	865
Total depreciation and amortization	$ 30,030	4,833	9,691	56,501	101,545

(Continued)

(15) Business Units (continued)

legal, accounting and finance, personnel and other administrative support services to the business units.

Direct and certain indirect costs incurred by Corporate Services on behalf of the business units are allocated among the business units based on the nature of the underlying costs. Transactions between the business units for services performed in the normal course of business are recorded at amounts which are intended to approximate fair value.

Set forth below are revenue, EBITDA (before nonrecurring charges), which represents the measure of operating performance used by management to evaluate operating results, depreciation and amortization, interest expense, total assets and capital expenditures of continuing operations for each of the Company's business units and for Corporate Services. As described in note 3, the operating results of the Company reflect the operations of Zycom and NETCOM as discontinued for all periods presented.

(15) Business Units (continued)

(a) EBITDA (before nonrecurring charges) consists of net loss from continuing operations before interest, income taxes, depreciation and amortization, provision for impairment of long-lived assets, net loss (gain) on disposal of long-lived assets, restructuring costs, other expense, net and accretion and preferred dividends on preferred securities of subsidiaries, or simply, revenue less operating costs and selling, general and administrative expenses. EBITDA (before nonrecurring charges) is presented as the Company's measure of operating performance because it is a measure commonly used in the telecommunications industry. EBITDA (before nonrecurring charges) is presented to enhance an understanding of the Company's operating results and is not intended to represent cash flows or results of operations in accordance with generally accepted accounting principles ("GAAP") for the periods indicated. EBITDA (before nonrecurring charges) is not a measurement under GAAP and is not necessarily comparable with similarly titled measures of other companies.

(b) Although not included in EBITDA (before nonrecurring charges), which represents the measure of operating performance used by management to evaluate operating results, the Company has supplementally provided depreciation and amortization and interest expense for each of the Company's business units and Corporate Services. Interest expense excludes amounts charged for interest on outstanding cash advances and expense allocations among the business units and Corporate Services.

(c) Total assets of Telecom Services, Satellite Services and Corporate Services excludes investments in consolidated subsidiaries which eliminate in consolidation.

(d) At December 31, 1998, the Company had net current liabilities of discontinued operations of $23.3 million, and accordingly, such amount was not included within net current assets of discontinued operations on that date.

(e) Capital expenditures include assets acquired under capital leases and excludes payments for construction of the Company's corporate headquarters.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) Business Units (continued)

		Fiscal year ended September 30,	Three months ended December 31,		Fiscal years ended December 31,	
		1996	1995	1996	1997	1998
			(unaudited)			
				(in thousands)		
Interest expense (b):						
Telecom Services	$	6,814	2,432	1,744	11,996	2,693
Network Services		240	148	-	6	23
Satellite Services		175	52	13	-	88
Corporate Services		78,485	12,583	22,697	105,518	167,323
Total interest expense	$	85,714	15,215	24,454	117,520	170,127
Total assets:						
Telecom Services (c)	$	349,786	218,579	400,003	663,864	1,135,937
Network Services		25,994	23,214	33,308	31,911	34,378
Satellite Services (c)		46,087	56,498	46,212	46,797	46,760
Corporate Services (c)		761,720	307,188	709,412	353,898	376,796
Eliminations		(253,478)	(28,312)	(254,107)	6,062	(22,689)
Net current assets of discontinued operations (d)		54,226	131,902	54,481	38,331	-
Net non-current assets of discontinued operations		97,561	59,850	97,425	76,577	54,243
Total assets	$	1,081,896	768,919	1,086,734	1,217,440	1,625,425
Capital expenditures of continuing operations (e):						
Telecom Services	$	159,997	24,036	67,192	252,008	357,991
Network Services		2,983	279	764	1,577	1,804
Satellite Services		11,442	1,484	2,020	5,901	11,107
Corporate Services		2,728	1,108	438	10,384	960
Eliminations		(215)	(25)	(117)	(1,074)	(2,916)
Total capital expenditures of continuing operations	$	176,935	26,882	70,297	268,796	368,946

(17) Restructuring Costs (continued)

and Corporate Services restructuring plan, which is expected to be paid during the first quarter of 1999.

Following the Company's acquisition of NikoNET in July 1998, the Company closed a regional facility of a newly acquired subsidiary of NikoNET. Restructuring costs, consisting primarily of severance costs, of approximately $0.2 million were recorded as a result of the facility closure during fiscal 1998. Approximately $0.2 million remains in accrued liabilities at December 31, 1998 related to the facility closure.

(18) Income Taxes

The components of income tax benefit for fiscal 1996 are as follows (in thousands):

Current income tax expense	$ (198)
Deferred income tax benefit	5,329
Total	$ 5,131

Current income tax expense of $0.2 million and $0.1 million for fiscal 1996 and 1998, respectively, represents state income tax relating to operations of a subsidiary company in a state requiring a separate entity tax return. Accordingly, this entity's taxable income cannot be offset by the Company's consolidated net operating loss carryforwards. During fiscal 1996, the deferred tax liability was adjusted for the effects of certain changes in estimated lives of property and equipment as discussed in note 2. As a result, the Company recognized an income tax benefit of $5.3 million. No income tax expense or benefit was recorded in the three months ended December 31, 1996 or fiscal 1997.

Income tax benefit differs from the amounts computed by applying the U.S. federal income tax rate to loss before income taxes primarily because the Company has not recognized the income tax benefit of certain of its net operating loss carryforwards and other deferred tax assets due to the uncertainty of realization.

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1998 are as follows:

(16) Provision for Impairment of Long-Lived Assets

For fiscal 1997, provision for impairment of long-lived assets includes the impairment of the Company's Corporate Services investments in StarCom International Optics Corporation, Inc. ("StarCom") and Zycom of approximately \$5.2 million and \$2.7 million, respectively, and the Company's Satellite Services investments in MCN and Nova-Net of approximately \$2.9 million and \$0.9 million, respectively. The Company recorded its impairment in the investment in StarCom upon notification by a senior secured creditor of StarCom that it intended to foreclose on its collateral in StarCom, which subsequently caused the bankruptcy of StarCom. Based on circumstances of continuing net operating losses and management's assessment of the estimated fair value of related long-lived assets at December 31, 1997, the Company recorded an impairment of its investments in Zycom, MCN and Nova-Net.

For fiscal 1996, provision for impairment of long-lived assets includes the Company's Telecom Services investments in the Phoenix and Melbourne networks of approximately \$5.8 million and \$2.7 million, respectively, and the Company's Satellite Services investment in its subsidiary in Mexico of approximately \$0.2 million. The provision for impairment of long-lived assets was based on circumstances of continuing net operating losses and management's assessment of the estimated fair value of related long-lived assets at September 30, 1996. Additionally, the Company provided an allowance for a note receivable from NovoComm, Inc. of approximately \$1.3 million based on management's assessment at September 30, 1996 of the collectibility of amounts due.

(17) Restructuring Costs

During fiscal 1998, the Company completed a decentralization of the Company's Network Services business unit. The Company recorded approximately \$0.6 million in restructuring costs, consisting primarily of severance costs, resulting from the decentralization.

Also during fiscal 1998, the Company recorded approximately \$1.5 million of restructuring costs associated with a combined restructuring plan for Telecom Services and Corporate Services, which was designed to support the Company's increased strategic focus on its ISP customer base, as well as to improve the efficiency of operations and general and administrative support functions. Restructuring costs under this plan include severance and other employee benefit costs. At December 31, 1998, approximately \$0.6 million remains in accrued liabilities related to the Telecom Services

(19) Employee Benefit Plans

The Company has established salary reduction savings plans under Section 401(k) of the Code which the Company administers for participating employees. All full-time employees are covered under the plans after meeting minimum service and age requirements. Under the plan available to NETCOM employees from January 1, 1997 through July 1, 1998, the Company made a matching contribution of 100% of each NETCOM employee's contribution up to a maximum of 3% of the employee's eligible earnings. Prior to 1997, NETCOM's matching contribution was limited to 50% of each NETCOM employee's contribution up to a maximum of 6% of the employee's eligible earnings. Under the plan available to all ICG employees, including NETCOM employees subsequent to July 1, 1998, the Company makes a matching contribution of ICG Common Stock up to a maximum of 6% of the employee's eligible earnings. Aggregate matching contributions under the Company's employee benefit plans were approximately $1.6 million, $0.6 million, $3.6 million and $4.0 million during fiscal 1996, the three months ended December 31, 1996, and fiscal 1997 and 1998, respectively. The portion of this expense which relates directly to employees of NETCOM is included in loss from discontinued operations for all periods presented.

(20) Summarized Financial Information of ICG Holdings, Inc.

As discussed in note 10, the 11 5/8% Notes issued by Holdings during 1997 are guaranteed by ICG. The 12 1/2% Notes and the 13 1/2% Notes issued by Holdings during fiscal 1996 and 1995, respectively, are also guaranteed by ICG and Holdings-Canada.

The separate complete financial statements of Holdings have not been included herein because such disclosure is not considered to be material to the holders of the 11 5/8% Notes, the 12 1/2% Notes and the 13 1/2% Notes. However, summarized combined financial information for Holdings and subsidiaries and affiliates is as follows:

(18) Income Taxes (continued)

	December 31, 1997	December 31, 1998
	(in thousands)	
Deferred income tax liabilities:		
Property and equipment, due to excess purchase price of tangible assets and differences in depreciation for book and tax purposes	$ 6,254	10,173
Deferred income tax assets:		
Net operating loss carryforwards	(141,185)	(247,126)
Accrued interest on high yield debt obligations deductible when paid	(72,330)	(108,895)
Accrued expenses not currently deductible for tax purposes, including deferred revenue	(7,968)	(9,275)
Less valuation allowance	215,229	355,123
Deferred income tax assets	(6,254)	(10,173)
Net deferred income tax liability	$ -	-

As of December 31, 1998, the Company has federal and foreign net operating loss carryforwards ("NOLs") of approximately $617.8 million and $35.0 million, respectively, which expire in varying amounts through 2019. However, due to the provisions of Section 382, Section 1502 and certain other provisions of the Internal Revenue Code (the "Code"), the utilization of these NOLs will be limited. The Company is also subject to certain state income tax laws, which will also limit the utilization of NOLs. As a result of ICG's merger with NETCOM, which created a change in ownership of NETCOM of greater than 50%, the NOLs generated by NETCOM prior to January 21, 1998 that can be used to reduce future taxable income are limited to approximately $15.0 million per year, before realization of unrecognized built-in gains.

A valuation allowance has been provided for the deferred tax asset relating to the Company's NOLs, as management is not presently able to determine when the Company will generate future taxable income.

(21) Condensed Financial Information of ICG Holdings (Canada) Co.

Condensed financial information for Holdings-Canada only is as follows:

Condensed Balance Sheet Information

	December 31, 1997	December 31, 1998
	(in thousands)	
Current assets	$ 162	162
Advances to subsidiaries	30,970	191,889
Non-current assets, net	2,604	2,414
Current liabilities	107	73
Long-term debt, less current portion	65	65
Due to parent	21,146	182,101
Share of losses of subsidiary	408,453	733,664
Shareholders' deficit	(396,035)	(721,438)

Condensed Statement of Operations Information

	Fiscal year ended September 30, 1996	Three months ended December 31, 1995	Three months ended December 31, 1996	Fiscal years ended December 31, 1997	Fiscal years ended December 31, 1998
		(unaudited)			
		(in thousands)			
Total revenue	$ -	-	-	-	-
Total operating costs and expenses	3,438	361	73	195	192
Operating loss	(3,438)	(361)	(73)	(195)	(192)
Losses from subsidiaries	(172,687)	(34,281)	(49,750)	(328,193)	(325,211)
Net loss attributable to common shareholders	(184,107)	(34,642)	(49,823)	(328,388)	(325,403)

(20) Summarized Financial Information of ICG Holdings, Inc. (continued)

Summarized Consolidated Balance Sheet Information

	December 31,	
	1997	1998
	(in thousands)	
Current assets	$ 213,625	277,098
Property and equipment, net	631,117	636,747
Other non-current assets, net	120,878	170,151
Net non-current assets of discontinued operations	2,940	220
Current liabilities	95,792	81,299
Net current liabilities of discontinued operations	367	944
Long-term debt, less current portion	890,503	1,004,316
Capital lease obligations, less current portion	66,939	63,359
Due to parent	30,970	191,889
Due to ICG Services	-	137,762
Redeemable preferred stock	292,442	338,311
Stockholders' deficit	(408,453)	(733,664)

Summarized Consolidated and Combined Statement of Operations Information

	Fiscal year ended September 30, 1996	Three months ended December 31,		Fiscal years ended December 31,	
		1995	1996	1997	1998
		(unaudited)			
		(in thousands)			
Total revenue	$ 154,143	34,544	49,477	245,022	400,309
Total operating costs and expenses	239,343	50,322	75,199	430,816	546,850
Operating loss	(85,200)	(15,778)	(25,722)	(185,794)	(146,541)
Loss from continuing operations before cumulative effect of change in accounting	(169,439)	(34,211)	(49,266)	(321,802)	(320,363)
Net loss	(172,687)	(34,281)	(49,750)	(328,193)	(325,211)

FINANCIAL STATEMENT SCHEDULE

(22) Condensed Financial Information of ICG Communications, Inc. (Parent company)

At December 31, 1998, the primary assets of ICG are its investments in ICG Services, ICG Funding, ICG Acquisition and NikoNET, including advances to those subsidiaries. Certain corporate expenses of the parent company are included in ICG's statement of operations and were approximately $1.2 million and $2.2 million for fiscal 1997 and 1998, respectively. At December 31, 1998, ICG had no operations other than those of ICG Services, ICG Funding, ICG Acquisition and their subsidiaries.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Schedule II

Valuation and Qualifying Accounts

Description	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Deductions	Balance at end of period
			(in thousands)		
Allowance for uncollectible trade receivables:					
Fiscal year ended September 30, 1996	$ 2,142	1,531	-	(1,293)	2,380
Three months ended December 31, 1996	$ 2,380	914	-	(883)	2,411
Fiscal year ended December 31, 1997	$ 2,411	3,985	-	(1,142)	5,254
Fiscal year ended December 31, 1998	$ 5,254	12,031	-	(1,812)	15,473
Allowance for uncollectible note receivable:					
Fiscal year ended September 30, 1996	$ 175	7,100	-	-	7,275
Three months ended December 31, 1996	$ 7,275	-	-	-	7,275
Fiscal year ended December 31, 1997	$ 7,275	-	-	(3,975)	3,300
Fiscal year ended December 31, 1998	$ 3,300	-	-	(2,000)	1,300
Allowance for impairment of long-lived assets:					
Fiscal year ended September 30, 1996	$ 2,000	-	-	-	2,000
Three months ended December 31, 1996	$ 2,000	-	-	-	2,000
Fiscal year ended December 31, 1997	$ 2,000	5,170	-	(2,000)	5,170
Fiscal year ended December 31, 1998	$ 5,170	-	-	-	5,170

See accompanying independent auditors' report.

Independent Auditors' Report

The Board of Directors and Stockholders
ICG Communications, Inc.:

Under the date of February 15, 1999, we reported on the consolidated balance sheets of ICG Communications, Inc. and subsidiaries as of December 31, 1997 and 1998 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the fiscal years ended September 30, 1996, the three months ended December 31, 1996, and the fiscal years ended December 31, 1997 and 1998 as contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998. In connection with our audits of the aforementioned consolidated financial statements, we have also audited the related financial statement Schedule II: Valuation and Qualifying Accounts. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. We did not audit the consolidated financial statements and related financial statement schedule of NETCOM On-Line Communication Services, Inc. ("NETCOM"), a discontinued wholly owned subsidiary of the Company, as of December 31, 1997 or for the fiscal year ended December 31, 1996, the three-month period ended December 31, 1996, or the fiscal year ended December 31, 1997, whose total assets constitute 11.7 percent in fiscal 1997, and whose loss from operations constitutes 100.5 percent in fiscal 1996, 96.0 percent in the three months ended December 31, 1996, and 83.8 percent in fiscal 1997 of the consolidated loss from discontinued operations. Those consolidated financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in the financial statement schedule for NETCOM, is based solely on the reports of the other auditors.

In our opinion, based on our audits and the reports of the other auditors, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As explained in note 2 to the consolidated financial statements, during the fiscal year ended September 30, 1996, the Company changed its method of accounting for long-term telecom services contracts.

KPMG LLP

Denver, Colorado
February 15, 1999

EXHIBITS

3.3: Agreement and Plan of Reorganization by and among ICG Communications, Inc., ICG Canadian Acquisition, Inc., ICG Holdings (Canada), Inc. and ICG Holdings (Canada) Co., dated November 4, 1998.

3.4: Order of Amalgamation between ICG Holdings (Canada), Inc. and ICG Holdings (Canada) Co., dated December 22, 1998.

3.5: Memorandum and Articles of Association of ICG Holdings (Canada) Co. filed with the Registrar of Joint Stock Companies, Halifax, Nova Scotia.

4.11: Second Amended and Restated Articles of Incorporation of ICG Holdings, Inc., dated March 10, 1997.

10.29: ICG Communications, Inc. 1998 Stock Option Plan.

10.30: Form of Stock Option Agreement for 1998 Stock Option Plan.

10.31: Amendment No. 1 to the ICG Communications, Inc. 1998 Stock Option Plan, dated December 15, 1998.

10.32: Form of Agreement regarding Gross-Up Payments, by and between ICG Communications, Inc. and each of J. Shelby Bryan, Harry R. Herbst, Douglas I. Falk and H. Don Teague, dated December 16, 1998.

21.1: Subsidiaries of the Registrant.

23.1: Consent of KPMG LLP.

23.2: Consent of Ernst & Young LLP.

27.1: Financial Data Schedule of ICG Communications, Inc. for the Fiscal Year Ended December 31, 1998.

INDEX TO EXHIBITS
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBIT 3.4

Order of Amalgamation between ICG Holdings (Canada), Inc. and ICG Holdings (Canada) Co., dated December 22, 1998.

EXHIBIT 3.3

Agreement and Plan of Reorganization by and among ICG Communications, Inc., ICG Canadian Acquisition, Inc., ICG Holdings (Canada), Inc. and ICG Holdings (Canada) Co., dated November 4, 1998.

EXHIBIT 4.11

Second Amended and Restated Articles of Incorporation of ICG Holdings, Inc., dated March 10, 1997.

EXHIBIT 3.5

Memorandum and Articles of Association of ICG Holdings (Canada) Co. filed with the Registrar of Joint Stock Companies, Halifax, Nova Scotia.

EXHIBIT 10.30

Form of Stock Option Agreement for 1998 Stock Option Plan.

EXHIBIT 10.29

ICG Communications, Inc. 1998 Stock Option Plan.

EXHIBIT 10.32

Form of Agreement regarding Gross-Up Payments, by and between ICG Communications, Inc. and each of J. Shelby Bryan, Harry R. Herbst, Douglas I. Falk and H. Don Teague, dated December 16, 1998.

EXHIBIT 10.31

Amendment No. 1 to the ICG Communications, Inc. 1998 Stock Option Plan, dated December 15, 1998.

EXHIBIT 21.1

Subsidiaries of the Registrant

Name of Subsidiary	State of Incorporation	Doing Business As
Bay Area Teleport, Inc.	Delaware	--
Communications Buying Group, Inc.	Ohio	--
DataChoice Network Services, L.L.C.	Nevada	--
Fiber Optic Technologies of the Northwest, Inc. *(formerly known as Fiber Optic Technologies of Oregon, Inc.)*	Oregon	--
ICG Access Services – Southeast, Inc. *(formerly known as PrivaCom, Inc.)*	Delaware	--
ICG Canadian Acquisition, Inc.	Delaware	--
ICG ChoiceCom, L.P. *(formerly known as CSW/ICG ChoiceCom, L.P.)*	Delaware	--
ICG ChoiceCom Management, LLC *(formerly known as Southwest TeleChoice Management, LLC and CSW/ICG ChoiceCom Management, LLC)*	Delaware	--
ICG Enhanced Services, Inc.	Colorado	--
ICG Equipment, Inc.	Colorado	--
ICG Fiber Optic Technologies, Inc. *(formerly known as Fiber Optic Technologies, Inc.)*	Colorado	--
ICG Funding, LLC	Delaware	--
ICG Holdings, Inc. *(formerly known as IntelCom Group (U.S.A.), Inc.)*	Colorado	--
ICG Holdings (Canada) Co.	Nova Scotia	--
ICG Ohio LINX, Inc. *(formerly known as Ohio Local Interconnection Network Exchange Co.)*	Ohio	--
ICG PST, Inc. *(formerly known as NETCOM On-Line Communication Services, Inc.)*	Delaware	--
ICG Satellite Services, Inc. *(formerly known as Commden Ltd. and as ICG Wireless Services, Inc.)*	Colorado	--
ICG Services, Inc.	Delaware	--
ICG Telecom Canada, Inc.	Federal Canadian	--
ICG Telecom Group, Inc. *(formerly known as ICG Access Services, Inc.)*	Colorado	--

EXHIBIT 21.1

Subsidiaries of the Registrant.

