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Transcript Exhibit(s)

Docket #(s): E-03566A-99-0743

Exhibit # : A1 A2 A3 A4 A5 A6
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1999 DEC 23 P 2: 28

AZ CORP COMMISSION
DOCUMENT CONTROL

Docket No._____

BEFORE THE
ARIZONA CORPORATION COMMISSION

In the Matter of	)	
	)	
ICG Telecom Group, Inc.	)	
	)	
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

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.

961056717 C $25.00
SECRETARY OF STATE
04-25-96 12:12

DP931130030

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 Martin E. Freidel

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 November, 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

APPLICATION FOR AUTHORIT

TO TRANSACT BUSINESS IN ARIZONA

BY

ICG Telecom Group, Inc.

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

EXPEDITE
AZ CORP. COMMISSION
DELIVERED
FEB 26 1998
FILED BY
TEAM
DATE 02-26-98
F-0833442-9

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

5a. 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

CF: 0024
Rev: 1/96

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 has 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]

(ARIZ. - 4)

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

OFFICERS AND DIRECTORS AND THEIR ADDRESSES:

OFFICERS	ADDRESS
President - Sfieldon 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. Vegliante	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. No persons serving either by elections or appointment as officers, directors, trustees, incorporators and persons controlling or holding over 10% of the [X] 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 attachment, 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 <u>Termination Liability</u>

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).

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.

ICG Communications

Management Profiles

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.

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.

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.

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.

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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. SELECTED FINANCIAL DATA

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:

- 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 voice and data switches and collocations 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 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:

	Page
Independent Auditors' Report – Report of KPMG LLP	F-2
Independent Auditors' Report – Report of Ernst & Young LLP, as of December 31, 1996 and 1997 and for each of the Two Years in the Period Ended December 31, 1997	F-4
Independent Auditors' Report – Report of Ernst & Young LLP, as of December 31, 1996 and for the Three Months Then Ended	F-5
Consolidated Balance Sheets, December 31, 1997 and 1998	F-6
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	F-8
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	F-10
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	F-11
Notes to Consolidated Financial Statements, December 31, 1997 and 1998	F-14

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

Independent Auditors' Report	S-1
Schedule II: Valuation and Qualifying Accounts	S-2

(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

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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, 1996	Three months ended December 31, 1995 (unaudited)	Three months ended December 31, 1996	Fiscal years ended December 31, 1997	Fiscal years ended December 31, 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, 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, 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)

(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, 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)			
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	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

(6) Short-term Investments Available for Sale

Short-term investments available for sale are comprised of the following:

	December 31,	
	1997	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	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	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	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

(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	Weighted average exercise price	Options exercisable
	(in thousands)		(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.

(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	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
	(in thousands)	(in years)		(in thousands)	
$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

(15) **Business Units (continued)**

	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)		
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.

(15) **Business Units (continued)**

	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)		
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	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	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,	Three months ended December 31,		Fiscal years ended December 31,	
	1996	1995	1996	1997	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	December 31, 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, 1995	Three months ended December 31, 1996	Fiscal years ended December 31, 1997	Fiscal years ended December 31, 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

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(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.
4.1.1:	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.	California	--
(formerly known as Linkatel of California, L.P.)		
Maritime Telecommunications Network, Inc.	Colorado	--
NikoNET, LLC	Georgia	--
PTI Harbor Bay, Inc.	Washington	--
TransAmerican Cable, Inc.	Kentucky	MidAmerican Cable
UpSouth Corporation	Georgia	--
Zycom Corporation	Alberta, Canada	--
(formerly known as Camber Sports, Inc.)		
Zycom Corporation	Texas	--
Zycom Network Services, Inc.	Texas	--
(formerly known as Travel Phone, Inc.)		

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 161 Inverness Drive West Englewood, Colorado 80112 161 Inverness Drive West Englewood, Colorado 80112 (Address of principal executive offices)	Not applicable c/o ICG Communications, Inc. 161 Inverness Drive West Englewood, Colorado 80112 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.

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ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 1998 and September 30, 1999 (unaudited)

Assets	December 31, 1998	September 30, 1999
	(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,		Nine months ended September 30,	
	1998	1999	1998	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 $0.4 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

(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)

(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

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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.

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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)

EXHIBIT
A-2
Admitted

ROSHKA HEYMAN & DEWULF

ROSHKA HEYMAN & DEWULF, PLC
ATTORNEYS AT LAW
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET
SUITE 800
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FACSIMILE 602-256-6800

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AZ CORP COMMISSION
DOCUMENT CONTROL

May 20, 2002

VIA HAND DELIVERY

Mr. Anthony Gatto
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Re: ICG Telecom Group, Inc.: Application for CC&N
Docket No. T-03566A-99-0743

Dear Mr. Gatto:

As requested, enclosed is updated financial information for ICG Telecom Group, Inc. ("ICG") (years 2000 and 2001 unaudited). The 2001 10K for ICG's parent, ICG Communications, Inc. is publicly available by internet. If you would like a hard copy of the 10K, please let me know.

Sincerely,

Michael W. Patten

MWP/djj
Enclosure

ORIGINAL + 10 COPIES
filed with Docket Control

cc: Raymond S. Heyman, Esq.

Arizona Corporation Commission
DOCKETED

MAY 20 2002

DOCKETED BY nac

ICG TELECOM GROUP, INC.
(Debtor-in-Possession)
Unaudited Consolidated Balance Sheets
December 31, 2000 and 2001

	December 31, 2000	December 31, 2001
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ (6,403)	$ (6,992)
Receivables:		
Trade, net of allowance of $94.2 million and $43.2 million at December 31, 2000 and 2001, respectively	113,740	56,888
Prepaid expenses, deposits and other	6,809	10,250
Total current assets	114,146	60,146
Property and equipment, net of accumulated depreciation of $0 million and $20.4 million at December 31, 2000 and 2001, respectively	141,208	124,495
Restricted cash	1,790	1,866
Other assets:		
Deferred financing costs, net of accumulated amortization of $183 thousand and $0 million at December 31, 2000 and 2001, respectively	49	-
Deposits and other	4,482	7,381
Intercompany receivable	16,357	-
	22,678	9,247
Total Assets	$ 278,032	$ 193,889
Liabilities and Stockholders' Deficit		
Current liabilities not subject to compromise:		
Accounts payable	$ 7,289	$ 8,253
Accrued liabilities	67,897	158,211
Deferred revenue	14,840	7,590
Total current liabilities not subject to compromise	90,026	174,054
Liabilities subject to compromise	2,704,744	2,625,811
Long-term liabilities not subject to compromise:		
Intercompany payable	-	83,896
Other long-term liabilities	1,090	1,090
Total liabilities	2,795,860	2,884,851
Stockholders' deficit :		
Additional paid-in capital	89,595	89,595
Accumulated deficit	(2,607,423)	(2,780,557)
Total stockholders' deficit	(2,517,828)	(2,690,962)
Total Liabilities and Stockholders' Deficit	$ 278,032	$ 193,889

Notes:
See accompanying Notes to the Unaudited Consolidated Financial Statements.

ICG TELECOM GROUP, INC.

Unaudited Consolidated Statements of Operations

	Years ended December 31,	
	2000	2001
	(in thousands)	
Revenue	$ 570,628	$ 495,470
Operating costs and expenses:		
Operating costs	441,931	360,361
Selling, general and administrative expenses	241,543	101,803
Leasing expense (Note 7)	146,186	160,709
Depreciation and amortization	207,876	25,845
Provision for impairment of long-lived assets (Note 3)	841,728	14,816
Other, net	1,482	723
Total operating costs and expenses	1,880,746	664,257
Operating (loss)	(1,310,118)	(168,787)
Other income (expense):		
Interest expense (intercompany interest of $289 million at December 31, 2000, and $0 million at December 31, 2001)	(292,520)	(7,638)
Interest income including $44.6 million of intercompany interest at December 31, 2001	1,610	44,771
Other expense, net, including realized gains and losses on marketable trading securities	7,534	(458)
	(283,376)	36,675
Loss from continuing operations before reorganization expense, income taxes and extraordinary gain	(1,593,494)	(132,112)
Reorganization expenses (Notes 5 and 6)	9,230	41,023
Income tax expense	-	1
Loss from continuing operations before extraordinary gain and cumulative effect of change in accounting principle	(1,602,724)	(173,134)
Cumulative effect of change in accounting principle for revenue from installation services	7,363	-
Net loss	$ (1,610,087)	$ (173,134)

Notes:

See accompanying Notes to the Unaudited Consolidated Financial Statements.

ICG TELECOM GROUP, INC.

Unaudited Consolidated Balance Sheets
December 31, 2000 and 2001

	December 31, 2000	December 31, 2001	Change $	Change %
		(in thousands)		
Assets				
Current assets:				
Cash and cash equivalents	$ (6,403)	$ (6,992)	$ (589)	9.20
Receivables:				
Trade, net of allowance of $94.2 million and $43.2 million at December 31, 2000 and 2001, respectively	113,740	56,888	(56,852)	(49.98)
Prepaid expenses, deposits and other	6,809	10,250	3,441	50.54
Total current assets	114,146	60,146	(54,000)	(47.31)
Property and equipment, net of accumulated depreciation of $0 million and $20.4 million at December 31, 2000 and 2001, respectively	141,208	124,495	(16,713)	(11.84)
Restricted cash	1,790	1,866	76	4.25
Other assets:				
Deferred financing costs, net of accumulated amortization of $183 thousand and $0 million at December 31, 2000 and 2001, respectively	49	-	(49)	(100.00)
Deposits and other	4,482	7,381	2,899	64.68
Intercompany receivable	16,357	-	(16,357)	(100.00)
	22,678	9,247	(13,431)	(59.22)
Total Assets	$ 278,032	$ 193,889	$ (84,143)	(30.26)
Liabilities and Stockholders' Deficit				
Current liabilities not subject to compromise:				
Accounts payable	$ 7,289	$ 8,253	$ 964	13.23
Accrued liabilities	67,897	158,211	90,314	133.02
Deferred revenue	14,840	7,590	(7,250)	(48.85)
Total current liabilities not subject to compromise	90,026	174,054	84,028	93.34
Liabilities subject to compromise	2,704,744	2,625,811	(78,933)	(2.92)
Long-term liabilities not subject to compromise:				
Intercompany payable	-	83,896	83,896	-
Other long-term liabilities	1,090	1,090	-	0.00
Total liabilities	2,795,860	2,884,851	88,991	3.18
Stockholders' deficit:				
Additional paid-in capital	89,595	89,595	-	0.00
Accumulated deficit	(2,607,423)	(2,780,557)	(173,134)	6.64
Total stockholders' deficit	(2,517,828)	(2,690,962)	(173,134)	6.88
Total Liabilities and Stockholders' Deficit	$ 278,032	$ 193,889	$ (84,143)	(30.26)

Notes:
See accompanying Notes to the Unaudited Consolidated Financial Statements.

ICG TELECOM GROUP, INC.