EXHIBIT 23.1

Consent of KPMG LLP.

Consent of KPMG LLP

The Board of Directors
ICG Communications, Inc.:

We consent to incorporation by reference in the registration statements Nos. 33-96660, 333-08729, 333-18839, 333-38823, 333-40495 and 333-40495-01 on Form S-3 of IntelCom Group Inc. and Nos. 33-14127, 333-25957, 333-39737, 333-45213 and 333-56835 on Form S-8 of ICG Communications, Inc. of our reports dated February 15, 1999, relating to the consolidated balance sheets of ICG Communications, Inc. and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the fiscal years ended September 30, 1996, the three-month period ended December 31, 1996, and the fiscal years ended December 31, 1997 and 1998, and the related financial statement schedule, which reports appear in the December 31, 1998 Annual Report on Form 10-K of ICG Communications, Inc.

As explained in note 2 to the consolidated financial statements, during the fiscal year ended September 30, 1996, the Company changed its method of accounting for long-term telecom services contracts.

KPMG LLP

Denver, Colorado
March 29, 1999

Name of Subsidiary	State of Incorporation	Doing Business As
ICG Telecom Group of Virginia, Inc.	Virginia	--
ICG Telecom of San Diego, L.P. *(formerly known as Linkatel of California, L.P.)*	California	--
Maritime Telecommunications Network, Inc.	Colorado	--
NikoNET, LLC	Georgia	--
PTI Harbor Bay, Inc.	Washington	--
TransAmerican Cable, Inc.	Kentucky	MidAmerican Cable
UpSouth Corporation	Georgia	--
Zycom Corporation *(formerly known as Camber Sports, Inc.)*	Alberta, Canada	--
Zycom Corporation	Texas	--
Zycom Network Services, Inc. *(formerly known as Travel Phone, Inc.)*	Texas	--

EXHIBIT 23.2

Consent of Ernst & Young LLP.

Consent of Ernst & Young LLP, Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Forms S-3 of IntelCom Group Nos. 33-96660 and 333-08729; Forms S-3 of ICG Communications, Inc. Nos. 333-18839, 333-38823, 333-40495 and 333-40495-01; and Forms S-8 of ICG Communications, Inc. Nos. 33-14127, 333-25957, 333-39737, and 333-45213) of our reports (a) dated February 13, 1998 with respect to the consolidated balance sheet of NETCOM On-Line Communication Services, Inc. as of December 31, 1997 and the related statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 1997 (not presented separately herein), and (b) dated April 16, 1998 with respect to the consolidated balance sheet of NETCOM On-Line Communication Services, Inc. as of December 31, 1996 and the related statements of operations, stockholders' equity and cash flows for the three months then ended (not presented separately herein), included in this Annual Report (Form 10-K) of ICG Communications, Inc., ICG Holdings (Canada) Co. and ICG Holdings, Inc.

Ernst & Young LLP

San Jose, California
March 26, 1999

EXHIBIT 27.1

Financial Data Schedule of ICG Communications, Inc. for the Fiscal Year Ended December 31, 1998.

EXHIBIT-27.1

Summary Financial Information

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF ICG COMMUNICATIONS, INC. AND SUBSIDIARIES FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER 1,000

PERIOD-TYPE	YEAR
FISCAL-YEAR-END	DEC-31-1998
PERIOD-START	JAN-01-1998
PERIOD-END	DEC-31-1998
CASH	210,831
SECURITIES	52,000
RECEIVABLES	160,612
ALLOWANCES	15,473
INVENTORY	2,821
CURRENT-ASSETS	422,827
PP&E	1,112,067
DEPRECIATION	177,933
TOTAL-ASSETS	1,625,425
CURRENT-LIABILITIES	127,893
BONDS	1,662,357
PREFERRED-MANDATORY	466,352
PREFERRED	0 <F>
COMMON	584
OTHER-SE	(631,761)
TOTAL-LIABILITY-AND-EQUITY	1,625,425
SALES	0 <F>
TOTAL-REVENUES	397,619
CGS	0 <F>
TOTAL-COSTS	254,689
OTHER-EXPENSES	291,622
LOSS-PROVISION	12,031
INTEREST-EXPENSE	170,127
INCOME-PRETAX	(295,057)
INCOME-TAX	(90)
INCOME-CONTINUING	(350,330)
DISCONTINUED	(67,715)
EXTRAORDINARY	0 <F>
CHANGES	0 <F>
NET-INCOME	(418,045)
EPS-PRIMARY	(9.25)
EPS-DILUTED	0 <F>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ICG Communications, Inc.

By: /s/J. Shelby Bryan
J. Shelby Bryan
President and Chief Executive Officer

Date: March 30, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/William J. Laggett William J. Laggett	Chairman of the Board of Directors	March 30, 1999
/s/J. Shelby Bryan J. Shelby Bryan	President and Chief Executive Officer (Principal Executive Officer)	March 30, 1999
/s/Harry R. Herbst Harry R. Herbst	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 30, 1999
/s/Richard Bambach Richard Bambach	Vice President and Corporate Controller (Principal Accounting Officer)	March 30, 1999
/s/John U. Moorhead John U. Moorhead	Director	March 30, 1999
/s/Leontis Teryazos Leontis Teryazos	Director	March 30, 1999
/s/Walter Threadgill Walter Threadgill	Director	March 30, 1999

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ICG Holdings (Canada) Co.

By: /s/J. Shelby Bryan
J. Shelby Bryan
President and Chief Executive Officer

Date: March 30, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/J. Shelby Bryan J. Shelby Bryan	President and Chief Executive Officer (Principal Executive Officer)	March 30, 1999
/s/Harry R. Herbst Harry R. Herbst	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)	March 30, 1999
/s/H. Don Teague H. Don Teague	Executive Vice President, General Counsel, Secretary and Director	March 30, 1999
/s/Richard Bambach Richard Bambach	Vice President and Corporate Controller (Principal Accounting Officer)	March 30, 1999

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ICG Holdings, Inc.

By: /s/J. Shelby Bryan
J. Shelby Bryan
President, Chief Executive Officer and Director

Date: March 30, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/J. Shelby Bryan J. Shelby Bryan	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)	March 30, 1999
/s/Harry R. Herbst Harry R. Herbst	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)	March 30, 1999
/s/H. Don Teague H. Don Teague	Executive Vice President, General Counsel, Secretary and Director	March 30, 1999
/s/Richard Bambach Richard Bambach	Vice President and Corporate Controller (Principal Accounting Officer)	March 30, 1999
/s/Douglas I. Falk Douglas I. Falk	Executive Vice President – Telecom and Director	March 30, 1999

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 1999

OR

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

(Commission File Number 1-11965)

ICG COMMUNICATIONS, INC.

(Commission File Number 1-11052)

ICG HOLDINGS (CANADA) CO.

(Commission File Number 33-96540)

ICG HOLDINGS, INC.

(Exact names of registrants as specified in their charters)

Delaware Nova Scotia Colorado (State or other jurisdiction of incorporation or organization)	84-1342022 Not Applicable 84-1158866 (I.R.S. Employer Identification No.)
161 Inverness Drive West Englewood, Colorado 80112	Not applicable
161 Inverness Drive West Englewood, Colorado 80112	c/o ICG Communications, Inc. 161 Inverness Drive West Englewood, Colorado 80112
161 Inverness Drive West Englewood, Colorado 80112 (Address of principal executive offices)	Not applicable (Address of U.S. agent for service)

Registrants' telephone numbers, including area codes: (888) 424-1144 or (303) 414-5000

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ✓ No ____

The number of registrants' outstanding common shares as of November 11, 1999 were 47,556,435, 31,931,558 and 1,918, respectively. ICG Canadian Acquisition, Inc., a wholly owned subsidiary of ICG Communications, Inc., owns all of the issued and outstanding common shares of ICG Holdings (Canada) Co. ICG Holdings (Canada) Co. owns all of the issued and outstanding shares of ICG Holdings, Inc.

TABLE OF CONTENTS

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 1998 and September 30, 1999 (unaudited)

	December 31, 1998	September 30, 1999
Assets	(in thousands)	
Current assets:		
Cash and cash equivalents	$ 210,307	149,176
Short-term investments available for sale	52,000	21,483
Receivables:		
Trade, net of allowance of $14,351 and $68,545 at December 31, 1998 and September 30, 1999, respectively (note 6)	113,030	140,013
Other	529	922
	113,559	140,935
Inventory	-	70
Prepaid expenses and deposits	11,530	11,621
Net current assets of discontinued operations (note 3)	66	15,775
Total current assets	387,462	339,060
Property and equipment	1,064,112	1,456,096
Less accumulated depreciation	(156,054)	(252,667)
Net property and equipment	908,058	1,203,429
Restricted cash	16,912	11,814
Investments in debt securities available for sale and restricted and exchangeable preferred stock (note 4)	-	28,489
Other assets, net of accumulated amortization:		
Goodwill	110,513	101,976
Deferred financing costs	35,958	37,196
Transmission and other licenses	5,646	604
Other	22,324	15,544
	174,441	155,320
Net non-current assets of discontinued operations (note 3)	102,774	49,338
Total assets (note 7)	$ 1,589,647	1,787,450

(Continued)

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (unaudited), Continued

Liabilities and Stockholders' Deficit	December 31, 1998	September 30, 1999
	(in thousands)	
Current liabilities:		
Accounts payable	$ 30,424	24,677
Accrued liabilities	51,565	83,644
Deferred revenue (note 6)	5,647	33,652
Deferred gain on sale (note 3)	-	8,624
Current portion of capital lease obligations (note 6)	4,846	7,956
Current portion of long-term debt (note 5)	46	46
Total current liabilities	92,528	158,599
Capital lease obligations, less current portion (note 6)	62,946	62,057
Long-term debt, net of discount, less current portion (note 5)	1,598,998	1,855,484
Other long-term liabilities	-	862
Total liabilities	1,754,472	2,077,002
Redeemable preferred stock of subsidiary ($384.3 million liquidation value at September 30, 1999) (note 5)	338,310	377,065
Company-obligated mandatorily redeemable preferred securities of subsidiary limited liability company which holds solely Company preferred stock ($133.4 million liquidation value at September 30, 1999)	128,042	128,331
Stockholders' deficit:		
Common stock, $0.01 par value, 100,000,000 shares authorized; 46,360,185 and 47,514,260 shares issued and outstanding at December 31, 1998 and September 30, 1999, respectively	464	475
Additional paid-in capital	577,940	595,516
Accumulated deficit	(1,209,462)	(1,390,939)
Accumulated other comprehensive loss	(119)	-
Total stockholders' deficit	(631,177)	(794,948)
Commitments and contingencies (notes 5 and 6)		
Total liabilities and stockholders' deficit	$ 1,589,647	1,787,450

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (unaudited)
Three Months and Nine Months Ended September 30, 1998 and 1999

	Three months ended September 30, 1998	Three months ended September 30, 1999	Nine months ended September 30, 1998	Nine months ended September 30, 1999
	(in thousands, except per share data)			
Revenue (note 7)	$ 82,567	115,166	205,269	337,151
Operating costs and expenses:				
Operating costs	48,145	66,284	137,113	179,391
Selling, general and administrative expenses	39,485	94,558	112,699	180,341
Depreciation and amortization (note 7)	22,715	45,079	54,310	126,137
Provision for impairment of long-lived assets	-	-	-	29,300
Other, net	-	626	498	91
Total operating costs and expenses	110,345	206,547	304,620	515,260
Operating loss	(27,778)	(91,381)	(99,351)	(178,109)
Other (expense) income				
Interest expense (note 7)	(45,958)	(52,891)	(121,862)	(151,637)
Interest income	8,190	3,772	22,175	11,669
Other expense, net, including realized and unrealized gains and losses on marketable trading securities	(350)	(333)	(962)	(2,676)
	(38,118)	(49,452)	(100,649)	(142,644)
Loss from continuing operations before income taxes, preferred dividends and extraordinary gain	(65,896)	(140,833)	(200,000)	(320,753)
Income tax expense	(45)	-	(45)	-
Accretion and preferred dividends on preferred securities of subsidiaries	(13,987)	(15,694)	(40,774)	(45,739)
Loss from continuing operations before extraordinary gain	(79,928)	(156,527)	(240,819)	(366,492)
Discontinued operations (note 3)				
Net (loss) income from discontinued operations	(15,535)	748	(57,235)	(55)
Loss on disposal of discontinued operations, including provision of $0.2 million, $0.2 million and $0.3 million for the three months ended September 30, 1998, the nine months ended September 30, 1998 and the nine months ended September 30, 1999, respectively, for operating losses during phase out period	(1,201)	-	(1,201)	(7,959)
	(16,736)	748	(58,436)	(8,014)
Extraordinary gain on sales of operations of NETCOM, net of income taxes of $6.4 million (note 3)	-	-	-	193,029
Net loss	$ (96,664)	(155,779)	(299,255)	(181,477)
Other comprehensive income - foreign currency translation adjustment	(118)	-	(194)	-
Comprehensive loss	$ (96,782)	(155,779)	(299,449)	(181,477)

(Continued)

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (unaudited), Continued

	Three months ended September 30,		Nine months ended September 30,	
	1998	1999	1998	1999
	(in thousands, except per share data)			
Net loss per share – basic and diluted:				
Loss from continuing operations	$ (1.75)	(3.31)	(5.36)	(7.81)
Net (loss) income from discontinued operations	(0.37)	0.02	(1.30)	(0.17)
Extraordinary gain on sales of operations of NETCOM	-	-	-	4.11
Net loss per share – basic and diluted	$ (2.12)	(3.29)	(6.66)	(3.87)
Weighted average number of shares outstanding – basic and diluted	45,588	47,320	44,922	46,948

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Deficit (unaudited)
Nine Months Ended September 30, 1999

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total stockholders' deficit
	Shares	Amount				
				(in thousands)		
Balances at January 1, 1999	46,360	$ 464	577,940	(1,209,462)	(119)	(631,177)
Shares issued for cash in connection with the exercise of options and warrants	798	8	10,753	-	-	10,761
Shares issued for cash in connection with the employee stock purchase plan	157	1	2,687	-	-	2,688
Shares issued as contribution to 401(k) plan	199	2	4,136	-	-	4,138
Reversal of cumulative foreign currency translation adjustment (note 3)	-	-	-	-	119	119
Net loss	-	-	-	(181,477)	-	(181,477)
Balances at September 30, 1999	47,514	$ 475	595,516	(1,390,939)	-	(794,948)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (unaudited)
Nine Months Ended September 30, 1998 and 1999

	Nine months ended September 30, 1998	1999
	(in thousands)	
Cash flows from operating activities:		
Net loss	$ (299,255)	(181,477)
Loss from discontinued operations	58,436	8,014
Extraordinary gain on sales of discontinued operations	-	(193,029)
Adjustments to reconcile net loss to net cash used by operating activities:		
Recognition of deferred gain	-	(17,376)
Accretion and preferred dividends on preferred securities of subsidiaries	40,774	45,739
Depreciation and amortization	54,310	126,137
Provision for impairment of long-lived assets	-	29,300
Deferred compensation	-	862
Net loss (gain) on disposal of long-lived assets	498	(771)
Provision for uncollectible accounts	7,945	56,193
Interest expense deferred and included in long-term debt	117,068	143,663
Interest expense deferred and included in capital lease obligations	4,208	3,968
Amortization of deferred advertising costs included in selling, general and administrative expenses	469	-
Amortization of deferred financing costs included in interest expense	3,307	3,541
Interest expense capitalized on assets under construction	(7,218)	(8,954)
Contribution to 401(k) plan through issuance of common stock	2,593	4,138
Change in operating assets and liabilities, excluding the effects of dispositions and non-cash transactions:		
Receivables	(46,343)	(87,556)
Inventory	-	136
Prepaid expenses and deposits	271	3,011
Deferred advertising costs	(1,795)	-
Accounts payable and accrued liabilities	18,382	(9,643)
Deferred revenue	1,422	29,197
Net cash used by operating activities	(44,928)	(44,907)
Cash flows from investing activities:		
Increase in long-term notes receivable from affiliates and others	(4,877)	-
Acquisition of property, equipment and other assets	(253,488)	(368,134)
Payments for construction of corporate headquarters	(4,944)	-
Payments for business acquisitions, net of cash acquired	(14,307)	-
Proceeds from sales of operations of NETCOM, net of cash included in sale	-	252,881
Proceeds from disposition of property, equipment and other assets	148	4,302
Proceeds from sale of corporate headquarters, net of selling and other costs	30,283	-
Proceeds from sales of short-term investments available for sale	71,281	30,517
Proceeds from sale of marketable trading securities, net of realized gain	-	30,000
Decrease in restricted cash	5,760	5,098
Purchase of investments	-	(28,489)
Purchase of minority interest in subsidiaries	(9,000)	(6,039)
Net cash used by investing activities	(179,144)	(79,864)

(Continued)

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (unaudited), Continued

	Nine months ended September 30,	
	1998	1999
	(in thousands)	
Cash flows from financing activities:		
Proceeds from issuance of common stock:		
Sale by subsidiary	$ 3,385	-
Exercise of options and warrants	12,693	10,761
Employee stock purchase plan	2,136	2,688
Proceeds from issuance of long-term debt	550,574	80,000
Deferred long-term debt issuance costs	(17,496)	(4,777)
Principal payments on capital lease obligations	(11,559)	(12,720)
Principal payments on long-term debt	(6,850)	(255)
Payments of preferred dividends	(6,695)	(6,695)
Net cash provided by financing activities	526,188	69,002
Net increase (decrease) in cash and cash equivalents	302,116	(55,769)
Net cash provided (used) by discontinued operations	8,298	(5,362)
Cash and cash equivalents, beginning of period	120,574	210,307
Cash and cash equivalents, end of period	$ 430,988	149,176
Supplemental disclosure of cash flows information of continuing operations:		
Cash paid for interest	$ 4,497	9,419
Cash paid for income taxes	$ 45	1,140
Supplemental schedule of non-cash investing and financing activities of continuing operations:		
Common stock issued in connection with business combinations	$ 15,532	-
Acquisition of corporate headquarters assets through the issuance of long-term debt and conversion of security deposit	$ -	33,077
Assets acquired under capital leases	$ -	6,190

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 1998 and September 30, 1999 (unaudited)

(1) Organization and Basis of Presentation

ICG Communications, Inc., a Delaware corporation ("ICG"), was incorporated on April 11, 1996 and is the publicly-traded U.S. parent company of ICG Funding, LLC, a special purpose Delaware limited liability company ("ICG Funding"), ICG Holdings (Canada) Co., a Nova Scotia unlimited liability company ("Holdings-Canada"), ICG Holdings, Inc., a Colorado corporation ("Holdings"), and ICG Services, Inc., a Delaware corporation ("ICG Services"), and their subsidiaries. ICG and its subsidiaries are collectively referred to as the "Company."

The Company's principal business activity is telecommunications services, including Telecom Services and, until the completion of the sales of such operations, Satellite Services. Telecom Services consists primarily of the Company's competitive local exchange carrier operations which provide local, long distance and data services to business end users, Internet service providers ("ISPs") and long distance carriers and resellers. Additionally, in February 1999, the Company began marketing Internet access and enhanced network services to ISPs and other telecommunications providers. Satellite Services consists of satellite voice, data and video services provided to major cruise ship lines, the U.S. Navy, the offshore oil and gas industry and integrated communications providers. Through October 22, 1999, the Company also provided Network Services which consisted of information technology services and selected networking products, focusing on network design, installation, maintenance and support for a variety of end users, including Fortune 1000 firms and other large businesses and telecommunications companies.