Unaudited Consolidated Statements of Operations

	Years ended December 31,			
	2000	2001	Change $	Change %
		(in thousands)		
Revenue	$ 570,628	$ 495,470	$ (75,158)	(13.17)
Operating costs and expenses:				
Operating costs	441,931	360,361	(81,570)	(18.46)
Selling, general and administrative expenses	241,543	101,803	(139,740)	(57.85)
Leasing expense	146,186	160,709	14,523	9.93
Depreciation and amortization	207,876	25,845	(182,031)	(87.57)
Provision for impairment of long-lived assets	841,728	14,816	(826,912)	(98.24)
Other, net	1,482	723	(759)	(51.21)
Total operating costs and expenses	1,880,746	664,257	(1,216,489)	(64.68)
Operating loss	(1,310,118)	(168,787)	1,141,331	(87.12)
Other income (expense):				
Interest expense (intercompany interest of $289 million at December 31, 2000, and $0 million at December 31, 2001)	(292,520)	(7,638)	284,882	(97.39)
Interest income including $44.6 million of intercompany interest at December 31, 2001	1,610	44,771	43,161	2680.81
Other expense, net, including realized gains and losses on marketable trading securities	7,534	(458)	(7,992)	(106.08)
	(283,376)	36,675	320,051	(112.94)
Loss from continuing operations before reorganization expense, income taxes and extraordinary gain	(1,593,494)	(132,112)	1,461,382	(91.71)
Reorganization expenses	9,230	41,023	31,793	344.45
Income tax expense	0	1	1	-
Loss from continuing operations before extraordinary gain and cumulative effect of change in accounting principle	(1,602,724)	(173,134)	1,429,590	(89.20)
Cumulative effect of change in accounting principle for revenue from installation services	7,363	0	(7,363)	(100.00)
Net loss	(1,610,087)	(173,134)	1,436,953	(89.25)

Notes:
See accompanying Notes to the Unaudited Consolidated Financial Statements.

(1) Basis of Presentation

These consolidated financial statements should be read in conjunction with the ICG Communications, Inc.'s and subsidiaries ("ICG") Annual Report on Form 10-K for the year ended December 31, 2000 as certain information and note disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted from the statements attached hereto. ICG Telecom Group, Inc. (the "Company") is a wholly owned subsidiary of ICG. The December 31, 2000 amounts reflected herein have been adjusted to reflect any adjustments made subsequent to the previously filed December 31, 2000 consolidated financial statements.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(2) Bankruptcy Proceedings

On November 14, 2000 (the "Petition Date"), ICG, except certain non-operating entities (collectively referred to as the "Debtors"), filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code in the Federal District of Delaware in order to facilitate the restructuring of its debt, trade liabilities and other obligations. The Debtors are currently operating as debtors-in-possession under the supervision of the United States District Court for the District of Delaware (the "Bankruptcy Court"). The bankruptcy petitions were filed in order to preserve cash and to give the Debtors the opportunity to restructure their obligations.

On December 19, 2001 the Debtors filed a proposed Plan of Reorganization and a Disclosure Statement (collectively referred to as the "Plan") in the Bankruptcy Court. The Plan is premised on the substantive consolidation of all of the Debtors for purposes of Plan voting, confirmation and distribution of claim proceeds. The Plan contemplates the conversion of the Debtors' existing unsecured debt into common equity in the post-bankruptcy, reorganized company. The Plan also contemplates the issuance of new secured notes to the Debtors' existing secured lenders. The Plan calls for the cancellation of all equity securities previously issued by the Debtors, including all common stock, preferred stock and warrants. Consummation of the Plan is contingent upon receiving Bankruptcy Court approval, as well as the approval of certain classes of creditors.

ICG, assisted by its investment banker, Dresdner Kleinwort & Wasserstein, Inc., evaluated the enterprise value of ICG in connection with the filing of the Plan on December 19, 2001. Accordingly, a stand-alone valuation of the Company was not evaluated. The enterprise value of ICG on a going concern basis was estimated to be between $350 million and $500 million. This valuation of ICG results in a valuation of the new common equity to be issued under the Plan, in the aggregate, between approximately $136 million and $287 million, which is derived by subtracting from ICG's enterprise value the projected funded debt on the pro forma balance sheet for ICG on the date of emergence from bankruptcy. The valuation is based on numerous assumptions, including, among other things, the achievement of certain operating results, market values of publicly-traded securities of other relevant companies and general economic and industry conditions.

Under accounting guidelines commonly referred to as "fresh start", the fair value of all assets of ICG will be estimated as it emerges from bankruptcy in conformity with GAAP, specifically Statement of Financial Accounting Standards ("SFAS") No. 141, *"Business Combinations."* The enterprise value range in the Plan implies that a fair value adjustment of up to $200 million to property and equipment may be necessary. However, the Plan assumptions are likely to differ from the actual business conditions at the date of emergence from bankruptcy. Therefore, the fair values assigned to assets upon emergence from bankruptcy will also be different. The fair value adjustment to property and equipment, if any, will be recorded upon emergence from bankruptcy once the final enterprise value is determined.

Because of the ongoing nature of the reorganization cases, the outcome of which is not presently determinable, the consolidated financial statements contained herein are subject to material uncertainties and may not be indicative of ICG and the Company's future operations or financial position. No assurance can be given that ICG and the Company will be successful in reorganizing its affairs within the Chapter 11 bankruptcy proceedings.

As a result of the items discussed above, there is doubt about ICG's and the Company's ability to continue as a going concern. The ability of ICG and the Company to continue as a going concern is dependent upon, but not limited to, the approval and confirmation of a plan of reorganization, adequate sources of capital, customer and employee retention, the ability to provide high quality services and the ability to sustain positive results of operations and cash flows sufficient to continue to operate. These consolidated financial statements do not include any adjustments to the recorded amounts or classification of assets or liabilities or reflect any amounts that may ultimately be paid to settle liabilities and contingencies which may be required in the Chapter 11 reorganization or the effect of any changes, which may be made in connection with the Company's capitalization or operations resulting from a plan of reorganization.

These consolidated financial statements have been prepared in accordance with AICPA Statement of Position ("SOP") 90-7, *"Financial Reporting by Entities in Reorganization under the Bankruptcy Code."* Pursuant to SOP 90-7, an objective of financial statements issued by an entity in Chapter 11 is to reflect its financial evolution during the proceeding. For that purpose, the financial statements for periods including and subsequent to filing the Chapter 11 petition should distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Expenses and other items not directly related to ongoing operations are reflected separately in the consolidated statement of operations as reorganization expenses.

(3) Asset Impairment

ICG has provided for the impairment of long-lived assets, including goodwill, pursuant to SFAS No. 121, *"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of."* SFAS 121 requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever changes in circumstances indicate that the carrying value of an asset may not be recoverable. Such events include, but are not limited to, a significant decrease in the market value of an asset, a significant adverse change in the business climate that could affect the value of an asset or a current period operating or cash flow loss combined with a history of operating or cash flow losses. An impairment loss is recognized when estimated undiscounted future cash flows, before interest, 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, appraisals or other pricing models.

Management, in consultation with its financial advisors, determined that the fair value of tangible assets to be utilized in ongoing operations of ICG was $550 million at December 31, 2000. The determination was based primarily on the present value of discounted cash flows, although ICG also took into consideration several other valuation techniques, including asset appraisals and current market capitalization. As a result, ICG and the Company recorded impairment charges of $1.7 billion and $842 million in 2000, respectively.

(4) Liabilities Subject to Compromise

As of December 31, 2000 and December 31, 2001, liabilities subject to compromise consist of the following:

	December 31, 2000	December 31, 2001
	(in thousands)	
Unsecured creditors	$ 2,532,339	$ 2,477,734
Priority creditors	25,709	10,806
Capital lease obligations	146,696	137,271
Total	$ 2,704,744	$ 2,625,811

Included in unsecured creditors are $2.28 billion of intercompany payables that will be eliminated in consolidation.

(5) Qwest Settlement

In July 2001, ICG reached a settlement agreement (the "Agreement") with Qwest Communications Corporation and Qwest Corporation (collectively "Qwest"). The Agreement related to various agreements between ICG and Qwest including IRU agreements, a capacity lease agreement, an equipment purchase agreement, a remote access service agreement, a private label remote access service agreement and a primary rate interface agreement.

Based on the terms of the Agreement, the Company has recorded a gain of approximately $2.2 million in reorganization expense in the accompanying consolidated statement of operations. The gain may be adjusted if certain transactions contemplated by the Agreement are consummated. It is not possible to determine the amount of the adjustments at this time.

(6) **Reorganization Items**

For the twelve months ended December 31, 2001, net reorganization expenses totaled approximately $41 million, consisting of a gain of $2.2 million related to the Qwest settlement (see note 5 above), offset by $12 million in severance and retention costs, $13.5million in professional and legal fees, $11.1 million in costs related to the closing of certain switch sites and administrative offices, $5.4 million in line cost cancellation fees and $1.2 million in other miscellaneous expenses. The retention bonus accrual is pursuant to a Bankruptcy Court approved plan to retain employees through the bankruptcy process.

(7) **Leasing Expense**

Leasing expense totaling approximately $161 million and $146 million in 2001 and 2000, respectively, relates to the rental of facilities from consolidated subsidiaries and is eliminated in consolidation.

EXHIBIT
A-3
Admitted

ROSHKA HEYMAN & DEWULF

ROSHKA HEYMAN & DEWULF, PLC
ATTORNEYS AT LAW
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET
SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

October 11, 2002

VIA HAND-DELIVERY

Timothy Sabo, Esq.
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Re: ICG Telecom Group, Inc.: Application for CC&N
Docket No. T-03566A-99-0743

Dear Tim:

Enclosed are an original and one copy of ICG Telcom Group, Inc.'s responses to Staff's First Set of Data Requests. Please call Ray Heyman or me if you have any questions.

Sincerely,

Michael W. Patten

MWP/djj
Enclosure

TSJ-1 Your application used the then-current form from 1999. Please answer the following questions, which appear on the new application form:

(A-11) Indicate if the Applicant has been or if the Applicant is currently involved in any formal or informal complaint proceedings pending before any state or federal regulatory commission:

Response to A-11: ICG has been involved in complaint proceedings. Attached are summaries regarding informal complaints for 2002.

(A-12) Indicate if the Applicant has been or is currently involved in any civil or criminal investigations AND/OR had judgment entered against it in any civil matter or been convicted or any criminal acts related to the delivery of telecommunications services within the last five (5) years:

Response to A-12: No.

TSJ-2 Please provide an updated Certificate of Good Standing showing that ICG Telecom Group, Inc. is in good standing with the Corporations Division of the Corporation. (Note - for this certificate to be issued, you will have to file the past-due annual report of ICG).

Response to TSJ-2: A certificate is currently being processed and ICG will provide it to the ACC as soon as it receives it.

TSJ-3 Please list and describe any disputes or complaints that you have had with your existing Arizona customers.

Response to TSJ-3: There are no such disputes or complaints.

TSJ-4 Provide a copy of your second quarter "10-Q" report, when said report is available.

Response to TSJ-4: The 2002 Second Quarter 10-Q is enclosed.