On January 21, 1998, the Company completed a merger with NETCOM On-Line Communication Services, Inc. ("NETCOM"). At the effective time of the merger, each outstanding share of NETCOM common stock, $.01 par value, was automatically converted into shares of ICG common stock, $.01 par value ("ICG Common Stock"), at an exchange ratio of 0.8628 shares of ICG Common Stock per NETCOM common share. The Company issued approximately 10.2 million shares of ICG Common Stock in connection with the merger, valued at approximately $284.9 million on the date of the merger. The business combination was accounted for as a pooling of interests. On February 17 and March 16, 1999, the Company completed the sales of the operations of NETCOM (see note 3) and, accordingly, the Company's consolidated financial statements prior to March 16, 1999 reflect the operations and net assets of NETCOM as discontinued. In conjunction with the sales, the legal name of the NETCOM subsidiary was changed to ICG NetAhead, Inc. ("NetAhead") (see note 3).

On July 15, 1999, the Company's board of directors adopted a formal plan to dispose of the Company's investments in Network Services and Satellite Services (see note 3) and, accordingly, the Company's consolidated financial statements reflect the operations and net assets of Network Services and Satellite Services as discontinued for all periods presented.

(2) Significant Accounting Policies

(a) Basis of Presentation

These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, as certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission. The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows as of and for the interim periods presented. Such adjustments are of a normal recurring nature.

(2) Significant Accounting Policies (continued)

Operating results for the nine months ended September 30, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 1999.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Net Loss Per Share

Basic and diluted net loss per share is calculated by dividing net loss by the weighted average number of shares of common stock outstanding. Weighted average number of shares outstanding represents ICG Common Stock outstanding for the nine months ended September 30, 1999 and combined ICG Common Stock and Holdings-Canada Class A common shares outstanding for the nine months ended September 30, 1998. Potential common stock, which includes options, warrants and convertible subordinated notes and preferred securities, are not included in the net loss per share calculation as their effect is anti-dilutive. The Company has presented net loss per share from discontinued operations and extraordinary gain on sales of operations of NETCOM in the consolidated statement of operations for all periods presented.

(c) Reclassifications

Certain 1998 amounts have been reclassified to conform with the 1999 presentation.

(3) Discontinued Operations

Net loss from discontinued operations consists of the following:

	Three months ended September 30,		Nine months ended September 30,	
	1998	1999	1998	1999
	(in thousands)			
Network Services (a)	$ (1,069)	748	(7,250)	(367)
Satellite Services (b)	915	-	(3,012)	312
Zycom (c)	(1,449)	-	(4,647)	-
NETCOM (d)	(13,932)	-	(42,326)	-
Net (loss) income from discontinued operations	$ (15,535)	748	(57,235)	(55)

(a) Network Services

On July 15, 1999, the Company's board of directors adopted a formal plan to dispose of the Company's investments in its wholly-owned subsidiaries, ICG Fiber Optic Technologies, Inc. and Fiber Optic Technologies of the Northwest, Inc. (collectively, "Network Services"). On October 22, 1999, the Company completed the sale of all of the capital stock of Network Services to ACS Communications, Inc. for total proceeds of $24.0 million in cash. During the three months ended June 30, 1999, the Company accrued approximately $8.0 million for estimated losses on the disposal of Network Services, including approximately $0.3 million for estimated operating losses of Network Services during the phase out period. Any adjustments to the loss on the disposal of Network Services will be included in the Company's statement of operations for the three months ended December 31, 1999.

(3) Discontinued Operations (continued)

The Company's consolidated financial statements reflect the operations of Network Services as discontinued for all periods presented. The Company has included in its loss from operations for the three months and nine months ended September 30, 1999 income from operations of Network Services of approximately $0.8 million for the period from July 15, 1999 to September 30, 1999. Included in net current assets and net non-current assets of discontinued operations in the Company's consolidated balance sheets are the following accounts of Network Services:

	December 31, 1998	September 30, 1999
	(in thousands)	
Cash and cash equivalents	$ 846	-
Receivables, net	21,237	24,933
Inventory, prepaid expenses and deposits	1,888	3,258
Accounts payable, accrued liabilities and other current liabilities	(5,752)	(15,371)
Net current assets of Network Services	$ 18,219	12,820
Property and equipment, net	$ 3,686	2,324
Goodwill, net	9,865	8,980
Other assets	93	72
Capital lease obligations, less current portion	(413)	(285)
Net non-current assets of Network Services	$ 13,231	11,091

(b) Satellite Services

On July 15, 1999, the Company's board of directors adopted a formal plan to dispose of the Company's investments in ICG Satellite Services, Inc. and Maritime Telecommunications Network, Inc. (collectively, "Satellite Services"). The Company's plan of disposal consists of a sale for cash proceeds of the business of Satellite Services. On August 11, 1999, the Company entered into a definitive agreement to sell all of the capital stock of Satellite Services to a third party for cash proceeds of approximately $100.0 million. The Company expects to record a gain on the sale of Satellite Services, which gain will be included in the Company's consolidated financial statements in the period of disposal. The Company anticipates the sale of Satellite Services will be completed prior to the end of 1999.

The Company's consolidated financial statements reflect the operations of Satellite Services as discontinued for all periods presented. Since the Company expects to record a gain on the disposition of Satellite Services, the Company has deferred the net operating losses of Satellite Services from July 15, 1999 through September 30, 1999. Included in net current assets and net non-current assets of discontinued operations in the Company's consolidated balance sheets are the following accounts of Satellite Services:

(3) **Discontinued Operations (continued)**

	December 31, 1998	September 30, 1999
	(in thousands)	
Cash and cash equivalents	$ -	47
Receivables, net	10,342	6,553
Inventory, prepaid expenses and deposits	1,440	2,052
Deferred losses of Satellite Services	-	79
Accounts payable and accrued liabilities	(6,664)	(5,047)
Net current assets of Satellite Services	$ 5,118	3,684
Property and equipment, net	$ 22,390	26,154
Goodwill, net	10,125	8,887
Other assets, net	2,785	3,206
Net non-current assets of Satellite Services	$ 35,300	38,247

(c) Zycom

The Company owns a 70% interest in Zycom Corporation ("Zycom") which, through its wholly owned subsidiary, Zycom Network Services, Inc. ("ZNSI"), operated an 800/888/900 number services bureau and a switch platform in the United States and supplied information providers and commercial accounts with audiotext and customer support services. In June 1998, Zycom was notified by its largest customer of the customer's intent to transfer its call traffic to another service bureau. In order to minimize the obligation that this loss in call traffic would generate under Zycom's volume discount agreements with AT&T Corp. ("AT&T"), its call transport provider, ZNSI entered into an agreement on July 1, 1998 with an unaffiliated entity, ICN Limited ("ICN"), whereby ZNSI assigned the traffic of its largest audiotext customer and its other 900-number customers to ICN, effective October 1, 1998. As part of this agreement, ICN assumed all minimum call traffic volume obligations to AT&T.

The call traffic assigned to ICN represented approximately 86% of Zycom's revenue for the year ended December 31, 1998. The loss of this significant portion of Zycom's business, despite management's best efforts to secure other sources of revenue, raised substantial doubt as to Zycom's ability to operate in a manner which would benefit Zycom's or the Company's shareholders. Accordingly, on August 25, 1998, Zycom's board of directors approved a plan to wind down and ultimately discontinue Zycom's operations. On October 22, 1998, Zycom completed the transfer of all customer traffic to other providers. On January 4, 1999, the Company completed the sale of the remainder of Zycom's long-lived operating assets to an unrelated third party for total proceeds of $0.2 million. As Zycom's assets were recorded at estimated fair market value at December 31, 1998, no gain or loss was recorded on the sale during the nine months ended September 30, 1999.

The Company's consolidated financial statements reflect the operations of Zycom as discontinued for all periods presented. Zycom reported net losses from operations of approximately $1.2 million for the period from August 25, 1998 to December 31, 1998 and reported no income or losses from operations for the nine months ended September 30, 1999. The Company has accrued for all expected future net losses of Zycom. Included in net current liabilities and net non-current assets of discontinued operations

(3) Discontinued Operations (continued)

in the Company's consolidated balance sheets are the following accounts of Zycom:

	December 31, 1998	September 30, 1999
	(in thousands)	
Cash and cash equivalents	$ 47	-
Receivables, net	90	-
Prepaid expenses and deposits	11	1
Accounts payable and accrued liabilities	(1,092)	(730)
Net current liabilities of Zycom	$ (944)	(729)
Net non-current assets of Zycom – property and equipment, net	$ 220	-

(d) NETCOM

On February 17, 1999, the Company sold certain of the operating assets and liabilities of NETCOM to MindSpring Enterprises, Inc., an ISP located in Atlanta, Georgia ("MindSpring"). Total proceeds from the sale were $245.0 million, consisting of $215.0 million in cash and 376,116 shares of common stock of MindSpring, valued at approximately $79.76 per share at the time of the transaction. Assets and liabilities sold to MindSpring include those directly related to the domestic operations of NETCOM's Internet dial-up, dedicated access and Web site hosting services. In conjunction with the sale to MindSpring, the Company entered into an agreement to lease to MindSpring for a one-year period the capacity of certain network operating assets formerly owned by NETCOM and retained by the Company. MindSpring is utilizing the Company's network capacity to provide Internet access to the dial-up services customers formerly owned by NETCOM. Over the term of the one-year agreement, MindSpring is required to pay the Company a minimum of $27.0 million for the Company's network capacity, although such minimum is subject to increase dependent upon network usage. In addition, the Company is receiving for a one-year period 50% of the gross revenue earned by MindSpring from the dedicated access customers formerly owned by NETCOM, estimated to be approximately $10.0 million for the term of the agreement. The Company, through NetAhead, is currently utilizing the retained network operating assets to provide wholesale capacity and other enhanced network services to MindSpring and intends to provide similar services to other ISPs and telecommunications providers in the future. The carrying value of the assets retained by the Company was approximately $21.7 million, including approximately $17.5 million of network equipment, on February 17, 1999. The Company also retained approximately $11.3 million of accrued liabilities and capital lease obligations.

On March 16, 1999, the Company sold all of the capital stock of NETCOM's international operations for total proceeds of approximately $41.1 million. MetroNET Communications Corp., a Canadian entity, and Providence Equity Partners, located in Providence, Rhode Island ("Providence"), together purchased the 80% interest in NETCOM Canada Inc. owned by NETCOM for approximately $28.9 million in cash. Additionally, Providence purchased all of the capital stock of NETCOM Internet Access Services Limited, NETCOM's operations in the United Kingdom, for approximately $12.2 million in cash.

During the nine months ended September 30, 1999, the Company recorded a combined gain on the sales of the operations of NETCOM of approximately $193.0 million, net of income taxes of approximately

(3) Discontinued Operations (continued)

$6.4 million. Offsetting the gain on the sales is approximately $16.6 million of net losses from operations of NETCOM from November 3, 1998 (the date on which the Company's board of directors adopted the formal plan to dispose of the operations of NETCOM) through the dates of the sales. Additionally, since the Company expects to generate operating costs in excess of revenue under its network capacity agreement with MindSpring and the terms of the sale agreement were dependent upon and negotiated in conjunction with the terms of the network capacity agreement, the Company deferred approximately $26.0 million of the proceeds from the sale agreement to be applied on a periodic basis to the network capacity agreement. The deferred proceeds are recognized in the Company's statement of operations as the Company incurs cash operating losses under the network capacity agreement. Accordingly, the Company does not expect to recognize any revenue, operating costs or selling, general and administrative expenses from services provided to MindSpring for the term of the agreement. Any incremental revenue or costs generated by other customers, or by other services provided to MindSpring, are recognized in the Company's consolidated statement of operations as incurred. During the three months and nine months ended September 30, 1999, the Company applied $6.9 million and $17.4 million, respectively, of deferred proceeds from the sale of the operating assets and liabilities of NETCOM to the network capacity agreement with MindSpring, which entirely offset the costs of the Company's operations under the agreement. Since the operations sold were acquired by the Company in a transaction accounted for as a pooling of interests, the gain on the sales of the operations of NETCOM is classified as an extraordinary item in the Company's consolidated statement of operations.

(4) Investments

On August 11, 1999, the Company purchased 1,250,000 shares of Series C Preferred Stock (the "ThinkLink Preferred Stock") of International ThinkLink Corporation ("ThinkLink"), or approximately 8% of the outstanding shares, for $1.0 million in cash. The ThinkLink Preferred Stock accrues dividends at an annual rate of 8% and is exchangeable into common stock of ThinkLink at any time. The ThinkLink Preferred Stock will automatically convert to common stock upon the completion of the initial public offering of the common stock of ThinkLink or upon election to convert by the holders of a majority of the ThinkLink Preferred Stock. The conversion rate from the ThinkLink Preferred Stock to common stock of ThinkLink is initially one-for-one; however, such conversion rate is subject to adjustment. The Company has accounted for its investment in ThinkLink under the cost method of accounting. Dividends on the ThinkLink Preferred Stock will be included in income when paid. ThinkLink is an Internet and enhanced services provider.

(5) Long-term Debt and Redeemable Preferred Stock of Subsidiary

Long-term debt is summarized as follows:

	December 31, 1998	September 30, 1999
	(in thousands)	
Senior Facility with adjustable rate of interest due on scheduled maturity dates, secured by assets of ICG Equipment and NetAhead (a)	$ -	79,812
9 7/8% Senior discount notes of ICG Services, net of discount	266,918	286,898
10% Senior discount notes of ICG Services, net of discount	327,699	352,586
11 5/8% Senior discount notes of Holdings, net of discount	122,528	133,329
12 1/2% Senior discount notes of Holdings, net of discount	414,864	454,287
13 1/2% Senior discount notes of Holdings, net of discount	465,886	514,459
Mortgage loan payable with interest at 8 1/2%, due monthly into 2009, secured by building	1,084	1,017
Mortgage loan payable with adjustable rate of interest (14.77% at September 30, 1999) due in full on January 31, 2013, secured by corporate headquarters	-	33,077
Other	65	65
	1,599,044	1,855,530
Less current portion	(46)	(46)
	$ 1,598,998	1,855,484

(a) *Senior Facility*

On August 12, 1999, ICG Equipment and NetAhead entered into a $200.0 million senior secured financing facility (the "Senior Facility") consisting of a $75.0 million term loan, a $100.0 million term loan and a $25.0 million revolving line of credit. The Senior Facility is guaranteed by ICG Services and is secured by the assets of ICG Equipment and NetAhead.

As required under the terms of the loan, the Company borrowed on August 12, 1999 the available $75.0 million on the $75.0 million term loan. The loan bears interest at an annual interest rate of LIBOR plus 3.5% or the base rate, as defined in the credit agreement, plus 2.5%, at the Company's option. At September 30, 1999, the $75.0 million term loan bears annual interest at LIBOR plus 3.5%, or 8.88%. Quarterly repayments commenced September 30, 1999 and require quarterly loan balance reductions of 0.25% through June 30, 2005 with the remaining outstanding balance to be repaid during the final three quarters of the loan term. The $75.0 million term loan matures on March 31, 2006. At September 30, 1999, the Company has $74.8 million outstanding under the $75.0 million term loan.

On August 12, 1999, the Company borrowed $5.0 million on the $100.0 million term loan. The $100.0 million term loan is available for borrowing through August 10, 2000 at an initial annual interest rate of LIBOR plus 3.125% or the base rate, as defined in the credit agreement, plus 2.125%, at the Company's option. At September 30, 1999, the $100.0 million term loan bears annual interest at LIBOR plus 3.125%, or 8.51%. Quarterly repayments commence September 30, 2002 and require aggregate loan balance reductions of 25% through June 30, 2003, 35% through June 30, 2004 and 40% through June 30, 2005. The $100.0 million term loan matures on June 30, 2005.

(5) Long-term Debt and Redeemable Preferred Stock of Subsidiary (continued)

The $25.0 million revolving line of credit is available through the maturity date of June 30, 2005 at an initial annual interest rate of LIBOR plus 3.125% or the base rate, as defined in the credit agreement, plus 2.125%, at the Company's option.

The Company is required to pay commitment fees ranging from 0.625% to 1.375% for the unused portion of available borrowings under the Senior Facility.

The terms of the Senior Facility provide certain limitations on the use of proceeds, additional indebtedness, dividends, prepayment of the Senior Facility and other indebtedness and certain other transactions. Additionally, the Company is subject to certain financial covenants based on its results of operations. On September 30, 1999, certain defined terms in the credit agreement for the Senior Facility were amended to ensure that the Company would remain in compliance with the financial covenants of the Senior Facility.

Redeemable preferred stock of subsidiary is summarized as follows:

	December 31, 1998	September 30, 1999
	(in thousands)	
14% Exchangeable preferred stock of Holdings, mandatorily redeemable in 2008	$ 124,867	139,077
14 1/4% Exchangeable preferred stock of Holdings, mandatorily redeemable in 2007	213,443	237,988
	$ 338,310	377,065

(6) Commitments and Contingencies

(a) Network Construction

In June 1999, the Company signed a minimum 10-year agreement to lease certain portions of its fiber optic network to Qwest for $32.0 million, which was received in full by the Company in June 1999. The Company has accounted for the agreement as a sales-type lease and is recognizing revenue and operating cost in its consolidated financial statements as the network build-out is completed and is available for use by Qwest. For the three months ended September 30, 1999, the Company included $5.1 million and $1.1 million in revenue and operating costs, respectively, in its consolidated financial statements, including revenue attributed to maintenance services which is recognized ratably over the term of the agreement. The Company expects the network facilities included in the agreement to be primarily completed during the remainder of 1999 and the first half of 2000. Approximately $26.9 million of the total proceeds received from Qwest remains in deferred revenue in the Company's consolidated balance sheet at September 30, 1999.

In June 1997, the Company entered into an indefeasible right of use ("IRU") agreement with Qwest Communications Corporation ("Qwest") for approximately 1,800 miles of fiber optic network and additional broadband capacity in California, Colorado, Ohio and the Southeast. Network construction is ongoing and is expected to be completed in 2000. The Company is responsible for payment on the construction as segments of the network are completed and has incurred approximately $24.9 million as of September 30, 1999, with remaining costs anticipated to be approximately $10.1 million.

(6) Commitments and Contingencies (continued)

In March 1996, the Company and Southern California Edison Company ("SCE") entered into a 25-year agreement under which the Company will license 1,258 miles of fiber optic cable in Southern California, and can install up to 500 additional miles of fiber optic cable. This network, which will be maintained and operated primarily by the Company, stretches from Los Angeles to southern Orange County. Under the terms of this agreement, SCE is entitled to receive an annual fee for ten years, certain fixed quarterly payments, a quarterly payment equal to a percentage of certain network revenue, and certain other installation and fiber connection fees. The aggregate fixed payments remaining under the agreement totaled approximately $126.1 million at September 30, 1999. The agreement has been accounted for as a capital lease in the accompanying consolidated balance sheets.

(b) Network Capacity and Line Purchase Commitments

In November 1998, the Company entered into two service agreements with WorldCom Network Services, Inc. ("WorldCom"). Both of the agreements have three-year terms and were effective in September 1998. Under the Telecom Services Agreement, WorldCom provides, at designated rates, switched telecommunications services and other related services to the Company, including termination services, toll-free origination, switched access, dedicated access and travel card services. Under the Carrier Digital Services Agreement, WorldCom provides the Company, at designated rates, with the installation and operation of dedicated digital telecommunications interexchange services, local access and other related services, which the Company believes expedites service availability to its customers. Both agreements require that the Company provide WorldCom with certain minimum monthly revenue, which if not met, would require payment by the Company for the difference between the minimum commitment and the actual monthly revenue. Additionally, both agreements limit the Company's ability to utilize vendors other than WorldCom for certain telecommunications services specified in the agreements. The Company's policy is to accrue and include in operating costs the effect of any shortfall in minimum revenue commitments under these agreements in the period in which the shortfall occurred. The Company has successfully achieved all minimum revenue commitments to WorldCom under these agreements through September 30, 1999.