TSJ-5 Upon approval by the bankruptcy court, provide a copy of the audited financial statement of ICG as approved by the bankruptcy court.

Response to TSJ-5: The only audited financials reported by ICG are contained in the 2001 10-K.

TSJ-6 Upon approval by the bankruptcy court, provide a copy of the final reorganization plan of ICG.

Response to TSJ-6: *See* enclosed documents.

TSJ-7 Provide an updated list of the officers and directors of the Applicant, and attach biographical information demonstrating that these individuals have sufficient managerial for the Application to be granted.

Response to TSJ-7: *See* enclosed documents.

TSJ-8 If the Applicant has an updated tariff that it will use in Arizona, provide a copy of such tariff.

Response to TSJ-8: *See* enclosed documents.

TSJ-9 Provide a chart showing the relationships between the Applicant, ICG Communications, and their affiliates. If the relationships will change after the reorganization, so indicate and provide a second chart showing the post-reorganization structure.

Response to TSJ-9: *See* enclosed documents.

1

ICG Communications

To: Debra Jackson - investigator
Alabama Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: July 22, 2002

Re: Barron Industries, LLC Compliant Code 08

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service on December 1999, at which time they were promised a free installation promotion. The installation charge was in the amount of $725.00. The customer continued to pay their bills during the time they subscribed to ICG services, with the exception of the $725.00 that they believed was the amount of credit that they were owed for the installation. Upon review of this customer's account, it was determined that the credit of $725.00 was given to the customer in July 2000. After ICG's explanation of the situation, the customer has indicated to ICG that the matter has been resolved and will make a payment of $725.00 to cover the past due amount in the account.

Please contact me directly at 303-414-5562 should you have additional comments or questions regarding this account.

Thank you.

ICG Communications

January 28, 2002

Federal Communications Commission
Attn: Portals Consumer Center
445 12th Street
Washington, DC 20554

RE: John E. Carter, IC#01W2018313, NOIC, 12/26/01

This letter is in response to your letter dated December 26, 2001 with regards to the above referenced inquiry filed with your office. ICG Telecom Group, Inc. ("ICG") has been working with the customer to investigate and attempt to resolve this matter.

This customer left ICG service on September 21, 2001. ICG has investigated but can find no internal documentation to support the allegations Mr. Carter raises in his inquiry. This customer was requested to provide documentation about these claims to ICG so that they could be investigated, but to date no documentation has been received from this customer. There are no ICG records of any calls or reports of service issues on this account. The only internal documentation on this account was a request the customer made for disconnection on September 21, 2001. The last payment the customer made to ICG was received in February 2001. Therefore, it is ICG's position that the balance due on this account accurately reflects the services that were used between February 2001 and the time the customer disconnected his service in September 2001. This customer account has been sent to outside collections. Should the customer produce documentation to support his claims, ICG will investigate the matter and take appropriate action.

ICG did file Chapter 11 bankruptcy in November 2000, however, during this time ICG has continued to operate "business as usual" while in the process of financial restructuring. ICG has continued to provide customer service support to our customers via toll free numbers as well as ICG's external website. ICG has made regular contacts with each of our ICG customers to update them on the progress of our reorganization. There have been no interruptions in service to ICG's customers as a result of ICG's bankruptcy. In fact, ICG has filed its Plan of Reorganization with the bankruptcy court and expects to emerge from bankruptcy by early April 2002.

Please contact me directly at 303 414-5903 should you have any additional questions or concerns regarding this matter.

Sincerely,

Amy Hartzler

July 12, 2002

Federal Communications Commission
Attn: Consumer Inquiries and Complaints Division
445 12th Street
Washington, DC 20554

RE: Kipling F. Layton, IC#02-N73240, NOIC, 5/22/02

This letter is in response to your letter dated May 22, 2002 with regards to the above referenced inquiry filed with your office. ICG Telecom Group, Inc. ("ICG") apologizes for the delay in our response. The party who filed this complaint with your office, Kipling Layton, is actually the attorney for the customer, Billy Pugh. ICG has worked directly with the customer to investigate and resolve this matter.

This customer subscribed to ICG local exchange service on July 9, 1999. They cancelled that service on August 9, 2001. Due to an internal error, ICG continued to bill them until September 14, 2001. After investigation, ICG has applied a credit to the customer's account in the amount of $223.07 plus tax. As a result of the credit being applied, there was a refund due to the customer of $6.79 and a refund check was been mailed out to this customer. The account is now closed.

ICG regrets the difficulties experienced by this customer and has taken steps to improve our processes so that errors like this one do not occur in the future. Please contact me directly at 303 414-5903 should you have any additional questions or concerns regarding this matter.

Sincerely,

Amy Hartzler
Senior Director, Business & Government Affairs

cc: Billy Pugh Company, Inc.

ICG Communications

To: Enriqueta Padua
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: October 3, 2002

Re: Doctors Corner Personnel Services – 02-03-2055 Business

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's local exchange service on December 23, 1997. The customer made a request to port out certain numbers in October of 2001, and the port out for those numbers completed on December 17, 2001. Because of an incomplete Local Service Request (LSR) submitted by the LEC requesting the port out, several lines were left in billing and overlooked. This was also due to an internal process flow that has been recognized and corrected. ICG will be issuing a credit for all monthly recurring charges invoiced to the customer after the completed port out date of December 17, 2001. ICG will also return any payments made to ICG for any of the service billed to the customer after December 17, 2001. The customer has been notified and this action should take one to two billing cycles to complete.

Please contact me directly at 303-414-5562 should you have additional comments or questions regarding this matter.

Thank you.

ICG Communications

To: Eddie R. Seigler – Investigator
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: September 19, 2002

Re: Contact: 02-01-7818

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service on September 27, 1999. The customer left ICG for another service provider effective November 1, 2001. Due to an internal error, ICG continued to bill this customer until April 1, 2002 when the billing was disconnected. ICG has issued a credit for the billing error in the amount of $217.66 plus tax. The customer agreed that this has compensated for the payment of $140.25 plus additional erroneous charges. The customer has issued a final payment on the account in the amount of $134.29 as of July 30, 2002. The account is closed and has a balance of zero.

ICG apologizes for the delay in responding to the California Public Utilities Commission. According to internal records, a response had been mailed to the Commission as of June 13, 2002.

Please contact me directly at 303-414-5562 should you have additional comments or concerns regarding this issue.

Thank you.

ICG Communications

To: Patricia Yorn - Investigator
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: August 14, 2002

Re: Onset Venture Services, Kimberly Chang – Contact: 02-03-0547 Business

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This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service on December 1, 1999. In February 2000, the customer converted their digital trunk service over to PRI and purchased a T1 card. The customer also received other promotional offerings to install the PRI service under a 36-month term. ICG reimbursed the company's vendor, PCIS, $4000.00 for the T1 card on June 22, 2000. Onset Venture Services then cancelled their service agreement prior to completion of the 36-month term. As a result, in accordance with ICG's Cal PUC tariff No. A1 in Section 3.1.1 the company has assessed an early termination charge, which charges include recovering the promotional offerings paid by ICG. Kimberly Change accepted this condition and was faxed a section of the Cal PUC tariff which describes this term. ICG apologizes for any inconvenience this may have caused the customer and looks toward an optimistic business relationship.

Please contact me directly at 303-414-5562 should you have additional comments or questions regarding this matter.

Thank you.

ICG Communications

To: Juanita Hill
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: June 6, 2002

Re: Arcom, Mary Ruppenthal – contact 01-05-3155 Business, addendum

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This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service on March 31, 2000 and cancelled this service on October 27, 2000. The customer was disputing their past due balance which consisted of the amount of usage they were being billed monthly. These charges started appearing on the invoices once the customer was converted to a different billing platform. Their monthly usage increased from an average of $250.00 to approximately $900.00. It was explained to the customer that our old billing system could not capture all of the calls that the customer made. Once they were converted to the new billing system, all of the customer's usage could be accurately detailed on their invoice which resulted in a higher amount being charged to them. The usage on their invoices was legitimate. After researching the balance due with the collection agency, it appears as the customer sent in a $500.00 balance and the rest of the balance was closed as a disputed amount. The issue is considered to be resolved.

Please contact me directly at 303-414-5562 should you have additional questions or comments regarding this matter.

Thank you.

ICG Communications

To: Patricia Yorn
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: May 15, 2002

Re: Edward Melia CPA – Contact 02-01-0160 Residential

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's local exchange service delivered via resale by Pacific Bell in December 1999. This customer cancelled that service as in August 2001. The customer is based in the Sacramento calling area. Due to a Pacific Bell error, his billing was affected by an inaccurate calling table for the Sacramento extended calling area. The calling table has since been corrected and the customer will receive credit on the Intralata toll charges for all of the local calls. The customer will also receive a credit for his voice mail charges above $9.95 per month. ICG has ceased all collections activity, the account now has a zero balance and was closed April 29, 2002.

Please contact me at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Denise Clark
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: May 7, 2002

Re: Cheetah Communications Int'l – Contact 02-01-7220 Business

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This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to in an effort to resolve their billing issues.

This customer subscribed to ICG's tariffed local exchange service in June 1998. The customer's service also bills a PICC (Presubscribed Interexchange Carrier Charge) surcharge, which he is disputing. The customer uses his service for inbound calls only and does not subscribe to any long distance service. He does not feel this charge is applicable to his service. After research, it was determined that on page 61.1 section 6.6 and page 62 section 7.2 of ICG's FCC tariff No.1, the company will recover the PICC charge from end user customers in the case where the customer has presubscribed to ICG long distance service and also if the local exchange customer has not presubscribed to any interexchange carrier. In addition, the PICC will be charged to the end user regardless of the volume option subscribed to by the customer. This tariff language was given to the customer. The FCC tariff was in effect during the installation and duration of the charges that the customer is disputing. The PICC surcharge was discontinued as of August 1, 2001 when ICG's FCC tariff was withdrawn. ICG will issue the customer a credit for all PICC charges billed to the customer from August 1, 2001 forward.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

CC: Tony Scaduto
Cheetah Communications
5420 El Monte Avenue
Temple City, CA 91780

ICG Communications

To: Denise I. Frias
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: May 2, 2002

Re: Jurecon, Inc. – Contact 02-00-7581 Business

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service in May 1997. Because of an internal error, ICG's billing system back billed the customer greater than 90 days on an invoice. There was a credit given for the back billing issue for $500.00. This matter has been resolved fully to the customer's satisfaction.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Patricia Yorn
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: April 23, 2002

Re: HMS Capital, Inc. – Contact 02-00-9444 Business

This letter is in response to the above referenced inquiry filed with your office. ICG has worked directly with this customer to resolve their issue.

This customer subscribed to local exchange service with ICG in December of 1998. They cancelled this service in August of 1999. Due to an internal error, ICG continued to generate invoices for this service. There were two separate accounts for the customer, which added to the confusion. Both accounts have been given credit adjustments to reflect the appropriate cancellation date. To address the customer's concern further, ICG's Collections process does not report to Dunn & Bradstreet and also does not assess late charges on past due balances.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Patricia Yorn
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: April 22, 2002

Re: Symtek Corporation, Roy K. Ahuna – 02-01-0916 Business

This letter is in response to the above referenced inquiry filed with your office. ICG has attempted to work with the customer to resolve their issue.