In March 1999, the Company entered into an agreement with NorthPoint, which designates NorthPoint as the Company's preferred digital subscriber line ("DSL") provider through June 1, 2001. Under the agreement, the Company is required to purchase 49,000 digital subscriber lines before June 1, 2001 at designated intervals. In return, the Company receives substantial DSL service price discounts and enhanced market access from NorthPoint. Price discounts are determined pursuant to a graduated schedule based on the number of digital subscriber lines purchased by the Company, with maximum discounts achieved by purchasing 75,000 digital subscriber lines over the two-year term. The Company's policy is to accrue and include in operating costs the effect of any shortfall in DSL installations under its agreement with NorthPoint in the period in which the shortfall occurred. The 49,000 digital subscriber line purchase requirement and the price discounts are adjustable based on NorthPoint's compliance with a commitment schedule of DSL service availability for various U.S. locations. Additionally, the Company agreed to sell its existing DSL equipment to NorthPoint for total proceeds of approximately $2.7 million.

(c) Other Commitments

The Company has entered into various equipment purchase agreements with certain of its vendors. Under these agreements, if the Company does not meet a minimum purchase level in any given year, the vendor may discontinue certain discounts, allowances and incentives otherwise provided to the Company. In

(6) Commitments and Contingencies (continued)

addition, the agreements may be terminated by either the Company or the vendor upon prior written notice.

Additionally, the Company has entered into certain commitments to purchase capital assets with an aggregate purchase price of approximately $87.8 million at September 30, 1999.

(d) Transport and Termination Charges

The Company has recorded revenue of approximately $4.9 million, $58.3 million and $95.4 million for fiscal 1997, fiscal 1998 and the nine months ended September 30, 1999, respectively, for reciprocal compensation relating to the transport and termination of local traffic to ISPs from customers of ILECs pursuant to various interconnection agreements. Some of the ILECs have not paid most of the bills they have received from the Company and have disputed substantially all of these charges based on the belief that such calls are not local traffic as defined by the various agreements and not subject to payment of transport and termination charges under state and federal laws and public policies. As a result, the Company expects receivables from transport and termination charges will continue to increase until these disputes have been resolved.

The resolution of these disputes will be based on rulings by state public utility commissions and/or by the Federal Communications Commission ("FCC"). To date, there have been favorable final rulings from 31 state public utility commissions that ISP traffic is subject to the payment of reciprocal compensation under current interconnection agreements. Many of these state commission decisions have been appealed by the ILECs. To date, nine federal court decisions, including two federal circuit court of appeals decisions and one state court decision, have been issued upholding state commission decisions ordering the payment of reciprocal compensation for ISP traffic. On February 25, 1999, the FCC issued a decision that ISP-bound traffic is largely jurisdictionally interstate traffic. The decision relies on the long-standing federal policy that ISP traffic, although jurisdictionally interstate, is treated as though it is local traffic for pricing purposes. The decision also emphasizes that because there currently are no federal rules governing intercarrier compensation for ISP traffic, the determination as to whether such traffic is subject to reciprocal compensation under the terms of interconnection agreements is properly made by the state commissions and that carriers are bound by their interconnection agreements and state commission decisions regarding the payment of reciprocal compensation for ISP traffic. The FCC has initiated a rulemaking proceeding regarding the adoption of prospective federal rules for intercarrier compensation for ISP traffic. In its notice of rulemaking, the FCC expresses its preference that compensation rates for this traffic continue to be set by negotiations between carriers, with disputes resolved by arbitrations conducted by state commissions, pursuant to the Telecommunications Act. Since the issuance of the FCC's decision on February 25, 1999, 18 state utility commissions, including four states in which the Company provides competitive local exchange carrier ("CLEC") services, have either ruled or reaffirmed that ISP traffic is subject to reciprocal compensation under current interconnection agreements, and two state commissions have declined to apply reciprocal compensation for ISP traffic under current interconnection agreements.

On May 5, 1999, the Public Utilities Commission of Ohio ("PUCO") issued a decision affirming its August 1998 decision that ISP traffic is subject to reciprocal compensation under the Company's current interconnection agreement with Ameritech Corporation ("Ameritech"). The PUCO also denied Ameritech's request for a stay of its obligation to remit payment to the Company. After the PUCO issued the May 5, 1999 ruling, the Company received $58.0 million for amounts owed by Ameritech for reciprocal compensation. Ameritech has filed for judicial review of the PUCO decision. The Company

(6) Commitments and Contingencies (continued)

cannot predict the final outcome on the merits of the court appeal. Additionally, through September 30, 1999, Southwestern Bell Telephone Company ("SWBT") has remitted payment to the Company of $2.2 million for reciprocal compensation owed to the Company for traffic from SWBT customers in Texas to ISPs served by the Company. On June 21, 1999, the Alabama Public Service Commission ("PSC") issued a decision that BellSouth Corporation ("BellSouth") is required to pay the Company reciprocal compensation for ISP traffic pursuant to the terms of the Company's current interconnection agreement. The PSC's June 21, 1999 decision modified its March 1999 decision that had found that reciprocal compensation is owed for Internet traffic under certain CLEC interconnection agreements at issue in the proceeding. The June 21, 1999 PSC decision held that the Company should be treated the same as the other CLECs that participated in the proceeding and for which the Alabama PSC previously ordered the payment of reciprocal compensation. BellSouth has filed for judicial review of both the March 4, 1999 and June 21, 1999 PSC decisions. On August 18, 1999, the reviewing court entered an order dismissing BellSouth's appeal of the March 4, 1999 order and upholding the Alabama PSC's ruling that reciprocal compensation is to be paid for ISP traffic under the terms of the interconnection agreements at issue. Further proceedings are pending these appeals. The Company has received payments from BellSouth for reciprocal compensation of $1.0 million through September 30, 1999. On July 26, 1999, the California Public Utilities Commission ("CPUC") issued a decision affirming a previous decision in October 1998, that held that reciprocal compensation must be paid by Pacific Bell and GTE California ("GTE") for the termination of ISP traffic by CLECs under existing interconnection agreements. Both Pacific Bell and GTE have appealed the CPUC's decisions in federal district court in California. On June 24, 1999, the CPUC adopted a decision in an arbitration proceeding between Pacific Bell and Pac-West Telecomm, Inc., a CLEC ("Pac-West"), which held that reciprocal compensation is payable to Pac-West for ISP-bound calls under a new two-year interconnection agreement between Pacific Bell and Pac-West, which agreement became effective on June 29, 1999. Pacific Bell has filed an appeal of this arbitration decision in federal district court. On October 27, 1999, the Company received $6.7 million from Pacific Bell in reciprocal compensation payments, and Pacific Bell also deposited $8.9 million into escrow, which Pacific Bell has calculated is the amount owed to the Company for reciprocal compensation on ISP-bound traffic. Also, on October 27, 1999, the Company received payment from GTE of $8.9 million, the full amount billed by the Company to GTE for reciprocal compensation in California. The Colorado Public Utilities Commission approved a decision on July 28, 1999 that orders US WEST Communications, Inc. ("US WEST") to pay the Company reciprocal compensation for calls from US WEST customers to ISPs served by the Company. The decision resolves in the Company's favor a complaint that was filed by the Company in June 1998.

On September 16, 1999, the CPUC rendered a decision against MFS/Worldcom, a CLEC ("MFS"), in an arbitration between Pacific Bell and MFS. The CPUC ruled that MFS should not be permitted to charge reciprocal compensation rates for the tandem switching and common transport rate elements. Although the CPUC's ruling did not involve the Company, the Company made a decision effective for the three months ended September 30, 1999 and thereafter to suspend the revenue recognition for the tandem switching and common transport rate elements for services provided in California and in all other states where the Company operates. Additionally, the Company recorded a provision of $45.2 million during the three months ended September 30, 1999 for accounts receivable related to these elements recognized in periods through June 30, 1999, which the Company believes may be uncollectible. The Company will continue to bill for future tandem switching and common transport rate elements and will pursue collection of its accounts receivable, despite any provision. MFS has filed a petition for rehearing with the CPUC, asking the CPUC to reverse its decision on the tandem and transport rate elements. The Company has supported the MFS petition for rehearing.

(6) Commitments and Contingencies (continued)

The Company has also recorded revenue of approximately $19.1 million and $11.8 million for fiscal 1998 and the nine months ended September 30, 1999, respectively, related to other transport and termination charges to the ILECs, pursuant to the Company's interconnection agreements with these ILECs. Included in the Company's trade receivables at December 31, 1998 and September 30, 1999 are $72.8 million and $73.5 million, respectively, for all receivables related to reciprocal compensation and other transport and termination charges. The receivables balance at September 30, 1999 is net of an allowance of $54.8 million for disputed amounts and tandem switching and common transport rate elements.

As the Company's interconnection agreements expire or are extended, rates for transport and termination charges are being and will continue to be renegotiated. Some of the Company's agreements are already being affected. Although the Company's interconnection agreement with BellSouth has expired, the Company has received written notification from BellSouth that the Company may continue operating under the expired interconnection agreement, until such agreement is renegotiated or arbitrated by the relevant state commissions. On May 27, 1999, the Company filed petitions with the state commissions of Alabama, Georgia, North Carolina, Kentucky, Tennessee and Florida for arbitration with BellSouth. On November 1, 1999, the Alabama PSC approved a final decision in the Company's arbitration proceeding with BellSouth that, among other issues, orders reciprocal compensation to be paid for ISP-bound traffic under the new interconnection agreement to be executed between the parties. The Alabama PSC established a rate to be paid for reciprocal compensation for all traffic, including ISP traffic. The rate established by the Alabama PSC includes compensation for the end office switching, tandem switching and common transport rate elements, at per-minute rates that are based on rates previously established by the Alabama PSC in a proceeding on rates applicable to unbundled network elements ("UNEs") provided by BellSouth. On November 4, 1999, the North Carolina Utilities Commission ("NCUC") issued a Recommended Arbitration Order (the "Recommended Decision"), that among other issues requires the payment of reciprocal compensation for ISP traffic in a new interconnection agreement and establishes reciprocal compensation rates equal to the UNE rates adopted by the NCUC for end office switching, tandem switching, common transport and common transport facilities termination. The Recommended Decision also finds that the Company is entitled to be paid the tandem rate for traffic through the Company's Charlotte, North Carolina switch. After a comment period, the full NCUC will vote on whether to adopt the Recommended Decision as its final decision. The Alabama final decision provides that the Alabama PSC will require and the Recommended Decision provides that the NCUC may require a true-up of the reciprocal compensation rates based on a future FCC ruling in the FCC's pending rulemaking proceeding on prospective compensation and/or future PUC rulings adopted pursuant to any FCC decision. The arbitration proceedings with BellSouth are ongoing in the remainder of the states. Additionally, the Company's interconnection agreement with Ameritech recently was extended from June 15, 1999 to February 15, 2000. The Company's extension of its interconnection agreement with Ameritech includes reduced rates for transport and termination charges. On September 27, 1999, the Company filed an arbitration proceeding petition with the PUCO for arbitration with Ameritech. The Company expects that its ongoing negotiations and arbitrations with BellSouth also will affect the rates for transport and termination charges included in its existing interconnection agreement with BellSouth, as has already occurred in Alabama and is proposed in North Carolina. The Company's remaining interconnection agreements expire in 1999 and 2000, and the Company has commenced renegotiations with the ILECs. While the Company intends to pursue the collection of all receivables related to transport and termination charges as of September 30, 1999 and believes that future revenue from transport and termination charges recognized under the Company's current interconnection agreements will be realized, there can be no assurance that future regulatory and

(6) Commitments and Contingencies (continued)

judicial rulings will be favorable to the Company, or that different pricing plans for transport and termination charges between carriers will be adopted when the Company's interconnection agreements are renegotiated or arbitrated, or as a result of the FCC's rulemaking proceeding on future compensation methods. In fact, the Company believes that different pricing plans will be considered and adopted, and although the Company expects that revenue from transport and termination charges likely will decrease as a percentage of total revenue from local services in periods after the expiration of current interconnection agreements, the Company's local termination services still will be required by the ILECs and must be provided under the Telecommunications Act, and likely will result in increasing volume in minutes due to the growth of the Internet and related services markets. The Company expects to negotiate reasonable compensation and collection terms for local termination services, although there is no assurance that such compensation will remain consistent with current levels.

(e) Litigation

On April 4, 1997, certain shareholders of Zycom filed a shareholder derivative suit and class action complaint for unspecified damages, purportedly on behalf of all of the minority shareholders of Zycom, in the District Court of Harris County, Texas (Case No. 97-17777) against the Company, Zycom and certain of their subsidiaries. This complaint alleges that the Company and certain of its subsidiaries breached certain duties owed to the plaintiffs. The plaintiffs were denied class certification by the trial court and the Court of Appeals affirmed the trial court's decision. Trial has been tentatively scheduled for early 2000. The Company is vigorously defending the claims. While it is not possible to predict the outcome of this litigation, management believes these proceedings will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company is a party to certain other litigation which has arisen in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(7) Business Segments

The Company conducts transactions with external customers through the operations of its Telecom Services business unit. Shared administrative services are provided to Telecom Services by Corporate Services. Corporate Services consists of the operating activities of ICG Communications, Inc., ICG Funding, LLC, ICG Canadian Acquisition, Inc., ICG Holdings (Canada) Co., ICG Holdings, Inc., ICG Services, Inc., ICG Corporate Headquarters, L.L.C. and ICG 161, L.P., which primarily hold securities and other nonoperating assets and provide certain legal, accounting and finance, personnel and other administrative support services to the business units.

Direct and certain indirect costs incurred by Corporate Services on behalf of Telecom Services are allocated to Telecom Services based on the nature of the underlying costs. Transactions between Telecom Services and Corporate Services for services performed in the normal course of business are recorded at amounts which are intended to approximate fair value.

Set forth below are revenue, EBITDA (before nonrecurring and noncash charges), which represents the measure of operating performance used by management to evaluate operating results, depreciation and amortization, interest expense, capital expenditures of continuing operations and total assets for Telecom

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(7) **Business Segments (continued)**

Services and Corporate Services. As described in note 3, the operating results of the Company reflect the operations of Network Services, Satellite Services, Zycom and NETCOM as discontinued for all periods presented.

	Three months ended September 30,		Nine months ended September 30,	
	1998	1999	1998	1999
	(in thousands)			
Revenue:				
Telecom Services	$ 82,567	115,166	205,269	337,151
Corporate Services	-	-	-	-
Total revenue	$ 82,567	115,166	205,269	337,151
EBITDA (before nonrecurring and noncash charges) (a):				
Telecom Services	$ 339	(38,888)	(28,881)	(6,266)
Corporate Services	(5,402)	(6,788)	(15,662)	(16,315)
Total EBITDA (before nonrecurring and noncash charges)	$ (5,063)	(45,676)	(44,543)	(22,581)
Depreciation and amortization (b):				
Telecom Services	$ 21,540	44,103	50,493	123,242
Corporate Services	1,175	976	3,817	2,895
Total depreciation and amortization	$ 22,715	45,079	54,310	126,137
Interest expense (b):				
Telecom Services	$ 724	-	1,632	-
Corporate Services	45,234	52,891	120,230	151,637
Total interest expense	$ 45,958	52,891	121,862	151,637
Capital expenditures of continuing operations (c):				
Telecom Services	$ 108,047	138,387	252,818	374,311
Corporate Services	(4,603)	-	670	13
Total capital expenditures of continuing operations	$ 103,444	138,387	253,488	374,324

	December 31, 1998	September 30, 1999
	(in thousands)	
Total assets		
Telecom Services (d)	$ 1,135,937	1,453,778
Corporate Services (d)	371,157	321,499
Eliminations	(20,287)	(52,940)
Net assets of discontinued operations	102,840	65,113
Total assets	$ 1,589,647	1,787,450

(7) Business Segments (continued)

(a) EBITDA (before nonrecurring and noncash charges) consists of loss from continuing operations before interest, income taxes, depreciation and amortization, provision for impairment of long-lived assets and other, net operating costs and expenses, including deferred compensation and net loss (gain) on disposal of long-lived assets, other expense, net and accretion and preferred dividends on preferred securities of subsidiaries, or simply, revenue less operating costs and selling, general and administrative expenses. EBITDA (before nonrecurring and noncash charges) is presented as the Company's measure of operating performance because it is a measure commonly used in the telecommunications industry.EBITDA (before nonrecurring and noncash charges) is presented to enhance an understanding of the Company's operating results and is not intended to represent cash flows from operating activities or results of operations in accordance with generally accepted accounting principles for the periods indicated. EBITDA (before nonrecurring and noncash charges) is not a measurement under generally accepted accounting principles and is not necessarily comparable with similarly titled measures of other companies.

(b) Although not included in EBITDA (before nonrecurring and noncash charges), which represents the measure of operating performance used by management to evaluate operating results, the Company has supplementally provided depreciation and amortization and interest expense for Telecom Services and Corporate Services. Interest expense excludes amounts charged for interest on outstanding cash advances and expense allocations between Telecom Services and Corporate Services.

(c) Capital expenditures include assets acquired under capital leases and excludes payments for construction of the Company's corporate headquarters and corporate headquarters assets acquired through the issuance of long-term debt.

(d) Total assets of Telecom Services and Corporate Services excludes investments in consolidated subsidiaries which eliminate in consolidation.

(8) Summarized Financial Information of ICG Holdings, Inc.

The 11 5/8% Senior Discount Notes due 2007 (the "11 5/8% Notes") issued by Holdings during 1997 are guaranteed by ICG. The 12 1/2% Senior Discount Notes due 2006 (the "12 1/2% Notes") and the 13 1/2% Senior Discount Notes due 2005 (the "13 1/2% Notes") issued by Holdings during 1996 and 1995, respectively, are guaranteed by ICG and Holdings-Canada.

The separate complete financial statements of Holdings have not been included herein because such disclosure is not considered to be material to the holders of the 11 5/8% Notes, the 12 1/2% Notes and the 13 1/2% Notes. However, summarized combined financial information for Holdings and its subsidiaries is as follows:

(8) Summarized Financial Information of ICG Holdings, Inc. (continued)

Summarized Consolidated Balance Sheet Information

	December 31, 1998	September 30, 1999
	(in thousands)	
Current assets	$ 241,667	255,949
Net current assets of discontinued operations	22,392	15,775
Property and equipment, net	610,671	565,716
Other non-current assets, net	147,283	131,569
Net non-current assets of discontinued operations	48,751	49,338
Current liabilities	69,204	118,490
Capital lease obligations, less current portion	62,946	55,821
Long-term debt, less current portion	1,004,316	1,103,046
Due to parent	191,889	254,434
Due to ICG Services	137,762	145,736
Redeemable preferred stock	338,311	377,065
Stockholder's deficit	(733,664)	(1,036,245)

Summarized Consolidated Statement of Operations Information

	Three months ended September 30,		Nine months ended September 30,	
	1998	1999	1998	1999
	(in thousands)			
Total revenue	$ 81,439	112,190	205,269	336,949
Total operating costs and expenses	106,509	156,556	299,039	476,170
Operating loss	(25,070)	(44,366)	(93,770)	(139,221)
Loss from continuing operations	(56,972)	(125,816)	(181,770)	(294,567)
Net loss	(37,642)	(97,619)	(197,880)	(302,581)

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(9) Condensed Financial Information of ICG Holdings (Canada) Co.