This customer subscribed to ICG local exchange services in January 2001. They cancelled this service on May 22, 2001. Due to an internal error, ICG continued to bill for one business line after the customer cancelled service until November 29, 2001. There has been a credit applied to the account in the amount of $63.13 plus tax. This will leave the customer with a credit balance of approximately $45.00. A refund check will be cut and sent to the customer within the next two billing cycles, leaving the account balance at zero.

Please contact me directly at 303-414-5562 if you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Denise I. Frias
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: April 22, 2002

Re: Staruni Corp, Bruce D. Stuart – Contact 01-06-1115 Business

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This letter is in response to the above referenced inquiry filed with your office. ICG has worked with this customer directly in order to resolve their issue.

This customer subscribed to local exchange service through ICG on 02/28/2000. The customer cancelled this service in August 2000, however due to an internal error, ICG continued billing for these services until March 2002. As a result of investigating this matter, a credit has been applied to the customer account in the amount of $52265.57, plus tax for a late disconnect. Until the credit is posted to the account, it will not be clear whether this action will leave a balance due or a credit balance. This account will be monitored and once the account status is clear ICG will either refund any monies overpaid or require payment of any past due balances.

Please contact me directly at 303-414-5562 if you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Patricia Yorn
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, Inc.

Date: April 15, 2002

Re: Netease, Chris Taylor – Contact: 02-00-6275 Business

This letter is in response to your letter dated March 29, 2002 with regard to the above referenced inquiry filed at your office. ICG worked directly with this customer to ensure his issue was resolved.

This customer subscribed to tariffed DSL service, which is subject to the conditions set forth in Sections 1.11 and 3.11 of ICG's California Tariff. In addition, the customer has a local exchange voice service account. ICG has worked with this customer to establish dates of disconnection for three separate accounts. The disconnection dates requested by the customer was December 28, 2000, however, ICG did not disconnect the services until after that date. The DSL service (Accounts 11830 and NETCANA008) was disconnected and removed from ICG's billing system on March 06, 2001. The customer was given a credit of $1980.51 for all monthly recurring charges billed between the dates of December 28, 2000 through March 06, 2001. This left the account with a past balance due of $3080.90. The other associated DSL account; NETCANA008 was disconnected on March 30, 2001. The credits for this account were $2102.49 for monthly recurring charges between the dates of December 28, 2000 and March 30, 2001. The customer also had a local exchange service account that was disconnected on December 5, 2001 which has a past due balance of $2263.92.

The past due balances on the voice account are for services rendered to the customer prior to the requested disconnection date. ICG expects these balances to be paid and has taken the proper collection actions to secure payment from the customer.

Please contact me directly at 303-414-5562 should you have any additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Robert Ricondo
California Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: 04/12/02

Re: CDM Company, Inc., Jeanne Cooper – Contact: 02-00-6105 Business

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This letter is in response to the above referenced inquiry dated on March 05, 2002 filed with your office. ICG has worked directly with the customer to ensure that their issues are resolved.

The customer subscribed to ICG's tariffed local exchange service and has cancelled that service effective July 2, 2001. Based on ICG's research of this account, the customer has a credit balance of $111.94. Upon learning of the credit balance for the first time, ICG mailed a refund check out to the customer on 03/27/02.

Please contact me directly @ 303-414-5562 should you have any additional questions or concerns regarding this matter.

Thank you.

Cc: Jeanne Cooper
The CDM Company, Inc.
12 Corporate Plaza, Suite 100
Newport Beach, California 92660

ICG Communications

January 2, 2002

Lola Beavers
California Public Utilities Commission
Consumer Affairs Branch
505 Van Ness Avenue, Room 2003
San Francisco, CA 94102

Re: Contact: 01-04-8718 Business

Dear Ms. Beavers:

This letter is an update to ICG Telecom's ("ICG's") October 29, 2001 response to this complaint.

On November 6, 2001, ICG received a letter from Mr. Castaneda setting forth his new account number with Mpower and the first billing date. This is the information that ICG needs, however, our credit department will not issue the credit until we have documentation to support the dates and account information alleged by Mr. Castaneda. ICG has attempted to follow up with Mr. Castaneda but we have been unsuccessful in reaching him by telephone. Therefore, we are hoping that upon receipt of this letter, Mr. Castaneda can provide us with a copy of his first invoice from Mpower, or any other document that proves the start date of service. Once documentation of the date service started has been received, we can process Mr. Castaneda's credit.

If you have any questions or concerns regarding this matter, please contact the undersigned.

Sincerely,

Cynthia Walker
Director, Business & Government Affairs

cc: Rodolfo Castandeda
Castaneda Business and Tax Service, Inc.
550 W. Vista Way, Suite 104
Vista, CA 92083

ICG Communications

January 2, 2002

Marshall Kennedy
California Public Utilities Commission
Consumer Affairs Branch
505 Van Ness Avenue, Room 2003
San Francisco, CA 94102

Re: Contact: 01-03-8433 Business

Dear Mr. Kennedy:

This letter is in response to the above-referenced inquiry filed with your office. ICG Telecom ("ICG") responds to this complaint as follows.

According to the customer, Eleise Kinch of Hurley Construction, the customer cancelled service with ICG on November 15, 2000, however, ICG continued to bill the customer for service. Subsequent to the filing of this complaint, ICG received documentation to support the November 15th date and ICG will provide a credit to reflect that date. The credit will amount to approximately $900. This credit should post on the customer's account within the next few weeks and there should be no further billing associated with this account.

If you have any questions or concerns regarding this matter, please contact the undersigned.

Sincerely,

Cynthia Walker

Cynthia Walker
Director, Business & Government Affairs

cc: Eleise L. Kinch
Hurley Construction
1801 I Street, Suite 202
Sacramento, CA 95814-3000

ICG Communications

January 2, 2002

Juliane Banks
California Public Utilities Commission
Consumers Affairs Branch
505 Van Ness Avenue, Room 2003
San Francisco, CA 94102

Re: Contact: 01-05-7617 Residential

Dear Ms. Banks:

This letter is in response to the above-referenced inquiry filed with your office. ICG Telecom ("ICG") has responded to this complaint as follows.

The customer claims to have cancelled service with ICG in April 2001, but continued to be billed through June 2001. The customer requests that their account be credited to reflect the disconnection in April. ICG has researched the matter and agrees with the customer. There has been a credit submitted for $430.03 and this credit should show up on the customer's invoice within the next billing cycle.

If you have any questions or concerns regarding this matter, please contact the undersigned.

Sincerely,

Cynthia Walker

Cynthia Walker
Director, Government Affairs

cc: Willy Lopez
Real Health Labs
Accounting Department
1424 30th Street, #B1
San Diego, CA 92154

ICG Communications

To: Stephanie Kazmierski
Denver/Boulder Better Business Bureau

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: September 30, 2002

Re: Frans Kroon – Fuller Travel Agency

This letter is in response to the above stated inquiry filed with your office. ICG has attempted to work directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service in April 04, 1999 and has disconnected that service effective June 28, 2002. While trying to move their service to another local exchange carrier (LEC), the customer experienced a delay in porting their telephone numbers from ICG to Bell South. After researching all of the Local Service Request (LSR) forms that were submitted to ICG, the following discovery was made. Bell South submitted four separate requests to port out numbers from ICG. These dates were; May 6, 2002, May 29, 2002, June 6, 2002 and June 13, 2002. The first two requests were rejected based upon the reasons that the LEC was not addressing all of the telephone numbers listed for the customer. It is standard procedure and widely known between all phone service carriers to list all numbers for a customer. The third order was accepted and ICG gave a commit date of June 14, 2002. On June 13, Bell South pushed back the acceptance date to June 28, 2002.

In response to the service problems experienced by the customer on June 28, 2002, ICG cannot respond being that the customer did not have ICG service as of that date.

Due to an internal error, ICG invoiced this customer for service after their service ported out to Bell South, and ICG has submitted a credit for a late disconnect in the amount of $179.29 plus tax. Several attempts have been made to communicate this information to the customer with no response. ICG feels that any balances due prior to June 28, 2002 are due. Upon the customer's initial dispute regarding this issue, all information stated on this letter was communicated directly.

Please contact me at 303-414-5562 should you have additional questions or concerns regarding this matter.

ICG Communications

To: Carole Kelley – Customer Service Representative
Better Business Bureau

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: August 16, 2002

Re: Mr. David Astwood

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service on August 17, 1999. The customer canceled this service on December 12, 2001. Due to an internal error, ICG continued to bill this customer for monthly recurring charges until July 15, 2002. Upon reviewing internal and customer-generated documentation supporting the disconnect date of December 12, 2001, the account has been credited $188.23 plus tax for the time period between December 13, 2001 and July 15, 2002. This will leave a small balance on the account which will result in either a credit to the customer or a balance due depending on the final tax calculations. The customer has come to an agreement the matter has been resolved.

Please contact me directly at 303-414-5562 should you have additional comments or questions regarding this account.

Thank you.

ICG Communications

To: Judy Dunn - Investigator
Colorado Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: August 2, 2002

Re: Contact ID 46046

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service on May 20, 1999. He continued with service until ICG applied to exit the residential IXC service in Colorado August of 2001. His service was moved from ICG to Qwest on August 8, 2001. After researching why this customer had his service disconnected, ICG found that Qwest was running a special project to address all customers' that migrated from ICG. Qwest records showed that ICG still had phone number 303-693-8199 active in our service. However, our records showed this account to have been disconnected twelve months prior and it was not ICG that disconnected this number. I explained this customer's situation to Qwest and they later reported that he would have this same number active by 5:00 pm the same day (July 31, 2002). I contacted the customer, Dan Overmyer and informed him to contact McLeod if he wanted them as his local service provider.

Please contact me directly at 303-414-5562 should you have additional questions or comments regarding this matter.

Thank you.

ICG Communications

To: Harry DiDomenico - Investigator
Colorado Public Utilities Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: July 29, 2002

Re: Contact ID 45765

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

The customer subscribed to the ICG tariffed local exchange service in question on January 18, 2001. On April 19, 2001 the customer informed ICG that the tax portion of their invoice was billing incorrectly. Due to an internal error, ICG was not able to correct this problem until January 2002, when the appropriate tax information was properly conveyed on their invoice. There has been a credit issued on a pro-rata basis to the customer's account to compensate for the over charged amount for $223.54. ICG apologizes for the inconvenience.

To address the concern that the customer has numerous misapplied payments by sending one check for payment on two accounts, ICG requested that each account have a separate payment sent per remittance slip to ensure accuracy when posting. There is approximately a ten (10) day window on average that it takes a payment to post on an account once the customer mails it. Payments are posted on a daily basis. If a payment posts on after the current invoice has been generated for that account, the payment will be reflected on the subsequent invoice.

Lastly, this customer was notified by ICG's collection department for past due balances in accordance with the terms set forth in section 2.6.3 of the Colorado PUC Tariff No. 3 on file. A letter of discontinuance was sent to the customer dated July 8, 2002 with an expiration date of July 19, 2002. Since payment was not received by July 19, 2002, an order was sent for suspension of service based on non-payment. ICG does not show any other arrangements made that illustrated a discontinuance date of July 24, 2002.

Please contact me directly at 303-414-5562 should you have additional questions or comments regarding this matter.

Thank you.

ICG Communications

TO: Thedora Jackson
Colorado Public Utilities Commission

FROM: Amy Hartzler
Senior Director, Government Affairs
ICG Communications

DATE: April 4, 2002

RE: Contact 43199, Charlie Kramer

VIA EMAIL: Thedora.Jackson@dora.state.co.us

This letter is in response to your email dated March 15, 2002 with regards to the above referenced inquiry filed with your office. ICG Telecom Group, Inc. ("ICG") apologizes for the delay in our response. ICG has worked directly with this customer to ensure their issues have been resolved.

This customer is subscribing to tariffed local exchange services through ICG under a term agreement. He had requested cancellation of those services prior to the end of his term and was advised that there would be early termination penalties that would be applied. ICG's early termination liability policy is outlined on sheets 46 and 47 of ICG's Colorado Tariff No. 3. The master service agreement that this customer signed was not a special contract but rather an agreement for service based on the rates, terms and conditions listed in ICG's tariff. The customer was provided a copy of his agreement and the early termination liability language from the tariff. As of April 4, 2002, this customer has indicated to ICG that he intends to keep ICG as his service provider and has canceled the port out order to Qwest.

Please contact me directly at 303 414-5903 should you have any additional questions or concerns regarding this matter.

Thank you.

ICG Communications

TO: Harry DiDomenico
Colorado Public Utilities Commission

FROM: Amy Hartzler
Senior Director, Government Affairs
ICG Communications

DATE: April 2, 2002

RE: Contact 42640, Carol Simmons

VIA EMAIL: Harry.DiDomenico@dora.state.co.us

This letter is in response to your emails dated February 20, 2002 and March 25, 2002 with regards to the above referenced inquiry filed with your office. ICG Telecom Group, Inc. ("ICG") apologizes for the delay in our response. ICG worked directly with Qwest in order to resolve the matter for the customer as quickly as possible.

This customer subscribed to ICG service on multiple lines via Qwest resale and was porting only two of them to Qwest in early March. The rest of the ICG lines were to be disconnected. Due to an internal error, ICG worked the entire order as a disconnect and the customer's service went down. Since the service was resale to begin with, the only way to restore service was to work with Qwest. Because the service was completely disconnected, it was not possible for Qwest to restore service for three days. ICG continued to work with Qwest to ensure the service was brought back up as quickly as possible. Once the service was restored ICG applied a $50.00 outage credit to the customer account. The customer has indicated to ICG that she is satisfied the matter was resolved.

Please contact me directly at 303 414-5903 should you have any additional questions or concerns regarding this matter.

Thank you.

ICG Communications

TO: Joe Eaglesfether
Colorado Public Utilities Commission

FROM: Amy Hartzler
Senior Director, Government Affairs
ICG Communications

DATE: February 20, 2002

RE: Contact 42215, Custom Card Solutions, Jeff Estein

VIA EMAIL: Joe.Eaglesfether@dora.state.co.us

This letter is in response to your email dated January 31, 2001 regards to the above referenced inquiry filed with your office. ICG Telecom Group, Inc. ("ICG") apologizes for the delay in our response. ICG has worked with the customer to explain the resolution of this issue.

Custom Card Solutions left ICG service on October 31, 2000. The last payment received on the account was for $163.81, which covered the services used prior to the customer leaving ICG. However, due to an internal error, this account was never removed from the ICG billing system and continued to accrue monthly recurring charges after the customer left ICG service. The balance on this account accumulated until September 6, 2001. Internal records indicate ICG worked with the customer at that time to get the proper credits applied to the account so the billing on this account would stop. The credits applied to the account were miscalculated so although the account showed a credit balance remaining of $54.32, this was not money that was due to the customer, as the customer was paid in full when he left ICG service. The credits should have been applied to bring the account balance to zero so that it could be closed. Since receiving this inquiry, ICG has done the proper calculations to bring the account balance to zero and this account has now been closed.

Please contact me directly at 303 414-5903 should you have any additional questions or concerns regarding this matter.

Thank you.

ICG Communications

TO: Joe Eaglesfether
Colorado Public Utilities Commission

FROM: Amy Hartzler
Senior Director, Government Affairs
ICG Communications

DATE: January 28, 2002

RE: Contact 41835, Digital Communications, Jennifer Harms

VIA EMAIL: Joe.Eaglesfether@dora.state.co.us

This letter is in response to your email dated January 15, 2002 with regards to the above referenced inquiry filed with your office. ICG Telecom Group ("ICG") has fully investigated the issues raised in this customer's inquiry.

Digital Communications Services subscribed to both local exchange and long distance services through ICG. In Decision C01-1101 dated October 26, 2001, the Colorado Public Utilities Commission approved the transfer of ICG long distance customers to TTI National Inc. ("TTI"). The customers affected by this conversion had been notified with two notification letters, one sent by ICG on September 26, 2001 and one sent by TTI on September 28, 2001. Customers who wished to select another long distance carrier had 30 days to make that selection and all customers who still remained on ICG service as of October 29, 2001 were advised that they would be automatically transferred to TTI long distance service.

In the case of this customer, ICG has confirmed that both letters were sent to the mailing address on file for this customer, the same one that the bills are sent to every month. There was no evidence that mail going to this address had ever been returned to ICG. In addition, this customer also has a balance on their account that is over 120 days past due. It is ICG's position that this customer was not slammed. This customer did not purchase a bundled local and long distance product and signed separate service agreements for the local and long distance portions of the service ordered. Although ICG did bill both local and long distance services on one bill, ICG has not represented that billing arrangement to be a guarantee such that the customer would be released from early termination liability for the cancellation of their local exchange service prior to the end of its term. ICG has advised the customer of the early termination liability on this account as well as the balance due in order to keep the remaining local exchange part of this account from being disconnected for nonpayment.

Please contact me directly at 303 414-5903 should you have any additional questions or concerns regarding this matter. Thank you.

ICG Communications

TO: Judy Dunn
Colorado Public Utilities Commission

FROM: Amy Hartzler
Senior Director, Government Affairs
ICG Communications

DATE: January 17, 2002

RE: Contact 41882, RE/MAX Classic, Anita Carlino

VIA EMAIL: Judy.Dunn@dora.state.co.us

This letter is in response to your email dated January 17, 2002 with regards to the above referenced inquiry filed with your office. The ICG Telecom Group, Inc. ("ICG") response below is to address what ICG believes are the customer's issues with regards to this situation. To the extent that there are concerns over items raised by Eschelon Telecom Inc, ICG will respond to those issues if and when they are raised in an appropriate proceeding.

RE/MAX Classic began Standard Business Line Service with ICG on July 7, 1999 and Digital Trunk service on September 1, 1999. ICG internal billing records indicate the pricing charged to the customer was consistent with the 36-month term arrangements for each product, as outlined in ICG's Colorado tariffs. The early termination penalties quoted to Ms. Carlino are consistent with the termination liability provisions outlined in ICG Colorado Tariff No. 3, Section 2.8.1, and were calculated based on the 36 month pricing which the customer has been billed since 1999. Based on ICG's communication with this customer, it is not clear to ICG that the customer has disputed any of these facts. If the customer disputes that a three year agreement was signed, then ICG will conduct further investigation and provide further documentation. At this time no cancellation penalties have been assessed as ICG records indicate the customer is still receiving service through ICG. In addition there is no other documentation in any of ICG's systems that indicate that there have been any issues, disputes or concerns reported previously or currently outstanding for this customer.

Please contact me directly at 303 414-5903 should you have any additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Customer Protection Division
Public Utilities Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: September 26, 2002

Re: Complaint No: CP2002080354 – Christopher Holm

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service on March 6, 2000. In February 2001, the customer requested to port out to a different service provider. Due to an internal error, ICG continued to bill this customer after they went to another service provider. ICG has zeroed out the account balance credited the amount of $1260.56 which was the actual balance on the account.

Please contact me directly at 303-414-5562 should you have any further questions regarding this matter.

ICG Communications

To: Harold Kohl
Public Utilities Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: September 10, 2002

Re: Complaint No: CP2002090026 - Michael Campbell

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

In researching this issue, ICG found Long Distance traffic originating from 972-318-1015 on September 6, 1998 with last call termination on June 22, 2000. These calls make up the balance of $521.26 that the customer is disputing. ICG has a hard copy inbound call record of this customer stating, 'he had no Long Distance because Sprint had disconnected him for non-payment.' ICG also has a hard copy of a call from Mrs. Campbell on May 6, 1999 stating that 'ICG should only be billing for Interstate calls.' There was no voice recorded or written authorization of charges that could be located in ICG's records due to internal error. ICG does not feel that the charges in dispute were unauthorized. However, based upon all information gathered, ICG has notified the collection agency, ARSI, to cease collections on this customer and clear the balance of the account to zero.

Please contact me directly should you have additional questions or comments regarding this matter.

Thank you.

ICG Communications

To: Jimmie Burnett - Investigator
Public Utilities Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: July 22, 2002

Re: Complaint No: CP2002071865 David Astwood

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service on August 17, 1999. The customer canceled this service on December 12, 2001. Due to an internal error, ICG continued to bill this customer for monthly recurring charges until July 15, 2002. Upon reviewing internal and customer-generated documentation supporting the disconnect date of December 12, 2001, the account has been credited $188.23 plus tax for the time period between December 13, 2001 and July 15, 2002. This will leave a small balance on the account which will result in either a credit to the customer or a balance due depending on the final tax calculations. The customer has come to an agreement the matter has been resolved.

Please contact me directly at 303-414-5562 should you have additional comments or questions regarding this account.

Thank you.

ICG Communications

To: Richard Allen, Investigator
Public Utilities Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: July 18, 2002

Re: Complaint # 020603135304

This letter is in response to the above stated inquiry filed with your office. ICG has been in contact with the customer's attorney, per the request of the customer, regarding this matter.

This customer subscribed to ICG's tariffed local exchange service on April 12, 2000. The customer cancelled this service effective November 19, 2001 after subscribing to a 36-month service plan. Upon termination of ICG services, Don McGill Toyota was assessed early termination charges in accordance with section 2.0 article 2.8 of the ICG tariff currently on file with the Public Utilities Commission of Texas. It is ICG's position that the early termination charges are valid and that the customer authorized the charges by signing the Master Telecommunications Agreement prior to receiving service. Therefore ICG will continue to pursue the collection of the balance due on this account.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Garnet Elkins
Public Utility Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: May 29, 2002

Re: Fidelity Factors LLC, Charles Heflin – Complaint 011219135340

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchanged service in September 2000. The service was canceled in January 2002. Due to an internal error, this customer was billed incorrect rates according to his contract. ICG has offered to settle with Fidelity Factors LLC for a total payment of $400.00 and the customer has accepted.

Contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Jimmie Burnett
Public Utility Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: May 05, 2002

Re: Executive Motoring, Pamela Lee - 020423123740

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue id resolved.