Condensed financial information for Holdings-Canada only is as follows:

Condensed Balance Sheet Information

	December 31, 1998	September 30, 1999
	(in thousands)	
Current assets	$ 162	140
Advances to subsidiaries	191,889	254,434
Non-current assets, net	2,414	603
Current liabilities	73	73
Long-term debt, less current portion	65	65
Due to parent	182,101	244,623
Share of losses of subsidiaries	733,664	1,036,245
Shareholders' deficit	(721,438)	(1,025,829)

Condensed Statement of Operations Information

	Three months ended September 30,		Nine months ended September 30,	
	1998	1999	1998	1999
	(in thousands)			
Total revenue	$ -	-	-	-
Total operating costs and expenses	48	604	129	1,810
Operating loss	(48)	(604)	(129)	(1,810)
Losses of subsidiaries	(37,642)	97,619	(197,880)	(302,581)
Net loss attributable to common shareholders	(37,690)	(98,223)	(198,009)	(304,391)

(10) Condensed Financial Information of ICG Communications, Inc. (Parent company)

The primary assets of ICG are its investments in ICG Services, ICG Funding and Holdings-Canada, including advances to those subsidiaries. Certain corporate expenses of the parent company are included in ICG's statement of operations and were approximately $1.0 million and $1.4 million for the three months ended September 30, 1998 and 1999, respectively, and $2.0 million and $2.3 million for the nine months ended September 30, 1998 and 1999, respectively. ICG has no operations other than those of ICG Services, ICG Funding and Holdings-Canada and their subsidiaries.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion includes certain forward-looking statements which are affected by important factors including, but not limited to, dependence on increased traffic on the Company's facilities, the successful implementation of the Company's strategy of offering an integrated telecommunications package of local, long distance, data and enhanced telephony and network services, continued development of the Company's network infrastructure and actions of competitors and regulatory authorities that could cause actual results to differ materially from the forward-looking statements. The results of operations for the three months and nine months ended September 30, 1998 and 1999 represent the consolidated operating results of the Company. See the unaudited condensed consolidated financial statements of the Company for the nine months ended September 30, 1999 included elsewhere herein. The Company's consolidated financial statements reflect the operations of Network Services, Satellite Services, Zycom and NETCOM as discontinued for all periods presented. The Company changed its fiscal year end to December 31 from September 30, effective January 1, 1997. All dollar amounts are in U.S. dollars.

Company Overview

ICG Communications Inc. ("ICG" or the "Company") is one of the nation's leading competitive integrated communications providers ("ICPs") based on the industry's 1998 revenue. ICPs seek to provide an alternative to the incumbent local exchange carriers ("ILECs"), long distance carriers and other communications service providers for a full range of communications services in the increasingly deregulated telecommunications industry. The Company's Telecom Services primarily include its competitive local exchange carrier ("CLEC") operations, in which the Company operates fiber networks in regional clusters covering major metropolitan statistical areas in California, Colorado, Ohio, Texas and the Southeast, offering local, long distance, data and enhanced telephony services to business end users and ISPs. Additionally, in February 1999, the Company began providing wholesale network services over its nationwide data network. Until the completion of the sales of such operations, the Company's Satellite Services consists of satellite voice, data and video services provided to major cruise lines, the U.S. Navy, the offshore oil and gas industry and ICPs. Through October 22, 1999, the Company also provided Network Services, which consisted of information technology services and selected networking products, focusing on network design, installation, maintenance and support. As a leading participant in the rapidly growing competitive local telecommunications industry, the Company has experienced significant growth, with total revenue increasing from approximately $72.7 million for fiscal 1996 to approximately $435.2 million for the 12-month period ended September 30, 1999. The Company's rapid growth is the result of the initial installation, acquisition and subsequent expansion of its fiber optic networks and the expansion of its communications service offerings.

The Federal Telecommunications Act of 1996 (the "Telecommunications Act") and pro-competitive state regulatory initiatives have substantially changed the telecommunications regulatory environment in the United States. Under the Telecommunications Act, the Company is permitted to offer all interstate and intrastate telephone services, including competitive local dial tone. In early 1997, the Company began marketing and selling local dial tone services in major metropolitan areas in California, Colorado, Ohio and the Southeast and, in December 1998, began offering services in Texas through an acquired business. During fiscal 1997, fiscal 1998 and the nine months ended September 30, 1999, the Company sold 178,470, 206,458 and 321,525 local access lines, respectively, net of cancellations of which 584,827 were in service at September 30, 1999. In addition, the Company's regional fiber networks have grown from 2,143 regional fiber route miles at the end of fiscal 1996 to 4,449 regional fiber route miles at September 30, 1999. The Company had 29 operating high capacity digital circuit switches and 16 operational data communications switches at September 30, 1999, and plans to install additional switches as demand warrants. Additionally, the Company had 23 asynchronous transfer mode ("ATM") switches installed at September 30, 1999, which are expected to be operational in the near term. As a complement to its local exchange services offered to business end users, the Company markets bundled service offerings provided over its regional fiber network which include long distance, enhanced telecommunications services and data services. Additionally, the Company owns and operates a nationwide data network with 227 points of presence ("POPs") over which the Company recently began providing wholesale Internet access and enhanced network services to MindSpring Enterprises, Inc., an Internet service provider ("ISP") located in Atlanta, Georgia ("MindSpring") and certain other ISPs and telecommunications providers, and intends to offer similar services to more ISPs and telecommunications providers in the future.

To better focus its efforts on its core Telecom Services operations, the Company made further progress toward the disposal of certain assets which management believes do not complement its overall business strategy. On July 15, 1999, the Company's board of directors adopted a formal plan to dispose of the operations of the Company's wholly-owned subsidiaries, ICG Fiber Optic Technologies, Inc. and Fiber Optic Technologies of the Northwest, Inc. (collectively, "Network Services") and ICG Satellite Services, Inc. and Maritime Telecommunications Network, Inc. (collectively, "Satellite Services"), through the sale of such businesses for cash proceeds. On October 22, 1999, the Company completed the sale of all of the capital stock of Network Services to an unrelated third party for total proceeds of \$24.0 million. On August 11, 1999, the Company entered into a definitive agreement to sell all of the capital stock of Satellite Services to a third party for cash proceeds of approximately \$100.0 million. The Company anticipates the sale of Satellite Services, which is dependent upon the receipt of certain regulatory approvals, will be completed prior to the end of 1999. Due primarily to the loss of a major customer, which generated a significant obligation under a volume discount agreement with its call transport provider, the board of directors of Zycom Corporation ("Zycom") approved a plan on August 25, 1998 to wind down and ultimately discontinue Zycom's operations. On October 22, 1998, Zycom completed the transfer of all customer traffic to other providers and on January 4, 1999, the Company completed the sale of the remainder of Zycom's long-lived operating assets to an unrelated third party. On February 17, 1999, the Company sold certain of the operating assets and liabilities of NETCOM On-Line Communication Services, Inc. ("NETCOM") to MindSpring for total proceeds of \$245.0 million, and on March 16, 1999, the Company sold all of the capital stock of NETCOM's international operations in Canada and the United Kingdom to other unrelated third parties for total proceeds of approximately \$41.1 million. During the nine months ended September 30, 1999, the Company recorded a combined gain on the sales of the operations of NETCOM of approximately \$193.0 million, net of income taxes of approximately \$6.4 million. Offsetting the gain on the sales is approximately \$16.6 million of net losses from operations of NETCOM from November 3, 1998 (the date on which the Company's board of directors adopted the formal plan to dispose of the operations of NETCOM) through the dates of the sales. Since the operations sold were acquired by the Company in a transaction accounted for as a pooling of interests, the gain on the sales of the operations of NETCOM is classified as an extraordinary item in the Company's consolidated statement of operations. For fiscal 1996, 1997 and 1998, Network Services, Satellite Services, Zycom and NETCOM combined reported revenue of \$216.8 million, \$284.7 million and \$275.9 million, respectively, and EBITDA losses (before nonrecurring and noncash charges) of \$(36.0) million, \$(13.4) million and \$(16.7) million, respectively. The Company's consolidated financial statements reflect the operations of Network Services, Satellite Services, Zycom and NETCOM as discontinued for all periods presented. The Company will from time to time evaluate all of its assets as to their core need and, based on such analysis, may sell or otherwise dispose of assets which do not complement its overall business strategy.

In conjunction with the sale to MindSpring, the legal name of the NETCOM subsidiary was changed to ICG NetAhead, Inc. ("NetAhead"). NetAhead has retained the domestic Internet backbone assets formerly owned by NETCOM which include 227 POPs serving more than 700 cities nationwide. NetAhead is utilizing the retained network operating assets to provide wholesale Internet access and enhanced network services to MindSpring and other ISPs and telecommunications providers. On February 17, 1999, the Company entered into an agreement to lease to MindSpring for a one-year period the capacity of certain network operating assets formerly owned by NETCOM and retained by the Company. MindSpring is utilizing the Company's network capacity to provide Internet access to the dial-up services customers formerly owned by NETCOM. Over the term of the one-year agreement, MindSpring is required to pay the Company a minimum of \$27.0 million, although such minimum is subject to increase dependent upon network usage. In addition, the Company is receiving for a one-year period 50% of the gross revenue earned by MindSpring from the dedicated access customers formerly owned by NETCOM, estimated to be approximately \$10.0 million for the term of the agreement. Although the Company expects to generate cash operating losses under this agreement, any such losses will be offset by the periodic recognition of approximately \$26.0 million of the proceeds from the sale of certain of NETCOM's domestic operating assets and liabilities to MindSpring, which the Company deferred on February 17, 1999. Accordingly, the Company does not expect to recognize any revenue, operating costs or selling, general and administrative expenses from services provided to MindSpring for the term of the agreement. Any incremental revenue or costs generated by other customers, or by other services provided to MindSpring, are recognized in the Company's consolidated statement of operations as incurred.

Additionally, the Company intends to provide network capacity and enhanced data services to ISPs and other telecommunications providers, as required. In December 1998, the Company announced plans to offer several new network services to its business and ISP customers by utilizing its nationwide data network and service capabilities to carry out-of-region traffic and enhance data services provided. One of the services currently being offered is modemless remote access service ("RAS"). RAS, also known as managed modem service, allows the Company to provide modem access at its own switch location, thereby eliminating the need for ISPs to deploy modems physically at each of their POPs. The benefits to ISPs, including reduced capital expenditures and the shift of network management responsibility from the ISPs to the Company, allows the Company to act as an aggregator of ISP traffic. In offering RAS, the Company provides radius routing and proxy services at the modem bank connected to the Company's local switch, which services are the authentication services necessary to validate and accurately route incoming call traffic to the ISP. The Company also provides transport services to deliver all Internet protocol ("IP") data packets either directly to the ISP, if the ISP is not collocated at the Company's local switch, or directly to the Internet, bypassing the ISP. Additionally, through its network operations center, the Company monitors the usage of each port and is responsible for the administration of all network repair and maintenance. The Company is currently offering Internet RAS services, or expanded originating services, to MindSpring and will begin providing such services offerings to other ISPs and telecommunications provides in the near term. In June 1999, the Company entered into a five-year agreement with Qwest Communications Corporation ("Qwest"), whereby Qwest has agreed to purchase 100,000 RAS ports from the Company. The Company has installed 60,000 of Qwest's RAS ports as of September 30, 1999, with the remaining 40,000 RAS ports to be installed prior to June 29, 2000. In August 1999, the Company signed a long-term contract with a large national ISP to provide 100,000 RAS ports to the ISP for a minimum five-year term. As of September 30, 1999, the Company had 100,000 of the RAS ports installed, including 83,000 ports previously providing local access services which were upgraded to accommodate RAS. In September 1999, the Company signed a three-year agreement with NetZero, Inc., a leading provider of free Internet access ("NetZero"), to deliver Internet RAS. Throughout the term of the agreement, the Company will install up to 100,000 RAS ports for NetZero. Service delivery is expected to begin in early 2000. Additionally, the Company signed an agreement in October 1999 with Microsoft Network, L.L.C. ("MSN") to provide Internet RAS to MSN for a three-year period. Under this agreement, MSN will purchase the use of a minimum of 150,000 RAS ports. The Company expects to install approximately 100,000 of these RAS ports by April 30, 2000 and the remaining 50,000 by October 2000. In August 1998, the Company began offering enhanced telephony services via IP technology. The Company currently offers this service in 230 major cities in the United States, which cities account for more than 90% of the commercial long distance market. The Company carries the IP traffic over its nationwide data network and terminates a large portion of the traffic via its own POPs. The Company also began offering integrated access service ("IAS") which allows voice and data traffic to be carried on the same circuit. Through equipment installed by the Company at the customers' premises and in the Company's central offices, IAS provides expanded bandwidth for small to medium-sized business customers as an alternative to purchasing additional circuits. Data traffic, including Internet traffic, from IAS service offerings is carried over the Company's nationwide network. Additionally, the Company intends to provide other enhanced network services as demand warrants. In April 1999, the Company announced its intention to expand its RAS and other network service offerings to the major U.S. markets of Boston, New York, Washington D.C., Miami, Chicago and Seattle. The Company expects such service offerings to be available by the end of 1999.

The Company will continue to expand its network and service offerings through construction, leased facilities, strategic alliances and mergers and acquisitions. For example, on December 31, 1998, the Company purchased from Central and South West Corporation ("CSW") 100% of the partnership interests in ICG ChoiceCom, L.P. ("ChoiceCom"), a strategic alliance with CSW formed for the purpose of developing and marketing telecommunications services in certain cities in Texas. ChoiceCom is based in Austin, Texas and currently provides local exchange and long distance services in Austin, Corpus Christi, Dallas, Houston and San Antonio, Texas. For fiscal 1997 and 1998, ChoiceCom reported revenue of $0.3 million and $5.8 million, respectively, and EBITDA losses (before nonrecurring and noncash charges) of $(5.5) million and $(13.6) million, respectively. Additionally, on the acquisition date, ChoiceCom had five operating high capacity digital circuit switches and two operational data communications switches and had 19,569 access lines in service, including 15,282 access lines previously sold by ICG on behalf of ChoiceCom. In March 1999, the Company entered into an agreement with NorthPoint Communications, Inc., a data CLEC based in San Francisco, California ("NorthPoint"), which designates NorthPoint as the Company's preferred digital subscriber line ("DSL") provider through June 1, 2001. A significant portion of the Company's DSL traffic will be routed by NorthPoint to the Company's ATM switches and transported by the Company either to the ISP, via a point to point connection or via IP technology, or directly to the Internet, as required. The Company is required to purchase a minimum of 49,000 digital subscriber lines from NorthPoint during the term of the agreement. Additionally, the Company entered into two long-term fiber optic capacity agreements with Qwest in June 1999. Under the first agreement, the Company is leasing more than 7,600 miles of fiber optic capacity from Qwest for a maximum term of 20 years, as determined by the Company. The Company believes that the additional capacity will increase the speed and national presence of the Company's fiber optic network. Under the second agreement, the Company is leasing certain portions of its fiber optic network to Qwest for a 10-year minimum term for total proceeds of $32.0 million.

In conjunction with the increase in its service offerings, the Company has and will continue to need to spend significant amounts on sales, marketing, customer service, engineering and support personnel prior to the generation of corresponding revenue. EBITDA losses, EBITDA (before nonrecurring and noncash charges) losses and operating and net losses have generally increased immediately preceding and during periods of relatively rapid network expansion and development of new services. Since the quarter ended June 30, 1996, EBITDA losses (before nonrecurring and noncash charges) have improved for each consecutive quarter, through and including the quarter ended June 30, 1999 for which the Company reported positive EBITDA (before nonrecurring and noncash charges) of $15.2 million. Due to the Company's decision to suspend the revenue recognition for certain elements of transport and termination services provided to ILECs and a nonrecurring provision for certain of the Company's accounts receivable (see "Liquidity – Transport and Termination Charges"), the Company's EBITDA for the quarter ended September 30, 1999 was $(45.7) million. However, as the Company continues to provide a greater volume of higher margin services, principally RAS and local exchange services, carries more traffic on its own facilities rather than ILEC facilities and obtains the right to use unbundled ILEC facilities, while experiencing decelerating increases in personnel any or all of which may occur, the Company anticipates that EBITDA performance will continue to improve in the near term.

Results of Operations

The following table provides a breakdown of revenue, operating costs and selling, general and administrative expenses for Telecom Services and Corporate Services and certain other financial data for the Company for the periods indicated. The table also shows certain revenue, expenses, operating loss, EBITDA and EBITDA (before nonrecurring and noncash charges) as a percentage of the Company's total revenue.

	Three months ended September 30,				Nine months ended September 30,			
	1998		1999		1998		1999	
	$	%	$	%	$	%	$	%
	(unaudited) (in thousands)							
Statement of Operations Data:								
Revenue	82,567	100	115,166	100	205,269	100	337,151	100
Operating costs	48,145	58	66,284	58	137,113	67	179,391	53
Selling, general and administrative:								
Telecom services	33,741		87,192		96,695		163,448	
Corporate services (1)	5,744		7,366		16,004		16,893	
Total selling, general and administrative	39,485	48	94,558	82	112,699	55	180,341	54
Depreciation and amortization	22,715	28	45,079	39	54,310	26	126,137	37
Provision for impairment of long-lived assets	-	-	-	-	-	-	29,300	9
Other, net	-	-	626	-	498	-	91	-
Operating loss	(27,778)	(34)	(91,381)	(79)	(99,351)	(48)	(178,109)	(53)
Other Data:								
Net cash used by operating activities	(14,075)		(22,911)		(44,928)		(44,907)	
Net cash used by investing activities	(148,579)		(130,758)		(179,144)		(79,864)	
Net cash (used) provided by financing activities	(7,353)		73,848		526,188		69,002	
EBITDA (2)	(5,063)	(6)	(46,302)	(40)	(45,041)	(22)	(51,972)	(15)
EBITDA (before nonrecurring and noncash charges) (2)	(5,063)	(6)	(45,676)	(40)	(44,543)	(22)	(22,581)	(7)
Capital expenditures of continuing operations (3)	103,444		138,387		253,488		374,324	
Capital expenditures of discontinued operations (3)	8,685		4,970		26,762		11,129	

(Continued)

	September 30, 1998	December 31, 1998	March 31, 1999	June 30, 1999	September 30, 1999
			(unaudited)		
Statistical Data (4):					
Full time employees	3,251	3,415	2,665	2,753	3,054
Telecom services:					
Access lines in service (5)	290,983	354,482	418,610	494,405	584,827
Buildings connected:					
On-net	684	777	789	874	939
Hybrid (6)	4,217	4,620	5,337	5,915	6,476
Total buildings connected	4,901	5,397	6,126	6,789	7,415
Operational switches:					
Circuit	21	29	29	29	29
Data	15	16	17	16	16
Total operational switches	36	45	46	45	45
Regional fiber route miles:					
Operational	3,995	4,255	4,351	4,406	4,449
Under construction	-	-	-	-	523
Regional fiber strand miles (8):					
Operational	127,756	134,152	155,788	164,416	167,067
Under construction	-	-	-	-	19,224
Collocations with ILECs	47	59	111	126	139
Satellite services:					
C-Band installations (9)	69	76	78	81	85

(1) Corporate Services consists of the operating activities of ICG Communications, Inc., ICG Funding, LLC, ICG Canadian Acquisition, Inc., ICG Holdings (Canada) Co., ICG Holdings, Inc., ICG Services, Inc., ICG Corporate Headquarters, L.L.C. and ICG 161, L.P., which primarily hold securities and other nonoperating assets and provide certain legal, accounting and finance, personnel and other administrative support services to the business units.

(2) EBITDA consists of loss from continuing operations before interest, income taxes, depreciation and amortization, other expense, net and accretion and preferred dividends on preferred securities of subsidiaries, or simply, operating loss plus depreciation and amortization. EBITDA (before nonrecurring and noncash charges) represents EBITDA before certain nonrecurring and noncash charges such as the provision for impairment of long-lived assets and other, net operating costs and expenses, including deferred compensation and net loss (gain) on disposal of long-lived assets. EBITDA and EBITDA (before nonrecurring and noncash charges) are provided because they are measures commonly used in the telecommunications industry. EBITDA and EBITDA (before nonrecurring and noncash charges) are presented to enhance an understanding of the Company's operating results and are not intended to represent cash flows from operating activities or results of operations in accordance with generally accepted accounting principles ("GAAP") for the periods indicated. EBITDA and EBITDA (before nonrecurring and noncash charges) are not measurements under GAAP and are not necessarily comparable with similarly titled measures of other companies. Net cash flows from operating, investing and financing activities as determined using GAAP are also presented in Other Data.

(3) Capital expenditures include assets acquired under capital leases and excludes payments for construction of the Company's corporate headquarters and corporate headquarters assets acquired through the issuance of long-term debt. Capital expenditures of discontinued operations includes the capital expenditures of Network Services, Satellite Services, Zycom and NETCOM combined for all periods presented.

(4) Amounts presented are for three-month periods ended, or as of the end of the period presented.

(5) Access lines in service at September 30, 1999 includes 508,292 lines which are provisioned through the Company's switch and 76,535 lines which are provisioned through resale and other agreements with various local exchange carriers. Resale lines typically generate lower margins and are used primarily to obtain customers. Although the Company plans to migrate lines from resale to higher margin on-switch lines, there is no assurance that it will be successful in executing this strategy.