This customer subscribed to ICG's tariffed local exchange service in October 1999. This service was cancelled as of September 2001. Due to an internal error, this customer was billed for service through February 2002. There has been a credit given in the amount of $1012.36 plus tax, which has left a credit balance on the account of $400.00. ICG will send the customer a refund check for the overpayment.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Julie Swann
Public Utility Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: May 1, 2002

Re: Capitol Chevrolet, Tamara Cash – Complaint 011026084847

This letter is in response to the above referenced inquiry filed with your office. ICG worked directly with the customer to resolve their issue.

This issue was resolved on December 14, 2001. The customer subscribed for ICG tariffed local exchange services. They cancelled their service Between April-July 2001. ICG continued to bill for this service after the customer cancelled. In addition, there were overpayments made by the customer on some of the accounts, which needed to be refunded. ICG submitted late disconnect credits back to the dates provided by the customer and sent refund checks for the accounts that were over paid. All of the accounts are now disconnected and have zero balances.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Julie Swann
Public Utility Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: May 1, 2002

Re: Sutton Insurance Agency, E.S. Sutton – Complaint 011128084216

This letter is in response to the above referenced inquiry filed with your office. ICG has worked directly with the customer to ensure their issue is resolved.

The customer subscribed to ICG's tariffed local exchange service in August 1999. Due to an internal error, ICG billed this customer for four lines when they only subscribed for three. ICG has cancelled the extra line and has given credit through the initial billing for $223.79 plus tax.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Garnet Elkins
Public Utility Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: April 23, 2002

Re: Arthur Guzman Attorney at Law – Complaint 010601105934

This letter is in response to the above referenced inquiry filed with your office. ICG has worked directly with this customer to ensure that their issue is resolved.

This customer subscribed to ICG's local exchange service on May 22, 1999. During this time ICG purchased a new billing system and converted this customer to the new platform on September 09, 2000. After this conversion, the customer was charged additional features that appeared because of the billing conversion. The problem is now corrected and a credit has been given in the amount of $95.60 plus tax. The customer cancelled their local exchange service on March 12, 2002.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Garnet Elkins
Public Utility Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: April 23, 2002

Re: Beltway Appliance, Jon Horner – Complaint 010515110057

This letter is in response to the above referenced inquiry filed with you office. ICG attempted to work directly with this customer to ensure that his issue was resolved.

This customer subscribed to ICG's local exchange service on October 1, 1999. They cancelled this service on 05/14/2001. The customer had a past due balance on their account when they disconnected with ICG and were disputing that they owed this amount due to loss of business and not having their number listed in Directory Assistance. ICG does not compensate for loss of business as set forth in Section 2.1.4 of the ChoiceCom local exchange tariff.

After research, ICG found that there were orders showing that Southwestern Bell had confirmed requests from ICG to add the customer in Directory Assistance. ICG followed regulations concerning Directory Assistance and Listing Services as issued in Sections 8.1.1 and 8.1.2 in ChoiceCom's local exchange tariff. It is ICG's position that ICG is not responsible for an omission of Directory Listings once the proper request for service has been handed off to the ILEC. In addition, after a search of ICG's trouble ticket database, there were no trouble tickets found which reflected that this customer had experienced service outages. Several attempts were made to contact the customer to request additional information to support the claims of the service outages. These phone calls were not returned. This account has been written off for bad debt and turned over to an outside collection agency for further follow-up. Should the customer supply ICG with additional documentation to support their claims, ICG will be happy to investigate this matter further.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Maribel Powers
Public Utility Commissions of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: April 23, 2002

Re: Billy Pugh Company, Inc. – Complaint 020109085003

This letter is in response to the above referenced inquiry filed with your office. ICG has worked directly with this customer to ensure their issue has been resolved.

This customer subscribed to ICG's local exchange service on July 09, 1999. They cancelled the service on August 09, 2001. Due to an internal error, ICG continued to bill them until September 14, 2001. After investigation, ICG has applied a credit to the customer's account in the amount of $223.07 plus tax. This will leave a credit balance of $6.79 on the account. A refund check will be mailed to the customer in the next 30 days.

Please contact me at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

To: Garnet Elkins
Public Utility Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: 04/08/02

Re: Austin Business Furniture, John Femal – Complaint 010327114914

This letter is in response to the above referenced inquiry filed with your office. ICG has responded to this customer's issue in the following manner;

This customer subscribed to local exchange service with ICG and cancelled that service as of June 13, 2001. ICG continued to bill this customer for service after that date. The service was provisioned on a resale basis and ICG was not notified when the customer switched to a new provider. Upon receipt of the customer's first billing invoice from their new provider, the customer was given credit for monthly recurring charges back to December 08, 1999. These issues were resolved back in June of 2001.

Please contact me directly at 303-414-5562 should you have any additional questions or concerns regarding this issue.

Thank you.

Cc: John Femal
Austin Business Furniture
9901 Burnet Road
Austin, Texas 78758

ICG Communications

To: Garnet Elkins
Public Utilities Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: 04/08/02

Re: Delta Strategies, Angela Tedrow – Complaint number 010222115426

This letter is in response to your letter dated March 4, 2002 with regards to the above referenced inquiry with your office. ICG is working directly with the customer to ensure their issues have been resolved.

This customer filed a complaint stating that they had been promised a check refund for $2300.00. There was a credit submitted for $2604.71 for continued billing after the disconnect date however that amount was rejected by the revenue department because the explanations did not match the documentation provided. In ICG records, I only show this customer was asked to provide the first invoice from their new carrier, but this document was never received. The credit was resubmitted again for $1850.76 then rejected again by the revenue assurance department for the same reason as before. It looks as if the credit went through for $1274.10. This left a remaining balance of $60.66 that was written off to bad debt. I cannot find any notes that support the customer's claim that they were overcharged for services that weren't received, as mentioned in the complaint. This customer's account has been closed for over a year.

ICG Communications

To: Maribel Powers
Public Utility Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: 04/08/02

Re: Ms Corinne Sumpter-Gonzales ID # 57002662

This letter is regarding your letter dated March 27, 2002 regarding the above referenced inquiry filed with your office. ICG Telecom apologizes for the delay in our response. ICG is also working directly with the customer to ensure their issues are resolved.

This customer subscribed to tariffed local exchange services through ICG for two business lines. At the time of the customer's installation, they were located at the same site as another firm, Phillips and Prikyl. By miscommunication, The Gonzales Firm was added to this account instead of being placed on a separate billing account. ICG is working to get all charges separated between the two companies's and resolve the previous billing issues. I am working directly with both parties and will respond directly to you once the issue is fully resolved.

Please contact me directly at 303-414-5562 should you have any additional questions or concerns regarding this matter.

Thank you.

Cc: David Gonzales
Corrine Sumpter-Gonzales
2512 S. IH-36, Ste. 330
Austin, Texas 78704

Suzann Bacon
Denver/Boulder Better Business Bureau
1780 South Bellaire Street, Suite 700
Denver, Colorado 80222

ICG Communications

Texas Consumer Protection Division
Office of the Attorney General
Capitol Station
PO Box 12548
Austin, Texas 78711

Consumers Union of U.S., Inc. (CU)
101 Truman Avenue
Yonkers, New York 10703-1057

National Consumers League
1701 K Street, NW, Suite 1200
Washington, DC 20006

ICG Communications

To: Laura Hernandez
Investigator – Office of Customer Protection
Texas Public Utility Commission

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: 04/08/02

Re: American Housekeeping, Inc. – Complaint Number 011127124056

This letter is a follow up addendum to ICG's response dated 01/23/02 to your letter dated November 29, 2001 regarding the above referenced inquiry filed with your office. ICG has worked directly with this customer to ensure their issues are resolved.

This customer had subscribed to tariffed local exchange services through ICG under a term agreement. This customer had requested cancellation of those services on January 18, 2001 for two out of his accounts (20654 and 20655). Another account in question (20559) was cancelled back in 1999. According to ICG's records, it reflects a last known date of usage on September 23, 1999. ICG continued billing this customer after the requested cancellation dates. There have been credits given on all three accounts totaling $13083.58. There are balances due on each of these accounts that ICG is requesting payment for. The cumulative balances due on all of these accounts are $2077.02. All issues have been discussed and resolved with the customer.

Please contact me directly at 303-414-5562 should you have any additional questions or concerns regarding this matter.

Thank you.

Cc: John Martini
American Housekeeping, Inc.
625 Yuma Ct.
Dallas, TX 75208-1941

ICG Communications

To: Garnet Elkins
Public Utility Commission of Texas

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: April 5, 2002

Re: Pat Monnin, Complaint Number 010522120051

This letter is in response to your complaint letter dated March 04, 2002 regarding the above referenced inquiry.

We could not find this customer's account in ICG's databases under the customer name or telephone number, which were the only reference items available from the documentation, attached to the complaint. ICG is requesting that the customer provide further documentation, in particular, the specific account number so that we can investigate this further. ICG appreciates and welcomes all customer feedback and welcomes the opportunity to address any further concerns. Feel free to contact me directly with any additional questions or concerns at 303-414-5562.

Thank you.

CC: Pat Monnin
3939 Bee Caves Rd, Ste A204
Austin, TX 78746

Max Yzaguirre
Chairman

Brett A. Perlman
Commissioner

Rebecca Klein
Commissioner

W. Lane Lanford
Executive Director

Public Utility Commission of Texas

March 25, 2002

Ms.Bobbie Smith
Absolute Communications, Inc.
2333 Pollex
Corpus Christi, TX 78415

Dear Ms. Smith:

I received a response from ICG Telecom Group, Inc. concerning your October 2001 complaint. In reviewing the company's response, it appears that ICG Telecom Group, Inc. has addressed the issues raised in your complaint. Once the errors in the orders were corrected, the lines were released.

Based on this response, today I am closing this complaint. If the information that has been provided is incorrect, please send written documentation to me to support your position as soon as possible. I will review any additional information submitted and advise you of the results of my review as well as any other options that may be available to resolve your concerns. If you would like to discuss this matter, please contact me directly at (512) 936-7122, or toll-free through our Customer Hotline at 1-888-782-8477, and I will be happy to further assist you.

Sincerely,

Jimmie Burnett
Enforcement Investigator
Office of Customer Protection

cc: ICG Telecom Group, Inc.

Brett A. Perlman
Commissioner

Rebecca Klein
Commissioner

W. Lane Lanford
Executive Director

Public Utility Commission of Texas

February 25, 2002

Ms. Tina Godwin
500 Sandau, Ste. 100
San Antonio, TX 78216

Dear Ms. Godwin,

The past several years saw a record increase in the number of complaints filed with the Public Utility Commission of Texas. This impacted our ability to respond in a timely manner to every complaint. Please accept our apologies for this delayed response. Be assured that providing the best in customer service to the customers of Texas remains our primary mission.

We have received a response from ICG Telecom Group, Inc. concerning your complaint. In reviewing the company's response, it appears that ICG Telecom Group, Inc. has addressed the issues raised in your complaint. A copy of the response is enclosed for your records.