(6) Hybrid buildings connected represent buildings connected to the Company's network via another carrier's facilities.

(7) Regional fiber route miles refers to the number of miles of regional fiber optic cable, including leased fiber. As of September 30, 1999, the Company had 4,449 regional fiber route miles, of which 48 regional fiber route miles were leased under operating leases. Regional fiber route miles under construction represents fiber under construction which is expected to be operational within six months.

(8) Regional fiber strand miles refers to the number of regional fiber route miles, including leased fiber, along a telecommunications path multiplied by the number of fiber strands along that path. As of September 30, 1999, the Company had 167,067 regional fiber strand miles, of which 856 regional fiber strand miles were leased under operating leases. Regional fiber strand miles under construction represents fiber under construction which is expected to be operational within six months.

(9) The Company's C-Band installations are provided by Satellite Services. C-Band installations service cruise ships, U.S. Navy vessels and offshore oil platform installations. The Company's consolidated financial statements reflect the operations of Satellite Services as discontinued for all periods presented.

Three Months Ended September 30, 1999 Compared to Three Months Ended September 30, 1998

Revenue. Revenue, which consists solely of revenue from Telecom Services, increased $32.6 million, or 39%, from $82.6 million for the three months ended September 30, 1998 to $115.2 million for the three months ended September 30, 1999. Local services revenue increased from $46.2 million, or 56% of revenue, for the three months ended September 30, 1998 to $69.5 million, or 60% of revenue, for the three months ended September 30, 1999, primarily due to an increase in local access lines from 290,983 lines in service at September 30, 1998 to 584,827 lines in service at September 30, 1999. In addition, local access revenue includes revenue of approximately $17.8 million and $24.4 million for the three months ended September 30, 1998 and 1999, respectively, for reciprocal compensation relating to the transport and termination of local traffic to ISPs from customers of ILECs pursuant to various interconnection agreements. These agreements are subject to renegotiation over the next several months. While management believes that these agreements will be replaced by agreements offering the Company some form of compensation for ISP traffic, the renegotiated agreements may reflect rates for reciprocal compensation which are lower than the rates under the current contracts. See "Liquidity – Transport and Termination Charges." Special access revenue increased from $20.2 million, or 24% of revenue, for the three months ended September 30, 1998 to $29.3 million, or 25% of revenue, for the three months ended September 30, 1999, primarily due to $5.1 million of revenue recognized during the three months ended September 30, 1999 under the Company's fiber optic lease agreement with Qwest. The Company expects to record a minimum of approximately $14.2 million in additional revenue under this agreement during the remainder of 1999 and the first half of 2000. Switched access (terminating long distance) revenue increased to $11.8 million for the three months ended September 30, 1999, compared to $11.6 million for the three months ended September 30, 1998. The Company has raised prices on its wholesale switched services product in order to improve margins. Revenue from long distance services was $4.6 million for both the three months ended September 30, 1998 and 1999. The Company's long distance revenue for the three months ended September 30, 1999 was impacted by planned attrition of resale access lines which had high long distance service penetration rates. Revenue from data services did not generate a material portion of total revenue during either period.

Operating costs. Operating costs, which consists solely of operating costs from Telecom Services, increased $18.2 million, or 38%, from $48.1 million for the three months ended September 30, 1998 to $66.3 million for the three months ended September 30, 1999. For both periods, operating costs were 58% of revenue. Operating costs consist of payments to ILECs for the use of network facilities to support special and switched access services, network operating costs, right of way fees and other costs. The increase in operating costs in absolute dollars is attributable to the increase in volume of local and special access services and the increase in network operating costs which include engineering and operations personnel dedicated to the development and launch of local exchange services. Operating costs as a percentage of revenue for the three months ended September 30, 1999 was impacted by the Company's decision to suspend the revenue recognition related to certain elements of transport and termination services provided to ILECs. See "Liquidity – Transport and Termination Charges." The Company expects the ratio of operating costs to revenue will improve as the Company provides a greater volume of higher margin services, principally RAS and local exchange services, carries more traffic on its own facilities rather than the ILEC facilities and obtains the right to use unbundled ILEC facilities on satisfactory terms, any or all of which may not occur.

Selling, general and administrative expenses. Total selling, general and administrative ("SG&A") expenses increased $55.1 million, or 139%, from $39.5 million for the three months ended September 30, 1998 to $94.6 million for the three months ended September 30, 1999. Total SG&A expenses increased as a percentage of revenue from 48% for the three months ended September 30, 1998 to 82% for the three months ended September 30, 1999. Telecom Services SG&A expenses increased from $33.7 million, or 41% of revenue, for the three months ended September 30, 1998 to $87.2 million, or 76% of revenue, for the three months ended September 30, 1999. The increase in absolute dollars and as a percentage of revenue is principally due to a provision of $45.2 million recorded during the three months ended September 30, 1999 for accounts receivable related to certain elements of transport and termination services provided to ILECs recorded in periods prior to June 30, 1999, which the Company believes may be uncollectible. See "Liquidity – Transport and Termination Charges." From time to time, the Company will experience increases in SG&A expenses as the Company prepares for offerings of newly developed services. Corporate Services SG&A expenses increased $1.6 million, from $5.8 million for the three months ended September 30, 1998 to $7.4 million for the three months ended September 30, 1999, primarily due to an increase in the number of employees necessary to support the Company's expanding operations.

Depreciation and amortization. Depreciation and amortization increased $22.4 million, or 98%, for the three months ended September 30, 1999, compared to the three months ended September 30, 1998, primarily due to increased investment in depreciable assets resulting from the continued expansion of the Company's networks and services, in addition to increased amortization arising from goodwill recorded in conjunction with a significant purchase business combination completed on December 31, 1998. The Company expects that depreciation and amortization will continue to increase as the Company continues to invest in the expansion and upgrade of its regional fiber and nationwide data networks.

Other, net. Other, net operating costs and expenses of $0.6 million for the three months ended September 30, 1999 primarily includes deferred compensation expense of $0.4 million related to the Company's deferred compensation arrangement with its chief executive officer. Other amounts included in other, net operating costs and expenses for the three months ended September 30, 1999 include net gains and losses on disposal of miscellaneous long-lived assets.

Interest expense. Interest expense increased $6.9 million, from $46.0 million for the three months ended September 30, 1998 to $52.9 million for the three months ended September 30, 1999, which includes $49.5 million of noncash interest. The Company's interest expense increased, and will continue to increase, because the principal amount of its indebtedness increases until the Company's fixed rate senior indebtedness begins to pay interest in cash, beginning in 2001. Additionally, interest expense increased due to the increase in long-term debt associated with the Company's purchase of the corporate headquarters, effective January 1, 1999 and the senior secured financing facility (the "Senior Facility") completed in August 1999.

Interest income. Interest income decreased $4.4 million, from $8.2 million for the three months ended September 30, 1998 to $3.8 million for the three months ended September 30, 1999. The decrease is attributable to the decrease in cash, cash equivalents and short-term investments as the Company funds operating losses and continues to invest available cash balances in telecommunications equipment and other assets.

Other expense, net. Other expense, net decreased from $0.4 million for the three months ended September 30, 1998 to $0.3 million for the three months ended September 30, 1999. Other expense, net recorded during both the three months ended September 30, 1998 and 1999 primarily consists of litigation settlement costs.

Accretion and preferred dividends on preferred securities of subsidiaries. Accretion and preferred dividends on preferred securities of subsidiaries increased $1.7 million, from $14.0 million for the three months ended September 30, 1998 to $15.7 million for the three months ended September 30, 1999. The increase is due primarily to the periodic payment of dividends on the 14% Exchangeable Preferred Stock Mandatorily Redeemable 2008 (the "14% Preferred Stock") and the 14 1/4% Exchangeable Preferred Stock Mandatorily Redeemable 2009 (the "14 1/4% Preferred Stock") in additional shares of 14% Preferred Stock and 14 1/4% Preferred Stock. Accretion and preferred dividends on preferred securities of subsidiaries recorded during the three months ended September 30, 1999 consists of the accretion of issuance costs ($0.3 million) and the accrual of the preferred securities dividends ($15.4 million) associated with the 6 3/4% Exchangeable Limited Liability Company Preferred Securities Mandatorily Redeemable 2009 (the "6 3/4%

Preferred Securities"), the 14% Preferred Stock and the 14 1/4% Preferred Stock.

Loss from continuing operations. Loss from continuing operations increased $76.6 million, or 96%, from $79.9 million for the three months ended September 30, 1998 to $156.5 million for the three months ended September 30, 1999 due to the increases in operating costs, SG&A expenses, depreciation and amortization and interest expense, offset by an increase in revenue, as noted above.

Net (loss) income from discontinued operations. Net (loss) income from discontinued operations fluctuated from a net loss of $16.7 million for the three months ended September 30, 1998 to net income of $0.7 million for the three months ended September 30, 1999. Net loss from discontinued operations for the three months ended September 30, 1998 consists of the combined net losses of Network Services, Satellite Services, Zycom and NETCOM. Net income from discontinued operations for the three months ended September 30, 1999 consists of net income of Network Services. Since the Company expects to report a gain on the disposition of Satellite Services, the Company deferred the net losses from operations of Satellite Services from July 15, 1999 (the date on which the Company's board of directors adopted the formal plan to dispose of the operations of Satellite Services) through September 30, 1999, to be offset against the gain on the sale of Satellite Services in the period of disposition. Accordingly, the Company reported no loss from discontinued operations of Satellite Services for the three months ended September 30, 1999. Zycom terminated its normal operations on October 22, 1998 and, accordingly, the Company reported no loss from discontinued operations of Zycom for the three months ended September 30, 1999. The Company sold the operations of NETCOM in February and March 1999. Net loss from discontinued operations for the three months ended September 30, 1998 includes an estimated loss on the disposal of Zycom of $1.2 million.

Nine Months Ended September 30, 1999 Compared to Nine Months Ended September 30, 1998

Revenue. Revenue, which consists solely of revenue from Telecom Services, increased $131.9 million, or 64%, from $205.3 million for the nine months ended September 30, 1998 to $337.2 million for the nine months ended September 30, 1999. Local services revenue increased from $98.7 million, or 48% of revenue, for the nine months ended September 30, 1998 to $213.6 million, or 63% of revenue, for the nine months ended September 30, 1999. In addition, local access revenue includes revenue of approximately $32.9 million and $95.4 million for the nine months ended September 30, 1998 and 1999, respectively, for reciprocal compensation relating to the transport and termination of local traffic to ISPs from customers of ILECs pursuant to various interconnection agreements. Special access revenue increased from $53.9 million, or 26% of revenue, for the nine months ended September 30, 1998 to $75.3 million, or 22% of revenue, for the nine months ended September 30, 1999. Switched access (terminating long distance) revenue decreased to $33.4 million for the nine months ended September 30, 1999, compared to $37.2 million for the nine months ended September 30, 1998. The Company has raised prices on its wholesale switched services product in order to improve margins. Revenue from long distance services decreased to $14.9 million for the nine months ended September 30, 1999, compared to $15.5 million for the nine months ended September 30, 1998. The decrease in long distance revenue is primarily attributable to the Company's planned attrition of resale access lines which had high long distance service penetration rates. Revenue from data services did not generate a material portion of total revenue during either period.

Operating costs. Operating costs, which consists solely of operating costs from Telecom Services, increased $42.3 million, or 31%, from $137.1 million for the nine months ended September 30, 1998 to $179.4 million for the nine months ended September 30, 1999. Additionally, operating costs decreased as a percentage of revenue from 67% for the nine months ended September 30, 1998 to 53% for the nine months ended September 30, 1999. The increase in operating costs in absolute dollars is attributable to the increase in volume of local and special access services and the increase in network operating costs which include engineering and operations personnel dedicated to the development and launch of local exchange services. The decrease in operating costs as a percentage of revenue is due primarily to a greater volume of higher margin services, principally local exchange services.

Selling, general and administrative expenses. Total SG&A expenses increased $67.6 million, or 60%, from $112.7 million for the nine months ended September 30, 1998 to $180.3 million for the nine months ended September 30, 1999. Total SG&A expenses decreased as a percentage of revenue from 55% for the nine months ended September 30, 1998 to 54% for the nine months ended September 30, 1999. Telecom Services SG&A expenses increased from $96.7 million, or 47% of revenue, for the nine months ended September 30, 1998 to $163.4 million, or 48% of revenue, for the nine months ended September 30, 1999. The increase in absolute dollars and as a percentage of revenue is principally due to a provision of $45.2 million recorded during the three months ended September 30, 1999 for accounts receivable related to certain elements of transport and termination services provided to ILECs recorded in periods prior to June 30, 1999, which the Company believes may be uncollectible. Corporate Services SG&A expenses increased $0.9 million, from $16.0 million for the nine months ended September 30, 1998 to $16.9 million for the nine months ended September 30, 1999, primarily due to an increase in the number of employees necessary to support the Company's expanding operations, offset by a decrease in SG&A expenses due to the Company's purchase of the corporate headquarters which was leased under an operating lease during 1998.

Depreciation and amortization. Depreciation and amortization increased $71.8 million, or 132%, for the nine months ended September 30, 1999, compared to the nine months ended September 30, 1998, primarily due to increased investment in depreciable assets resulting from the continued expansion of the Company's networks and services, in addition to increased amortization arising from goodwill recorded in conjunction with a significant purchase business combination completed on December 31, 1998.

Provision for impairment of long-lived assets. For the nine months ended September 30, 1999, provision for impairment of long-lived assets of $29.3 million relates to the impairment of software and other capitalized costs associated with Telecom Services' in-process billing and provisioning system development projects. The provision for impairment of long-lived assets was based on management's decision to select new vendors for these systems, which vendors are expected to provide the Company with billing and provisioning solutions with improved functionality and earlier delivery dates at significantly lower costs. The Company's in-process billing and provisioning systems were either not operational or were serving minimal customers at the time management determined the carrying value of the underlying assets was not recoverable.

Other, net. Other, net operating costs and expenses decreased $0.4 million from $0.5 million for the nine months ended September 30, 1998 to $0.1 million for the nine months ended September 30, 1999. Other, net operating costs and expenses for the nine months ended September 30, 1998 consists of the write-off of certain installation costs of disconnected special access customers. Other, net operating costs and expenses for the nine months ended September 30, 1999 consists of deferred compensation expense of $0.8 million related to the Company's deferred compensation arrangement with its chief executive officer, offset by a net gain on disposal of miscellaneous long-lived assets.

Interest expense. Interest expense increased $29.7 million, from $121.9 million for the nine months ended September 30, 1998 to $151.6 million for the nine months ended September 30, 1999, which includes $142.2 million of noncash interest. The Company's interest expense increased, and will continue to increase, because the principal amount of its indebtedness increases until the Company's fixed rate senior indebtedness begins to pay interest in cash, beginning in 2001. Additionally, interest expense increased due to the increase in long-term debt associated with the Company's purchase of the corporate headquarters, effective January 1, 1998 and the Senior Facility completed in August 1999.

Interest income. Interest income decreased $10.5 million, from $22.2 million for the nine months ended September 30, 1998 to $11.7 million for the nine months ended September 30, 1999. The decrease is attributable to the decrease in cash, cash equivalents and short-term investments as the Company funds operating losses and continues to invest available cash balances in telecommunications equipment and other assets.

Other expense, net. Other expense, net increased from $1.0 million for the nine months ended September 30, 1998 to $2.7 million for the nine months ended September 30, 1999. For the nine months ended September 30, 1998, other expense, net consists of litigation settlement costs. For the nine months ended September 30, 1999, other expense, net includes litigation settlement costs, offset by the gain of $0.4 million on the common stock of MindSpring which the Company received as partial consideration for the sale of the domestic operations of NETCOM. The Company sold its investment in MindSpring in April 1999.

Accretion and preferred dividends on preferred securities of subsidiaries. Accretion and preferred dividends on preferred securities of subsidiaries increased $4.9 million, from $40.8 million for the nine months ended September 30, 1998 to $45.7 million for the nine months ended September 30, 1999. The increase is due primarily to the periodic payment of dividends on the 14% Preferred Stock and the 14 1/4% Preferred Stock in additional shares of 14% Preferred Stock and 14 1/4% Preferred Stock. Accretion and preferred dividends on preferred securities of subsidiaries recorded during the nine months ended September 30, 1999 consists of the accretion of issuance costs ($0.9 million) and the accrual of the preferred securities dividends ($44.8 million) associated with the 6 3/4% Preferred Securities, the 14% Preferred Stock and the 14 1/4% Preferred Stock.

Loss from continuing operations. Loss from continuing operations increased $125.7 million, or 52%, from $240.8 million for the nine months ended September 30, 1998 to $366.5 million for the nine months ended September 30, 1999 due to the increases in operating costs, SG&A expenses, depreciation and amortization, provision for impairment of long-lived assets and interest expense, offset by an increase in revenue, as noted above.

Net (loss) income from discontinued operations. Net (loss) income from discontinued operations decreased $50.4 million or 86%, from a $58.4 million net loss for the nine months ended September 30, 1998 to an $8.0 million net loss for the nine months ended September 30, 1999. Net loss from discontinued operations for the nine months ended September 30, 1998 consists of the combined net losses of Network Services, Satellite Services, Zycom and NETCOM. Net loss from discontinued operations for the nine months ended September 30, 1999 consists of the combined net losses of Network Services and net income of Satellite Services. Since the Company expects to report a gain on the disposition of Satellite Services, the Company deferred the net losses from operations of Satellite Services from July 15, 1999 (the date on which the Company's board of directors adopted the formal plan to dispose of the operations of Satellite Services) through September 30, 1999, to be offset against the gain on the sale of Satellite Services in the period of disposition. Accordingly, the Company reported no loss from discontinued operations of Satellite Services for the three months ended September 30, 1999. Zycom terminated its normal operations on October 22, 1998 and, accordingly, the Company reported no loss from discontinued operations of Zycom for the nine months ended September 30, 1999. Since the Company expected to report a gain on the disposition of NETCOM, the Company deferred the net losses from operations of NETCOM from November 3, 1998 (the date on which the Company's board of directors adopted the formal plan to dispose of the operations of NETCOM) through the dates of the sales and, accordingly, the Company reported no loss from discontinued operations of NETCOM prior to or subsequent to the dates of the sales for the nine months ended September 30, 1999. Net loss from discontinued operations for the nine months ended September 30, 1998 includes an estimated loss on the disposal of Zycom of $1.2 million. Net loss from discontinued operations for the nine months ended September 30, 1999 includes an estimated loss on the disposal of Network Services of $8.0 million.

Extraordinary gain on sales of operations of NETCOM. The Company reported an extraordinary gain on the sales of the operations of NETCOM during the nine months ended September 30, 1999 of $193.0 million, net of income taxes of $6.4 million. Offsetting the gain on the sales is approximately $16.6 million of net losses of operations of NETCOM from November 3, 1998 through the dates of the sales and $26.0 million of deferred sales proceeds from the sale of certain of the domestic operating assets and liabilities of NETCOM to MindSpring. The deferred proceeds are recognized on a periodic basis over the term of the Company's network capacity agreement with MindSpring.

Liquidity and Capital Resources

The Company's growth has been funded through a combination of equity, debt and lease financing. As of September 30, 1999, the Company had current assets of $339.1 million, including $170.7 million of cash, cash equivalents and short-term investments available for sale, which exceeded current liabilities of $158.6 million, providing working capital of $180.5 million. The Company invests excess funds primarily in short-term, interest-bearing investment-grade securities until such funds are used to fund the capital investments and operating needs of the Company's business. The Company's short term investment objectives are safety, liquidity and yield, in that order.

Net Cash Used By Operating Activities

The Company's operating activities used $44.9 million and $44.9 million for the nine months ended September 30, 1998 and 1999, respectively. Net cash used by operating activities is primarily due to losses from continuing operations and increases in receivables, which are partially offset by changes in other working capital items and noncash expenses, such as depreciation and amortization, deferred interest expense and accretion and preferred dividends on subsidiary preferred securities.

The Company does not anticipate that cash provided by operations will be sufficient to fund operating activities, the future expansion of existing networks or the construction and acquisition of new networks in the near term. As the Company provides a greater volume of higher margin services, principally RAS and local exchange services, carries more traffic on its own facilities rather than ILEC facilities and obtains the right to use unbundled ILEC facilities, while experiencing decelerating increases in personnel and other SG&A expenses supporting its operations, any or all of which may not occur, the Company anticipates that net cash used by operating activities will improve in the future.