If the information that has been provided is incorrect, please send written documentation to our office to support your position as soon as possible. We will review any additional information submitted and advise you of the results of our review as well as any other options that may be available to resolve your concerns. If you would like to discuss this matter, please contact our Customer Protection Hotline at 1-888-782-8477 and a staff member will be happy to further assist you.

Again, we apologize for this delayed reply and hope that you were in no way inconvenienced by the delay.

Sincerely,

Garnet Elkins

Garnet Elkins
Public Utility Commission of Texas

cc: ICG Telecom Group, Inc.

Brett A. Perlman
Commissioner

Rebecca Klein
Commissioner

W. Lane Lanford
Executive Director

Public Utility Commission of Texas

February 21, 2002

Ms. Julie Waid
1130 Caminto La Costa
Austin, TX 78752

Dear Ms. Waid,

The past several years saw a record increase in the number of complaints filed with the Public Utility Commission of Texas. This impacted our ability to respond in a timely manner to every complaint. Please accept our apologies for this delayed response. Be assured that providing the best in customer service to the customers of Texas remains our primary mission.

We have received a response from ICG Telecom Group, Inc. concerning your complaint. In reviewing the company's response, it appears that ICG Telecom Group, Inc. has addressed the issues raised in your complaint. A copy of the response is enclosed for your records.

If the information that has been provided is incorrect, please send written documentation to our office to support your position as soon as possible. We will review any additional information submitted and advise you of the results of our review as well as any other options that may be available to resolve your concerns. If you would like to discuss this matter, please contact our Customer Protection Hotline at 1-888-782-8477 and a staff member will be happy to further assist you.

Again, we apologize for this delayed reply and hope that you were in no way inconvenienced by the delay.

Sincerely,

Cindy Guerrero

Cindy Guerrero
Public Utility Commission of Texas

cc: ICG Telecom Group, Inc.

Enclosure

Brett A. Perlman
Commissioner

Rebecca Klein
Commissioner

W. Lane Lanford
Executive Director

Public Utility Commission of Texas

February 19, 2002

Mr. Fred Schmidt
721 Congress Ave.
Austin , TX 78701

Dear Mr. Schmidt,

The past several years saw a record increase in the number of complaints filed with the Public Utility Commission of Texas. This impacted our ability to respond in a timely manner to every complaint. Please accept our apologies for this delayed response. Be assured that providing the best in customer service to the customers of Texas remains our primary mission.

We have received a response from ICG Telecom Group, Inc. concerning your complaint. In reviewing the company's response, it appears that ICG Telecom Group, Inc. has addressed the issues raised in your complaint. A copy of the response is enclosed for your records.

If the information that has been provided is incorrect, please send written documentation to our office to support your position as soon as possible. We will review any additional information submitted and advise you of the results of our review as well as any other options that may be available to resolve your concerns. If you would like to discuss this matter, please contact our Customer Protection Hotline at 1-888-782-8477 and a staff member will be happy to further assist you.

Again, we apologize for this delayed reply and hope that you were in no way inconvenienced by the delay.

Sincerely,

Lisa Anderson

Lisa Kriger Anderson
Public Utility Commission of Texas

cc: ICG Telecom Group, Inc.

Enclosure

Brett A. Perlman
Commissioner

Rebecca Klein
Commissioner

W. Lane Lanford
Executive Director

Public Utility Commission of Texas

February 13, 2002

Mr. Jeff Cook
2425 Fountainview Rd., Suite 160.
Houston, TX 77057

Dear Mr. Cook,

The past several years saw a record increase in the number of complaints filed with the Public Utility Commission of Texas. This impacted our ability to respond in a timely manner to every complaint. Please accept our apologies for this delayed response. Be assured that providing the best in customer service to the customers of Texas remains our primary mission.

We have received a response from ICG Telecom Group, Inc. concerning your complaint. In reviewing the company's response, it appears that ICG Telecom Group, Inc. has addressed the issues raised in your complaint. A copy of the response is enclosed for your records.

If the information that has been provided is incorrect, please send written documentation to our office to support your position as soon as possible. We will review any additional information submitted and advise you of the results of our review as well as any other options that may be available to resolve your concerns. If you would like to discuss this matter, please contact our Customer Protection Hotline at 1-888-782-8477 and a staff member will be happy to further assist you.

Again, we apologize for this delayed reply and hope that you were in no way inconvenienced by the delay.

Sincerely,

Lisa Anderson

Lisa Kriger
Customer Protection Division
Public Utility Commission of Texas

cc: ICG Telecom Group, Inc.

Enclosure

ICG Communications

January 2, 2002

Laura Hernandez
Enforcement Investigator
Office of Customer Protection
Public Utility Commission of Texas
P.O. Box 13326
Austin, TX 78711

Re: Complaint Number 010813081230

Dear Ms. Hernandez:

This letter is in response to the above-referenced inquiry filed with your office. ICG Telecom ("ICG") responds to this complaint as follows.

According to Mr. Jeff Cook, representative of Zebec Data Systems, Zebec had submitted a request to have their ICG phone lines ported to Southwestern Bell Telephone Company ("SWBT"). Upon receiving this complaint, ICG researched the matter and found that, according to our records, the customer's lines were ported over to SWBT effective September 14, 2001. ICG attempted to follow up with Zebec Data Systems, but Mr. Cook no longer works there and we have not been able to confirm with the customer that the lines have been successfully ported.

If you have any questions or concerns regarding this matter, please contact the undersigned.

Sincerely,

Cynthia Walker
Director, Business & Government Affairs

cc: Telecommunications Manager
Zebec Data Systems, Inc.
2425 Founainview Road, Suite 160
Houston, TX 77057

ICG Communications

To: Jeannine Brandon, Investigator
Public Utilities Commission of Ohio

From: Tory Merriman
Escalation Specialist, Dispute Resolution
ICG Communications, INC.

Date: September 5, 2002

Re: Linda Cannizzaro

This letter is in response to the above stated inquiry filed with your office. ICG has worked directly with this customer to ensure their issue is resolved.

This customer subscribed to ICG's tariffed local exchange service in December 1999. At a later time, ICG changed billing platforms and converted this customer's account over to the new system in August of 2000. Due to an internal error, calling records were duplicated on the first invoice of the new billing system. The duplicate calls were listed as Local Intralata Long Distance. The total charges invoiced for these duplicate calls were in the amount of $78.67. ICG corrected this error by giving credit to the customer's account in the amount of $78.67 + tax of $6.10 on May 09, 2001. ICG has also mailed a letter of apology addressing the customer's concerns. A copy of this letter is included as an attachment to this response. ICG feels that the customer's current balance due is correct and any past due amounts may possibly be the result of a reconciliation error on the customer's behalf and has expressed willingness to research the payment history of the account.

Please contact me directly at 303-414-5562 should you have additional questions or concerns regarding this matter.

Thank you.

ICG Communications

TO: John Campbell
PUCO

FROM: Amy Hartzler
Senior Director, Government Affairs
ICG Communications

DATE: March 25, 2002

RE: Miranda Souders, The McIntyre Company

VIA EMAIL: john.campbell@puc.state.oh.us

This letter is in response to your email dated February 13, 2002 with regards to the above referenced inquiry filed with your office. ICG Telecom Group, Inc. ("ICG") apologizes for the delay in our response. ICG has worked closely with the customer during this time to investigate and resolve her billing issues.

This customer had claimed that she was slammed because of long distance charges that appeared on her ICG bill. When the customer switched long distance carriers, ICG was sent the order to change the customer's long distance carrier selection in our switches and this work was completed. However, once the long distance traffic was pointed to the new carrier, the new carrier did not have billing arrangements set up properly for the customer, so the calls were billed on the open network and sent back to the customer's local exchange carrier, which was ICG. This is a standard industry practice. ICG has worked with the customer to re-rate these calls which resulted in a credit balance of $898.58 being applied to the customer account.

In addition, the customer was concerned that four lines were being held by ICG from being ported out to her new local exchange carrier, Nuvox. ICG does not show record of receiving a port out order for these lines and had put this account through ICG's collections process as the customer had failed to pay the portion of her invoice which was undisputed. The lines in question were disconnected by ICG prior to receiving any documentation from the new carrier. Since these lines were not published, the customer has advised us that she has elected to order brand new lines from her new carrier and leave the ICG lines in disconnected status.

The customer had also claimed double billing of calls between ICG and Easton. ICG has determined that the customer was billed correctly by ICG for local usage and that Easton was billing for the long distance usage.

The status of the customer account at this time is that there is still a past due, undisputed balance. ICG will continue to follow up with the customer regarding this past due balance. The customer has indicated to ICG that she is satisfied the issues she outlined in her inquiry have been resolved.

ICG regrets the difficulty experienced by this customer. Please contact me directly at 303 414-5903 should you have any additional questions or concerns regarding this matter.

Thank you.

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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 June 30, 2002

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.

(Debtor-in-Possession as of November 14, 2000)
(Exact names of registrant as specified in its charter)

Delaware	**84-1342022**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

161 Inverness Drive West
Englewood, Colorado 80112
(Address of principal executive offices)

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 outstanding common shares of ICG Communications, Inc. as of August 6, 2002 was 55,244,915.

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ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2001 and June 30, 2002 (Unaudited)

	December 31, 2001	June 30, 2002
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 146,587	$ 101,532
Trade receivables, net of allowance of $44 million and $22 million at December 31, 2001 and June 30, 2002, respectively	42,365	31,721
Other receivables	559	6,043
Prepaid expenses and deposits	13,559	14,269
Total current assets	203,070	153,565
Property and equipment, net (note 4)	531,187	503,020
Restricted cash	7,299	7,261
Investments	100	100
Deferred financing costs, net of accumulated amortization of $2 million (note 3)	3,050	2,689
Deposits and other assets	10,459	11,417
Total Assets (note 1)	$ 755,165	$ 678,052

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited), Continued

	December 31, 2001	June 30, 2002
	(in thousands)	
Liabilities and Stockholders' Deficit		
Current liabilities not subject to compromise:		
Accounts payable	$ 8,871	$ 11,096
Accrued liabilities	73,853	50,995
Deferred revenue	9,067	8,157
Total current liabilities not subject to compromise	91,791	70,248
Liabilities subject to compromise (notes 1 and 3)	2,729,590	2,724,076
Long-term liabilities not subject to compromise:		
Capital lease obligations	50,708	51,001
Other long-term liabilities	1,088	59
Total liabilities	2,873,177	2,845,384
Preferred stock, at liquidation value:		
Redeemable preferred stock of subsidiary	449,056	449,056
Mandatorily redeemable preferred securities of ICG Funding	92,336	55,380
8% Series A Convertible Preferred Stock	785,353	785,353
Total preferred stock	1,326,745	1,289,789
Stockholders' deficit:		
Common stock, $0.01 par value, 100,000,000 shares authorized; 53,706,777 and 55,244,915 shares issued and outstanding at December 31, 2001 and June 30, 2002, respectively	537	552
Additional paid-in capital	922,040	958,980
Accumulated deficit	(4,367,334)	(4,416,653)
Total stockholders' deficit	(3,444,757)	(3,457,121)
Commitments and contingencies (note 7)		
Total Liabilities and Stockholders' Deficit (note 1)	$ 755,165	$ 678,052