Net Cash Used By Investing Activities

Investing activities used $179.1 million and $79.9 million in the nine months ended September 30, 1998 and 1999, respectively. Net cash used by investing activities for the nine months ended September 30, 1998 primarily includes cash expended for the acquisition of property, equipment and other assets of $253.5 million, offset by proceeds from the sale of corporate headquarters of $30.3 million and proceeds from the sale of short-term investments available for sale of $71.3 million. Net cash provided by investing activities for the nine months ended September 30, 1999 includes cash expended for the acquisition of property, equipment and other assets of $368.1 million, offset by proceeds from the sales of the operations of NETCOM of $252.9 million and proceeds from the sales of short-term investments available for sale and marketable trading securities of $60.5 million. The Company will continue to use cash in 1999 and subsequent periods for the construction of new networks, the expansion of existing networks and, potentially, for acquisitions. The Company acquired assets under capital leases of $6.2 million during the nine months ended September 30, 1999.

Net Cash Provided By Financing Activities

Financing activities provided $526.2 million and $69.0 million in the nine months ended September 30, 1998 and 1999, respectively. Net cash provided by financing activities for these periods include the net proceeds from the private placement of the 10% Senior Discount Notes due 2008 (the "10% Notes") and 9 7/8% Senior Discount Notes due 2008 (the "9 7/8% Notes") in February and April 1998, respectively, and the Senior Facility completed in August 1999. Historically, the funds to finance the Company's business acquisitions, capital expenditures, working capital requirements and operating losses have been obtained through public and private offerings of ICG and ICG Holdings (Canada) Co. ("Holdings-Canada") common shares, convertible subordinated notes, convertible preferred shares of Holdings-Canada, capital lease financings and various working capital sources, including credit facilities, in addition to the private placement of the securities previously mentioned and other securities offerings. Net cash provided by financing activities for the nine months ended September 30, 1998 and 1999 also include proceeds from the issuance of common stock in conjunction with the exercise of options and warrants and the Company's employee stock purchase plan, offset by principal payments on long-term debt and capital leases and payments of preferred dividends on preferred securities of subsidiaries.

On August 12, 1999, ICG Equipment and NetAhead entered into a $200.0 million Senior Facility consisting of a $75.0 million term loan, a $100.0 million term loan and a $25.0 million revolving line of credit. As required under the terms of the loan, the Company borrowed on August 12, 1999 the available $75.0 million on the $75.0 million term loan. The loan bears interest at an annual interest rate of LIBOR plus 3.5% or the base rate, as defined in the credit agreement, plus 2.5%, at the Company's option. At September 30, 1999, the $75.0 million term loan bears annual interest at LIBOR plus 3.5%, or 8.88%. Quarterly repayments commenced September 30, 1999 and require quarterly loan balance reductions of 0.25% through June 30, 2005 with the remaining outstanding balance to be repaid during the final three quarters of the loan term. The $75.0 million term loan matures on March 31, 2006. At September 30, 1999, the Company had $74.8 million outstanding under the $75.0 million term loan. On August 12, 1999, the Company borrowed $5.0 million on the $100.0 million term loan. The $100.0 million term loan is available for borrowing through August 10, 2000 at an initial annual interest rate of LIBOR plus 3.125% or the base rate, as defined in the credit agreement, plus 2.125%, at the Company's option. At September 30, 1999, the $100.0 million term loan bears annual interest at LIBOR plus 3.125%, or 8.51%. Quarterly repayments commence September 30, 2002 and require aggregate loan balance reductions of 25% through June 30, 2003, 35% through June 30, 2004 and 40% through June 30, 2005. The $100.0 million term loan matures on June 30, 2005. The $25.0 million revolving line of credit is available through the maturity date of June 30, 2005 at an initial annual interest rate of LIBOR plus 3.125% or the base rate, as defined in the credit agreement, plus 2.125%, at the Company's option. The Company is required to pay commitment fees ranging from 0.625% to 1.375% for the unused portion of available borrowings under the Senior Facility.

As of September 30, 1999, the Company had an aggregate of approximately $70.0 million of capital lease obligations and an aggregate accreted value of approximately $1.8 billion was outstanding under the 13 1/2% Senior Discount Notes due 2005 (the "13 1/2 % Notes"), the 12 1/2% Senior Discount Notes due 2006 (the "12 1/2 % Notes"), the 11 5/8% Senior Discount Notes due 2007 (the "11 5/8 % Notes"), the 10% Notes, the 9 7/8% Notes and the Senior Facility. The 13 1/2% Notes require payments of interest to be made in cash commencing March 15, 2001 and mature on September 15, 2005. The 12 1/2% Notes require payments of interest to be made in cash commencing November 1, 2001 and mature on May 1, 2006. The 11 5/8% Notes require payments of interest to be made in cash commencing September 15, 2002 and mature on March 15, 2007. The 10% Notes require payments of interest in cash commencing August 15, 2003 and mature on February 15, 2008. The 9 7/8% Notes require payments of interest in cash commencing November 1, 2003 and mature on May 1, 2008. The 6 3/4% Preferred Securities require payments of dividends to be made in cash through November 15, 2000. In addition, the 14% Preferred Stock and 14 1/4% Preferred Stock require payments of dividends to be made in cash commencing June 15, 2002 and August 1, 2001, respectively. As of September 30, 1999, the Company had $34.2 million of other indebtedness outstanding. With respect to fixed rate senior indebtedness outstanding on September 30, 1999, the Company has cash interest payment obligations of approximately $113.3 million in 2001, $158.0 million in 2002, $212.6 million in 2003 and $257.2 million in 2004. With respect to preferred securities currently outstanding, the Company has cash dividend obligations of approximately $2.2 million remaining in 1999 and $8.9 million in 2000, for which the Company has restricted cash balances available for such dividend payments, $10.7 million in 2001 and $35.4 million in 2002 and each year thereafter through 2007. Accordingly, the Company may have to refinance a substantial amount of indebtedness and obtain substantial additional funds prior to March 2001. The Company's ability to do so will depend on, among other things, its financial condition at the time, restrictions in the instruments governing its indebtedness, and other factors, including market conditions, beyond the control of the Company. There can be no assurance that the Company will be able to refinance such indebtedness, including such capital leases, or obtain such additional funds, and if the Company is unable to effect such refinancings or obtain additional funds, the Company's ability to make principal and interest payments on its indebtedness or make payments of cash dividends on, or the mandatory redemption of, its preferred securities, would be adversely affected.

Capital Expenditures

The Company's capital expenditures of continuing operations (including assets acquired under capital leases and excluding payments for construction of the Company's corporate headquarters) were $253.5 million and $374.3 million for the nine months ended September 30, 1998 and 1999, respectively. The Company anticipates that the expansion of existing networks, construction of new networks and further development of the Company's products and services as currently planned will require capital expenditures of approximately $145.0 million during the remainder of 1999. In the event that the Company's efforts to acquire new customers and deploy new services are more successful than planned, the Company may be required to expend capital resources earlier than expected to accommodate customer demands. To facilitate the expansion of its services and networks, the Company has entered into equipment purchase agreements with various vendors under which the Company has committed to purchase a substantial amount of equipment and other assets, including a full range of switching systems, fiber optic cable, network electronics, software and services. If the Company fails to meet the minimum purchase level in any given year, the vendor may discontinue certain discounts, allowances and incentives otherwise provided to the Company. Actual capital expenditures will depend on numerous factors, including certain factors beyond the Company's control. These factors include the nature of future expansion and acquisition opportunities, economic conditions, competition, regulatory developments and the availability of equity, debt and lease financing.

Other Cash Commitments and Capital Requirements

The Company's operations have required and will continue to require significant capital expenditures for development, construction, expansion and acquisition of telecommunications assets. Significant amounts of capital are required to be invested before revenue is generated, which results in initial negative cash flows. In addition to the Company's planned capital expenditures, it has other cash commitments as described in the footnotes to the Company's unaudited consolidated financial statements for the nine months ended September 30, 1999 included elsewhere herein.

In view of the continuing development of the Company's products and services, the expansion of existing networks and the construction, leasing and licensing of new networks, the Company will require additional amounts of cash in the future from outside sources. Management believes that the Company's cash on hand and amounts expected to be available through asset sales, the Senior Facility, cash flows from operations, including the collection of receivables from transport and termination charges and capital leases and vendor financing arrangements will provide sufficient funds necessary for the Company to operate its business as currently planned and to fund its operations through 2000. Changes in the Company's business plan may require additional sources of cash which may be obtained through public and private equity and debt financings, credit facilities and other financing arrangements. In the past, the Company has been able to secure sufficient amounts of financing to meet its capital needs. There can be no assurance that additional financing will be available to the Company or, if available, that it can be obtained on terms acceptable to the Company.

The failure to obtain sufficient amounts of financing could result in the delay or abandonment of some or all of the Company's development and expansion plans, which could have a material adverse effect on the Company's business. In addition, the inability to fund operating deficits with the proceeds of financings and sales of non-strategic assets until the Company establishes a sufficient revenue-generating customer base could have a material adverse effect on the Company's liquidity.

Transport and Termination Charges

The Company has recorded revenue of approximately $4.9 million, $58.3 million and $95.4 million for fiscal 1997, fiscal 1998 and the nine months ended September 30, 1999, respectively, for reciprocal compensation relating to the transport and termination of local traffic to ISPs from customers of ILECs pursuant to various interconnection agreements. Some of the ILECs have not paid most of the bills they have received from the Company and have disputed substantially all of these charges based on the belief that such calls are not local traffic as defined by the various agreements and not subject to payment of transport and termination charges under state and federal laws and public policies. As a result, the Company expects receivables from transport and termination charges will continue to increase until these disputes have been resolved.

The resolution of these disputes will be based on rulings by state public utility commissions and/or by the Federal Communications Commission ("FCC"). To date, there have been favorable final rulings from 31 state public utility commissions that ISP traffic is subject to the payment of reciprocal compensation under current interconnection agreements. Many of these state commission decisions have been appealed by the ILECs. To date, nine federal court decisions, including two federal circuit court of appeals decisions and one state court decision, have been issued upholding state commission decisions ordering the payment of reciprocal compensation for ISP traffic. On February 25, 1999, the FCC issued a decision that ISP-bound traffic is largely jurisdictionally interstate traffic. The decision relies on the long-standing federal policy that ISP traffic, although jurisdictionally interstate, is treated as though it is local traffic for pricing purposes. The decision also emphasizes that because there currently are no federal rules governing intercarrier compensation for ISP traffic, the determination as to whether such traffic is subject to reciprocal compensation under the terms of interconnection agreements is properly made by the state commissions and that carriers are bound by their interconnection agreements and state commission decisions regarding the payment of reciprocal compensation for ISP traffic. The FCC has initiated a rulemaking proceeding regarding the adoption of prospective federal rules for intercarrier compensation for ISP traffic. In its notice of rulemaking, the FCC expresses its preference that compensation rates for this traffic continue to be set by negotiations between carriers, with disputes resolved by arbitrations conducted by state commissions, pursuant to the Telecommunications Act. Since the issuance of the FCC's decision on February 25, 1999, 18 state utility commissions, including four states in which the Company provides CLEC services, have either ruled or reaffirmed that ISP traffic is subject to reciprocal compensation under current interconnection agreements, and two state commissions have declined to apply reciprocal compensation for ISP traffic under current interconnection agreements.

On May 5, 1999, the Public Utilities Commission of Ohio ("PUCO") issued a decision affirming its August 1998 decision that ISP traffic is subject to reciprocal compensation under the Company's current interconnection agreement with Ameritech Corporation ("Ameritech"). The PUCO also denied Ameritech's request for a stay of its obligation to remit payment to the Company. After the PUCO issued the May 5, 1999 ruling, the Company received $58.0 million for amounts owed by Ameritech for reciprocal compensation. Ameritech has filed for judicial review of the PUCO decision. The Company cannot predict the final outcome on the merits of the court appeal. Additionally, through September 30, 1999, Southwestern Bell Telephone Company ("SWBT") has remitted payment to the Company of $2.2 million for reciprocal compensation owed to the Company for traffic from SWBT customers in Texas to ISPs served by the Company. On June 21, 1999, the Alabama Public Service Commission ("PSC") issued a decision that BellSouth Corporation ("BellSouth") is required to pay the Company reciprocal compensation for ISP traffic pursuant to the terms of the Company's current interconnection agreement. The PSC's June 21, 1999 decision modified its March 1999 decision that had found that reciprocal compensation is owed for Internet traffic under certain CLEC interconnection agreements at issue in the proceeding. The June 21, 1999 PSC decision held that the Company should be treated the same as the other CLECs that participated in the proceeding and for which the Alabama PSC previously ordered the payment of reciprocal compensation. BellSouth has filed for judicial review of both the March 4, 1999 and June 21, 1999 PSC decisions. On August 18, 1999, the reviewing court entered an order dismissing BellSouth's appeal of the March 4, 1999 order and upholding the Alabama PSC's ruling that reciprocal compensation is to be paid for ISP traffic under the terms of the interconnection agreements at issue. Further proceedings are pending these appeals. The Company has received payments from BellSouth for reciprocal compensation of $1.0 million through September 30, 1999. On July 26, 1999, the California Public Utilities Commission ("CPUC") issued a decision affirming a previous decision, issued October 1998, that held that reciprocal compensation must be paid by Pacific Bell and GTE California ("GTE") for the termination of ISP traffic by CLECs under existing interconnection agreements. Both Pacific Bell and GTE have appealed the CPUC's decisions in federal district court in California. On June 24, 1999, the CPUC adopted a decision in an arbitration proceeding between Pacific Bell and Pac-West Telecomm, Inc., a CLEC ("Pac-West"), which held that reciprocal compensation is payable to Pac-West for ISP-bound calls under a new two-year interconnection agreement between Pacific Bell and Pac-West, which agreement became effective on June 29, 1999. Pacific Bell has filed an appeal of this arbitration decision in federal district court. On October 27, 1999, the Company received $6.7 million from Pacific Bell in reciprocal compensation payments, and Pacific Bell also deposited $8.9 million into escrow, which Pacific Bell has calculated is the amount owed to the Company for reciprocal compensation on ISP-bound traffic. Also, on October 27, 1999, the Company received payment from GTE of $8.9 million, the full amount billed by the Company to GTE for reciprocal compensation in California. The Colorado Public Utilities Commission approved a decision on July 28, 1999 that orders US WEST Communications, Inc. ("US WEST") to pay the Company reciprocal compensation for calls from US WEST customers to ISPs served by the Company. The decision resolves in the Company's favor a complaint that was filed by the Company in June 1998.

On September 16, 1999, the CPUC rendered a decision against MFS/Worldcom, a CLEC ("MFS"), in an arbitration between Pacific Bell and MFS. The CPUC ruled that MFS should not be permitted to charge reciprocal compensation rates for the tandem switching and common transport rate elements. Although the CPUC's ruling did not involve the Company, the Company made a decision effective for the three months ended September 30, 1999 and thereafter to suspend the revenue recognition for the tandem switching and common transport rate elements for services provided in California and in all other states where the Company operates. Additionally, the Company recorded a provision of $45.2 million during the three months ended September 30, 1999 for accounts receivable related to these elements recognized in periods through June 30, 1999, which the Company believes may be uncollectible. The Company will continue to bill for future tandem switching and common transport rate elements and will pursue collection of its accounts receivable, despite any provision. MFS has filed a petition for rehearing with the CPUC, asking the CPUC to reverse its decision on the tandem and transport rate elements. The Company has supported the MFS petition for rehearing.

The Company has also recorded revenue of approximately $19.1 million and $11.8 million for fiscal 1998 and the nine months ended September 30, 1999, respectively, related to other transport and termination charges to the ILECs, pursuant to the Company's interconnection agreements with these ILECs. Included in the Company's trade receivables at December 31, 1998 and September 30, 1999 are $72.8 million and $73.5 million, respectively, for all receivables related to reciprocal compensation and other transport and termination charges. The receivables balance at September 30, 1999 is net of an allowance of $54.8 million for disputed amounts and tandem switching and common transport rate elements.

As the Company's interconnection agreements expire or are extended, rates for transport and termination charges are being and will continue to be renegotiated. Some of the Company's agreements are already being affected. Although the Company's interconnection agreement with BellSouth has expired, the Company has received written notification from BellSouth that the Company may continue operating under the expired interconnection agreement, until such agreement is renegotiated or arbitrated by the relevant state commissions. On May 27, 1999, the Company filed petitions with the state commissions of Alabama, Georgia, North Carolina, Kentucky, Tennessee and Florida for arbitration with BellSouth. On November 1, 1999, the Alabama PSC approved a final decision in the Company's arbitration proceeding with BellSouth that, among other issues, orders reciprocal compensation to be paid for ISP-bound traffic under the new interconnection agreement to be executed between the parties. The Alabama PSC established a rate to be paid for reciprocal compensation for all traffic, including ISP traffic. The rate established by the Alabama PSC includes compensation for the end office switching, tandem switching and common transport rate elements, at per-minute rates that are based on rates previously established by the Alabama PSC in a proceeding on rates applicable to unbundled network elements ("UNEs") provided by BellSouth. On November 4, 1999, the North Carolina Utilities Commission ("NCUC") issued a Recommended Arbitration Order (the "Recommended Decision"), that among other issues requires the payment of reciprocal compensation for ISP traffic in a new interconnection agreement and establishes reciprocal compensation rates equal to the UNE rates adopted by the NCUC for end office switching, tandem switching, common transport and common transport facilities termination. The Recommended Decision also finds that the Company is entitled to be paid the tandem rate for traffic through the Company's Charlotte, North Carolina switch. After a comment period, the full NCUC will vote on whether to adopt the Recommended Decision as its final decision. The Alabama final decision provides that the Alabama PSC will require and the Recommended Decision provides that the NCUC may require a true-up of the reciprocal compensation rates based on a future FCC ruling in the FCC's pending rulemaking proceeding on prospective compensation and/or future PUC rulings adopted pursuant to any FCC decision. The arbitration proceedings with BellSouth are ongoing in the remainder of the states. Additionally, the Company's interconnection agreement with Ameritech recently was extended from June 15, 1999 to February 15, 2000. The Company's extension of its interconnection agreement with Ameritech includes reduced rates for transport and termination charges. On September 27, 1999, the Company filed an arbitration proceeding petition with the PUCO for arbitration with Ameritech. The Company expects that its ongoing negotiations and arbitrations with BellSouth also will affect the rates for transport and termination charges included in its existing interconnection agreement with BellSouth, as has already occurred in Alabama and is proposed in North Carolina. The Company's remaining interconnection agreements expire in 1999 and 2000, and the Company has commenced renegotiations with the ILECs. While the Company intends to pursue the collection of all receivables related to transport and termination charges as of September 30, 1999 and believes that future revenue from transport and termination charges recognized under the Company's current interconnection agreements will be realized, there can be no assurance that future regulatory and judicial rulings will be favorable to the Company, or that different pricing plans for transport and termination charges between carriers will not be adopted when the Company's interconnection agreements are renegotiated or arbitrated, or as a result of the FCC's rulemaking proceeding on future compensation methods. In fact, the Company believes that different pricing plans will be considered and adopted, and although the Company expects that revenue from transport and termination charges likely will decrease as a percentage of total revenue from local services in periods after the expiration of current interconnection agreements, the Company's local termination services still will be required by the ILECs and must be provided under the Telecommunications Act, and likely will result in increasing volume in minutes due to the growth of the Internet and related services markets. The Company expects to negotiate reasonable compensation and collection terms for local termination services, although there is no assurance that such compensation will remain consistent with current levels. Additionally, the Company expects to supplement its current operations with revenue, and ultimately EBITDA, from new services offerings such as RAS and DSL services, however, the Company may or may not be successful in its efforts to deploy such services profitably.

New Accounting Pronouncement

In June 1999, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 43, Real Estate Sales, an interpretation of FASB Statement No. 66 ("FIN 43"). FIN 43 establishes standards for recognition of profit on all real estate sales transactions without regard to the nature of the seller's business. Specifically, FIN 43 expands the concept of real estate to include "integral equipment," which is defined in FIN 43 as "any physical structure or equipment attached to the real estate that cannot be removed and used separately without incurring significant costs." The provisions of FIN 43 are effective for all sales of real estate with property improvements or integral equipment entered into after June 30, 1999.

The Company believes FIN 43 effectively precludes the application of sales-type lease accounting to the portions of telecommunications capacity agreements which represent leases of telecommunications capacity involving real estate or integral equipment, unless the Company transfers ownership of the underlying assets to the lessee. In the event that sales-type lease accounting is not applicable to portions or all of a telecommunications capacity agreement, the Company will apply operating lease accounting and recognize revenue and operating costs ratably over the term of the agreement. Since the Company's telecommunications capacity agreements which were accounted for as sales-type leases and excluded ownership transfer terms for underlying assets deemed to be integral equipment do not represent a significant portion of the Company's historical revenue or operating costs, the Company does not expect the adoption of FIN 43 to have a material impact on the Company's financial position or results of operations in the future.

Year 2000 Compliance

Importance

Many computer systems, software applications and other electronics currently in use worldwide are programmed to accept only two digits in the portion of the date field which designates the year. The "Year 2000 problem" arises because these systems and products cannot properly distinguish between a year that begins with "20" and the familiar "19." If these systems and products are not modified or replaced, many will fail, create erroneous results and/or may cause interfacing systems to fail.

Year 2000 compliance issues are of particular importance to the Company since its operations rely heavily upon computer systems, software applications and other electronics containing date-sensitive embedded technology. Some of these technologies were internally developed and others are standard purchased systems which may or may not have been customized for the Company's particular application. The Company also relies heavily upon various vendors and suppliers that are themselves very reliant on computer systems, software applications and other electronics containing date-sensitive embedded technology. These vendors and suppliers include: (i) ILECs and other local and long distance carriers with which the Company has interconnection or resale agreements; (ii) manufacturers of the hardware and related operating systems that the Company uses directly in its operations; (iii) providers that create custom software applications that the Company uses directly in its operations; and (iv) providers that sell standard or custom equipment or software which allow the Company to provide administrative support to its operations.

Strategy

The Company's approach to addressing the potential impact of Year 2000 compliance issues was focused upon ensuring, to the extent reasonably possible, the continued, normal operation of its business and supporting systems. Accordingly, the Company developed a four-phase plan which it applied to each functional category of the Company's computer systems and components. Each of the Company's computer systems, software applications and other electronics containing date-sensitive embedded technology was included within one of the following four functional categories:

- Networks and Products, which consists of all components whether hardware, software or embedded technology used directly in the Company's operations, including components used by the Company's circuit and data switches and collocation and telecommunications products;

- IT Systems, which consists of all components used to support the Company's operations, including provisioning and billing systems;

- Building and Facilities, which consists of all components with embedded technology used at the Company's corporate headquarters building and other leased facilities, including security systems, elevators and internal use telephone systems;

- Office Equipment, which consists of all office equipment with date-sensitive embedded technology.

For each of the categories described above, the Company applied the following four-phase approach to identifying and addressing the potential impact of Year 2000 compliance issues:

- Phase I - Assessment
  During this phase, the Company's technology staff performed an inventory of all components currently in use by the Company. Based upon this inventory, the Company's business executives and technology staff jointly classified each component as a "high," "medium" or "low" priority item, determined primarily by the relative importance that the particular component has to the Company's normal business operations, the number of people internally and externally which would be affected by any failure of such component and the interdependence of such component with other components used by the Company that may be of higher or lower priority.

  Based upon such classifications, the Company's business executives and information technology staff jointly set desired levels of Year 2000 readiness for each component inventoried, using the following criteria, as defined by the Company:

  - Capable, meaning that such computer system or component will be capable of managing and expressing calendar years in four digits;

  - Compliant, meaning that the Company will be able to use such component for the purpose for which the Company intended it by adapting to its ability to manage and express calendar years in only two digits;
  - Certified, meaning that the Company has received testing results to demonstrate, or the vendor or supplier is subject to contractual terms which requires, that such component requires no Year 2000 modifications to manage and express calendar years in four digits; or

  - Non-critical, meaning that the Company expects to be able to continue to use such component unmodified or has determined that the estimated costs of modification exceed the estimated costs associated with its failure.

- Phase II - Remediation
  During this phase, the Company developed and executed a remediation plan for each component based upon the priorities set in Phase I. Remediation included component upgrade, reprogramming, replacement, receipt of vendor and supplier certification or other actions which were deemed necessary or appropriate.

- Phase III - Testing
  During this phase, the Company performed testing sufficient to confirm that the component met the desired state of Year 2000 readiness. This phase consisted of: (i) testing the component in isolation, or unit testing; (ii) testing the component jointly with other components, or system testing; and (iii) testing interdependent systems, or environment testing.

- Phase IV - Implementation
  During the last phase, the Company implemented each act of remediation developed and tested for each component, as well as the implementation of adequate controls to ensure that future upgrades and changes to the Company's computer systems, for operational reasons other than Year 2000 compliance, would not alter the Company's Year 2000 state of readiness.

The Company has completed all of the phases within its Year 2000 compliance plan for each of its functional system categories.

Costs

The Company expenses all incremental costs to the Company associated with Year 2000 compliance issues as incurred. Through September 30, 1999, such costs incurred were approximately $2.0 million, consisting of approximately $0.6 million of replacement hardware and software and approximately $1.4 million of consulting fees and other miscellaneous costs of Year 2000 compliance reference and planning materials. The Company has also incurred certain internal costs, including salaries and benefits for employees dedicating various portions of their time to Year 2000 compliance issues, of which costs the Company believes has not exceeded $0.5 million through September

30, 1999. The Company expects total incremental costs of Year 2000 compliance efforts subsequent to September 30, 1999 to be approximately $0.6 million for consulting fees and other miscellaneous costs. All such costs incurred and expected to be incurred are included in the Company's fiscal 1999 budget. Budgeted expenses for Year 2000 compliance costs represent approximately 4% of the Company's total budgeted expenses for information technology for fiscal 1999. The Company intends to use cash on hand for Year 2000 compliance costs, as necessary.

Risk, Contingency Planning and Reasonably Likely Worst Case Scenario

While the Company is heavily reliant upon its computer systems, software applications and other electronics containing date-sensitive embedded technology as part of its business operations, such components upon which the Company primarily relies were developed with current state-of-the-art technology and, accordingly, the Company's four-phase approach has demonstrated that many of its high-priority systems did not present material Year 2000 compliance issues. For computer systems, software applications and other electronics containing date-sensitive embedded technology that have met the Company's desired level of Year 2000 readiness, the Company is using its existing contingency plans to mitigate or eliminate problems it may experience if an unanticipated system failure were to occur.

The Company believes that a reasonably likely worst case scenario of a Year 2000 compliance failure could include the temporary failure of a minimal number of operating systems, despite the Company's execution and satisfactory completion of its comprehensive Year 2000 compliance plan. However, under this scenario, the Company also believes that any such failed systems or components would be fully recovered within a short period subsequent to failure and, accordingly, the Company does not expect to experience any significant or long term operational disruption as a result of the failure of any systems or components directly within the Company's control.

The Company acknowledges the possibility that the Company may become subject to potential claims by customers if the Company's operations are interrupted for an extended period of time. However, it is not possible to predict either the probability of such potential litigation, the amount that could be in controversy or upon which party a court would place ultimate responsibility for any such interruption.

The Company views Year 2000 compliance as a process that is inherently dynamic and will change in response to changing circumstances. While the Company believes that through execution and satisfactory completion of its Year 2000 compliance strategy its computer systems, software applications and electronics are Year 2000 compliant, there can be no assurance until the Year 2000 occurs that all systems and all interfacing technology when running jointly will function adequately. Additionally, there can be no assurance that the assumptions made by the Company within its Year 2000 compliance strategy will prove to be correct, that the strategy will succeed or that the remedial actions implemented will be adequate to avoid system or component failures. In addition, disruptions with respect to the computer systems of vendors or customers, which systems are outside the control of the Company, could impair the Company's ability to obtain necessary products or services to sell to its customers. Disruptions of the Company's computer systems, or the computer systems of the Company's vendors or customers, as well as the cost of avoiding such disruption, could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's financial position and cash flows are subject to a variety of risks in the normal course of business, which include market risks associated with movements in interest rates and equity prices. The Company routinely assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. The Company does not, in the normal course of business, use derivative financial instruments for trading or speculative purposes.

Interest Rate Risk

The Company's exposure to market risk associated with changes in interest rates relates primarily to the Company's investments in marketable securities and its senior indebtedness.

The Company invests primarily in high grade short-term investments which consist of money market instruments, commercial paper, certificates of deposit, government obligations and corporate bonds, all of which are considered to be available for sale and generally have maturities of one year or less. The Company's short term investment objectives are safety, liquidity and yield, in that order. As of September 30, 1999, the Company had approximately $170.7 million in cash, cash equivalents and short-term investments available for sale, at a weighted average fixed interest rate of 2.72% for the three months ended September 30, 1999. A hypothetical 10% fluctuation in market rates of interest would cause a change in the fair value of the Company's investment in marketable securities at September 30, 1999 of approximately $0.2 million and, accordingly, would not cause a material impact on the Company's financial position, results of operations or cash flows.

At September 30, 1999, the Company's indebtedness included $1.7 billion under the 13 1/2% Notes, 12 1/2% Notes, 11 5/8% Notes, 10% Notes and 9 7/8% Notes and $505.4 million under the 14 1/4% Preferred Stock, 14% Preferred Stock and 6 3/4% Preferred Securities. These instruments contain fixed annual interest and dividend rates, respectively, and, accordingly, any change in market interest rates would have no impact on the Company's financial position, results of operations or cash flows. Future increases in interest rates could increase the cost of any new borrowings by the Company. The Company does not hedge against future changes in market rates of interest.

On August 12, 1999, the Company entered into the Senior Facility, consisting of two term loans and a revolving line of credit. All components of the Senior Facility bear variable annual rates of interest, based on changes in LIBOR, the Royal Bank of Canada prime rate and the federal funds rate. Consequently, additional borrowings under the Senior Facility and increases in LIBOR, the Royal Bank of Canada prime rate and the federal funds rate will increase the Company's indebtedness and may increase the Company's interest expense in future periods. Additionally, under the terms of the Senior Facility, the Company is required to hedge the interest rate risk on $100.0 million of the Senior Facility if LIBOR exceeds 9.0% for 15 consecutive days. As of September 30, 1999, the Company had $79.8 million outstanding under the Senior Facility.

Equity Price Risk

On February 17, 1999, the Company completed the sale of the domestic operations of NETCOM to MindSpring, in exchange for a combination of cash and 376,116 shares of common stock of MindSpring, valued at approximately $79.76 per share, or $30.0 million, at the time of the transaction. Through April 16, 1999, the Company bore some risk of market price fluctuations in its investment in MindSpring. In order to mitigate the risk associated with a decrease in the market value of the Company's investment in MindSpring, the Company entered into a hedging contract. In April 1999, the Company sold its investment in MindSpring for net proceeds of approximately $30.4 million. The Company recorded a gain on its investment in MindSpring of approximately $0.4 million in its statement of operations for the nine months ended September 30, 1999. The hedging contract was terminated upon the sale of the common stock of MindSpring.

On March 30, 1999, the Company purchased, for approximately $10.0 million in cash, 454,545 shares of restricted Series D-1 Preferred Stock of NorthPoint which was converted into 555,555 shares of Class B common stock of NorthPoint (the "NorthPoint Class B Shares") on May 5, 1999. The NorthPoint Class B Shares have no voting rights and are ultimately convertible on or after March 23, 2000 on a one-for-one basis into a voting class of common stock of

NorthPoint. Accordingly, the Company will be subject to the effects of fluctuations in the fair value of the common stock of NorthPoint until such time when the Company is permitted to liquidate its investment in NorthPoint.

On August 11, 1999, the Company purchased 1,250,000 shares of Series C Preferred Stock (the "ThinkLink Preferred Stock") of International ThinkLink Corporation ("ThinkLink"), or approximately 8% of the outstanding shares, for $1.0 million in cash. The ThinkLink Preferred Stock is exchangeable into common stock of ThinkLink at any time. The ThinkLink Preferred Stock will automatically convert to common stock upon the completion of the initial public offering of the common stock of ThinkLink or upon such election to convert by the holders of a majority of the ThinkLink Preferred Stock. The conversion rate from the ThinkLink Preferred Stock to common stock of ThinkLink is initially one-for-one; however, such conversion rate is subject to adjustment. The Company will be subject to the effects of fluctuations in the fair value of the common stock of ThinkLink until such time when the Company may liquidate its investment in ThinkLink.

Although changes in the fair market value of the common stock of NorthPoint and ThinkLink may affect the fair market value of the Company's investments in NorthPoint and ThinkLink and cause unrealized gains or losses, such gains or losses will not be realized until the securities are sold.

PART II

ITEM 1. LEGAL PROCEEDINGS

See Note 6 (e) to the Company's unaudited condensed consolidated financial statements for the nine months ended September 30, 1999 contained elsewhere in this Quarterly Report.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORT ON FORM 8-K

(A) Exhibits.

(10) Material Contracts.

10.1: Amendment to the Stock Option Agreement between J. Shelby Bryan and IntelCom Group Inc. dated May 30, 1995, dated as of March 10, 1999, between ICG Communications, Inc. and J. Shelby Bryan.

10.2: Amendment to the Stock Option Agreement between J. Shelby Bryan and IntelCom Group Inc. dated November 13, 1995, dated as of March 10, 1999, between ICG Communications, Inc. and J. Shelby Bryan.

10.3: Promissory Note, dated as of August 6, 1999, between ICG Telecom Group, Inc. and John Kane.

10.4: Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and John Kane.

10.5: Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and Don Teague.

10.6: Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and Harry R. Herbst.

10.7: Amendment to Employment Agreement, dated as of September 14, 1999, between ICG Communications, Inc. and J. Shelby Bryan.

10.8: Amendment No. 1 to the Credit Agreement, dated as of September 30, 1999, among ICG Equipment, Inc. and ICG NetAhead, Inc., as Borrowers, ICG Services, Inc., as Parent, certain Initial Lender Parties thereto, Morgan Stanley Senior Funding, Inc., as Sole Book-Runner and Lead Arranger, Royal Bank of Canada, as Collateral

Agent and as Administrative Agent for such Lender Parties, and Bank of America, N.A. and Barclays Bank Plc, as Co-Documentation Agents.

(27) **Financial Data Schedule.**

27.1: Financial Data Schedule of ICG Communications, Inc. for the Nine Months Ended September 30, 1999.

(B) **Report on Form 8-K.** The following report on Form 8-K was filed by the registrants during the three months ended September 30, 1999:

(i) Current Report on Form 8-K dated September 22, 1999 for events of September 21, 1999, regarding the announcement by ICG Communications, Inc. of the September 16, 1999 arbitration decision by the California Public Utilities Commission in a matter between Pacific Bell and MFS/WorldCom.

INDEX TO EXHIBITS
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

10.1: Amendment to the Stock Option Agreement between J. Shelby Bryan and IntelCom Group Inc. dated May 30, 1995, dated as of March 10, 1999, between ICG Communications, Inc. and J. Shelby Bryan.

10.2: Amendment to the Stock Option Agreement between J. Shelby Bryan and IntelCom Group Inc. dated November 13, 1995, dated as of March 10, 1999, between ICG Communications, Inc. and J. Shelby Bryan.

10.3: Promissory Note, dated as of August 6, 1999, between ICG Telecom Group, Inc. and John Kane.

10.4: Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and John Kane.

10.5: Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and Don Teague.

10.6: Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and Harry R. Herbst

10.7: Amendment to Employment Agreement, dated as of September 14, 1999, between ICG Communications, Inc. and J. Shelby Bryan.

10.8: Amendment No. 1 to the Credit Agreement, dated as of September 30, 1999, among ICG Equipment, Inc. and ICG NetAhead, Inc., as Borrowers, ICG Services, Inc., as Parent, certain Initial Lender Parties thereto, Morgan Stanley Senior Funding, Inc., as Sole Book-Runner and Lead Arranger, Royal Bank of Canada, as Collateral Agent and as Administrative Agent for such Lender Parties, and Bank of America, N.A. and Barclays Bank Plc, as Co-Documentation Agents.

27.1: Financial Data Schedule of ICG Communications, Inc. for the Nine Months Ended September 30, 1999.

EXHIBIT 10.2

Amendment to the Stock Option Agreement between J. Shelby Bryan and IntelCom Group Inc. dated November 13, 1995, dated as of March 10, 1999, between ICG Communications, Inc. and J. Shelby Bryan.

EXHIBIT 10.1

Amendment to the Stock Option Agreement between J. Shelby Bryan and IntelCom Group Inc. dated May 30, 1995, dated as of March 10, 1999, between ICG Communications, Inc. and J. Shelby Bryan.

EXHIBIT 10.3

Promissory Note, dated as of August 6, 1999, between ICG Telecom Group, Inc. and John Kane.

EXHIBIT 10.4

Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and John Kane.

EXHIBIT 10.5

Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and Don Teague.

EXHIBIT 10.6

Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and Harry R. Herbst.

EXHIBIT 10.7

Amendment to Employment Agreement, dated as of September 14, 1999, between ICG Communications, Inc. and J. Shelby Bryan.

EXHIBIT 10.8

Amendment No. 1 to the Credit Agreement, dated as of September 30, 1999, among ICG Equipment, Inc. and ICG NetAhead, Inc., as Borrowers, ICG Services, Inc., as Parent, certain Initial Lender Parties thereto, Morgan Stanley Senior Funding, Inc., as Sole Book-Runner and Lead Arranger, Royal Bank of Canada, as Collateral Agent and as Administrative Agent for such Lender Parties, and Bank of America, N.A. and Barclays Bank Plc, as Co-Documentation Agents.

EXHIBIT 27.1

Financial Data Schedule of ICG Communications, Inc. for the Nine Months Ended September 30, 1999.

EXHIBIT-27.1

Summary Financial Information

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF ICG COMMUNICATIONS, INC. AND SUBSIDIARIES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER 1,000

PERIOD-TYPE	9-MOS
FISCAL-YEAR-END	DEC-31-1999
PERIOD-START	JAN-01-1999
PERIOD-END	SEP-30-1999
CASH	149,176
SECURITIES	21,483
RECEIVABLES	209,480
ALLOWANCES	68,545
INVENTORY	70
CURRENT-ASSETS	339,060
PP&E	1,456,096
DEPRECIATION	252,667
TOTAL-ASSETS	1,787,450
CURRENT-LIABILITIES	158,599
BONDS	1,918,403
PREFERRED-MANDATORY	505,396
PREFERRED	0 <F>
COMMON	475
OTHER-SE	(795,423)
TOTAL-LIABILITY-AND-EQUITY	1,787,450
SALES	0 <F>
TOTAL-REVENUES	337,151
CGS	0 <F>
TOTAL-COSTS	179,391
OTHER-EXPENSES	335,869
LOSS-PROVISION	56,193
INTEREST-EXPENSE	151,637
INCOME-PRETAX	(320,753)
INCOME-TAX	0 <F>
INCOME-CONTINUING	(336,492)
DISCONTINUED	(8,014)
EXTRAORDINARY	193,029
CHANGES	0 <F>
NET-INCOME	(181,477)
EPS-PRIMARY	(3.87)
EPS-DILUTED	0 <F>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 12, 1999.

ICG COMMUNICATIONS, INC.

Date: November 12, 1999

By: ______________________________
Harry R. Herbst, Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: November 12, 1999

By: ______________________________
John V. Colgan, Senior Vice President of Finance and Controller (Principal Accounting Officer)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 12, 1999.

ICG HOLDINGS (CANADA) CO.

Date: November 12. 1999

By: ______________________________
Harry R. Herbst, Executive Vice President and
Chief Financial Officer (Principal Financial Officer)

Date: November 12. 1999

By: ______________________________
John V. Colgan, Senior Vice President of Finance
and Controller (Principal Accounting Officer)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 12, 1999.

ICG HOLDINGS, INC.

Date: November 12, 1999

By: ______________________________
Harry R. Herbst, Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: November 12, 1999

By: ______________________________
John V. Colgan, Senior Vice President of Finance and Controller (Principal Accounting Officer)