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)
For the Three and Six Months Ended June 30, 2001 and 2002

	Three months ended June 30,		Six months ended June 30,	
	2001	2002	2001	2002
	(in thousands, except per share data)			
Revenue	$ 121,252	$ 102,780	$ 257,649	$ 214,951
Operating costs and expenses:				
Operating costs	84,813	60,912	197,375	128,290
Selling, general and administrative expenses	26,470	23,960	57,166	51,562
Depreciation and amortization	16,194	25,311	32,183	44,937
Loss (gain) on disposal of assets	7,562	(108)	7,633	(114)
Provision for impairment of long-lived assets	-	643	-	643
Total operating costs and expenses	135,039	110,718	294,357	225,318
Operating loss	(13,787)	(7,938)	(36,708)	(10,367)
Other income (expense):				
Interest expense (note 3)	(11,081)	(4,599)	(23,799)	(10,303)
Reorganization expense, net (note 2)	(9,819)	(5,441)	(27,505)	(28,732)
Other income (expense), net	1,366	(57)	1,334	83
Total other expense, net	(19,534)	(10,097)	(49,970)	(38,952)
Net loss	$ (33,321)	$ (18,035)	$ (86,678)	$ (49,319)
Net loss per share – basic and diluted	$ (0.64)	$ (0.33)	$ (1.66)	$ (0.91)
Weighted average number of shares outstanding – basic and diluted	52,118	54,856	52,093	54,285

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Deficit (Unaudited)
For the Six Months Ended June 30, 2002
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balances at January 1, 2002	53,707	$ 537	$ 922,040	$ (4,367,334)	$ (3,444,757)
Shares issued upon conversion of mandatorily redeemable preferred securities of ICG Funding	1,538	15	36,940	-	36,955
Net loss	-	-	-	(49,319)	(49,319)
Balances at June 30, 2002	55,245	$ 552	$ 958,980	$ (4,416,653)	$ (3,457,121)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2001 and 2002

	Six months ended June 30,	
	2001	2002
	(in thousands)	
Cash flows from operating activities:		
Net loss	$ (86,678)	$ (49,319)
Adjustments to reconcile net loss to net cash provided by operating activities before reorganization items:		
Reorganization expense, net	27,505	28,732
Depreciation and amortization	32,183	44,937
Net loss (gain) on disposal of long-lived assets	7,633	(114)
Provision for uncollectible accounts	7,404	3,675
Provision for impairment of long-lived assets	-	643
Interest costs capitalized on assets under construction	(979)	(242)
Interest expense deferred and included in capital lease obligations	-	1,835
Amortization of deferred financing costs included in interest expense	4,236	357
Realized gain on sale of available for sale securities	(1,542)	-
Change in operating assets and liabilities, excluding the effects of dispositions and non-cash transactions:		
Receivables	18,888	1,602
Prepaid expenses and deposits	(2,837)	(1,400)
Accounts payable and accrued liabilities	982	(24,378)
Deferred revenue	(4,990)	(1,939)
Net cash provided by operating activities before reorganization items	1,805	4,389
Reorganization items:		
Reorganization expense, net	(27,505)	(28,732)
Net gain on disposal of long-lived assets	-	(195)
Net gain on contract settlements	-	(6,854)
Increase in post-petition restructuring accruals	3,425	2,704
Increase (decrease) in liabilities subject to compromise	(15,079)	12,822
	(39,159)	(20,255)
Net cash used by operating activities	(37,354)	(15,866)
Cash flows from investing activities:		
Acquisition of property and equipment	(16,919)	(24,223)
Change in prepaid expenses, accounts payable and accrued liabilities for acquisition of property and equipment	243	904
Proceeds from disposition of property, equipment and other assets	1,218	3,181
Purchase of short-term investments	-	(10,684)
Proceeds from sales of short-term investments	9,748	10,684
Decrease (increase) in restricted cash	(7)	38
Increase in long-term deposits	(2,926)	(1,119)
Reorganization items:		
Decrease in restricted cash due to settlement of liabilities subject to compromise	2,096	-
Net cash used by investing activities	(6,547)	(21,219)

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited), Continued

	Six months ended June 30,	
	2001	2002
	(in thousands)	
Cash flows from financing activities:		
Payments of deferred debt issuance costs	$ (2,000)	$ -
Reorganization items:		
Principal payments on capital lease obligations subject to compromise	(14,471)	(8,133)
Settlement of preferred dividends	(1,312)	163
Net cash used by financing activities	(17,783)	(7,970)
Net decrease in cash and cash equivalents	(61,684)	(45,055)
Cash and cash equivalents, beginning of period	196,980	146,587
Cash and cash equivalents, end of period	$ 135,296	$ 101,532
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 13,313	$ 8,593
Cash paid for income taxes	$ -	$ -
Supplemental schedule of non-cash investing activities:		
Assets acquired under capital leases	$ 50,355	$ -

See accompanying notes to consolidated financial statements.

(1) Business and Summary of Significant Accounting Policies

(a) Organization and Description of Business

ICG Communications, Inc., a Delaware corporation, and its subsidiaries are collectively referred to as "ICG" or the "Company". Prior to November 14, 2000, the Company's common stock was traded on the NASDAQ National Market ("NASDAQ"). However, due to the bankruptcy filings described below, the NASDAQ halted trading of the Company's common stock on November 14, 2000 and delisted the stock on November 18, 2000.

The Company provides voice, data and Internet communication services. Headquartered in Englewood, Colorado, the Company operates an integrated metropolitan and nationwide fiber optic infrastructure to offer:

- Dial-Up Services, including primary rate interface and remote access services, on a wholesale basis to national and regional Internet service providers ("ISP"s).
- Point-to-Point Broadband Service, providing traditional special access service to long-distance and long-haul carriers and medium to large sized corporate customers, as well as switched access and SS7 services.
- Corporate Services, primarily retail voice and data services to businesses.

(b) Basis of Presentation

The accompanying financial statements should be read in conjunction with ICG's Annual Report on Form 10-K for the year ended December 31, 2001, as certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission. The Company's interim financial statements are unaudited, but in the opinion of management, reflect all necessary adjustments. Operating results for the three and six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2002. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain 2001 amounts have been reclassified to conform to the 2002 presentation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

These consolidated financial statements have been prepared in accordance with AICPA Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Pursuant to SOP 90-7, the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Expenses and other items not directly related to ongoing operations are reflected separately in the consolidated statement of operations as reorganization expense, net (see note 2). Pre-petition liabilities that are subject to compromise are reflected separately in the consolidated balance sheet (see note 3).

(c) Bankruptcy Proceedings

On November 14, 2000 (the "Petition Date"), ICG and its operating subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States District Court for the District of Delaware (the "Bankruptcy Court") in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations. (ICG and its operating subsidiaries are collectively referred to as the "Debtors.") The Debtors are currently operating as debtors-in-possession under the supervision of the Bankruptcy Court.

On December 19, 2001, the Debtors filed a proposed Plan of Reorganization and a Disclosure Statement in the Bankruptcy Court. The Debtors subsequently filed a First Amended Disclosure Statement on March 1, 2002 and a Second Amended Disclosure Statement on March 26, 2002, which was amended on April 3, 2002 (the Plan of Reorganization, the Disclosure Statement, the First Amended Disclosure Statement and the Second Amended Disclosure Statement are collectively referred to herein as the "Original Plan"). On April 3, 2002, the Company submitted the Original Plan to the Company's creditors for approval. On May 16, 2002, the Company's balloting agent filed an affidavit indicating that the Original Plan had been accepted by all classes of creditors entitled to vote. On May 21, 2002, the Bankruptcy Court entered an order ("the Original Confirmation Order") confirming the Original Plan.

The Original Plan was formulated on the basis of extensive negotiations conducted among the Debtors and their primary constituencies. As part of the Original Plan, the Debtors received commitment letters for new financing totaling $65 million (the "Original Exit Financing"). The Original Exit Financing was to be funded predominantly by Cerberus Capital Management, L.P. ("CCM"). After the Original Confirmation Order was entered by the Bankruptcy Court, but before completion of the final Original Exit Financing documents, CCM requested the inclusion of certain provisions in the Original Exit Financing documents. CCM asserted that these additional provisions were both customary, as contemplated by the Original Plan and CCM's commitment letters, and necessary as a result of the Debtors' recent operating results and CCM's belief that a Material Adverse Change and a Financial Markets Disruption had occurred (as those terms are defined in the commitment letters for the Original Exit Financing). The Debtors disagreed with CCM's contentions and believed that the requested provisions were neither customary nor consistent with the commitment letters for the Original Exit Financing. Further, because the inclusion of these provisions would have resulted in a significant change to the economics described in the original disclosure statement, the Debtors believed that they would have been in contravention of the Original Plan. The Debtors also disputed CCM's contention that a Material Adverse Change or Financial Markets Disruption had occurred and believed that CCM was contractually obligated to close the Original Exit Financing transactions. Therefore, although the Bankruptcy Court confirmed the Original Plan, the closing of the Original Exit Financing transactions did not occur and the Original Plan did not become effective.

After consulting with the Debtors' official committee of unsecured creditors (the "Creditors Committee") and the Debtors' senior secured lenders (the "Senior Secured Lenders"), the Debtors engaged in settlement discussions with CCM. As a result of those negotiations, on July 25, 2002 the Debtors entered into an agreement with CCM that is supported by both the Creditors Committee and the Senior Secured Lenders, which agreement is embodied in a proposed modification to the Original Plan (the Original Plan as modified is referred to herein as the "Modified Plan").

Under the Modified Plan, the Debtors will receive new financing consisting of a $25 million senior subordinated term loan (the "Senior Subordinated Term Loan" or the "New Exit Financing"). Proceeds from the New Exit Financing will be used to pay down a portion of the Company's senior secured credit facility (the "Senior Facility"). Pursuant to the settlement with CCM, as of July 25, 2002, all principal documents necessary to consummate the Modified Plan were fully executed and the $25 million in proceeds from the New Exit Financing was funded by CCM into escrow.

The Debtors determined that the changes to the Original Plan as reflected in the Modified Plan were of such a significant nature as to require a resolicitation of votes from certain classes of creditors. Thus, on July 26, 2002, the Debtors filed the proposed Modified Plan and a Supplement to the Disclosure Statement in the Bankruptcy Court. A hearing has been scheduled for August 23, 2002, at which time the Bankruptcy Court will make a determination as to the adequacy of the Supplement to the Disclosure Statement. If approved by the Bankruptcy Court, the Debtors will then submit the Modified Plan to a vote by certain classes of creditors.

Accordingly, if the Debtors' creditors again vote in favor of the Modified Plan and it is confirmed by the Bankruptcy Court, upon certification by the Debtors that they are in compliance with certain covenants, representations and warranties, the escrowed proceeds from the New Exit Financing will be released for distribution on account of the Senior Secured Lenders in accordance with the terms of the Modified Plan, and

the Effective Date for the Modified Plan can immediately occur. It is anticipated that the Effective Date and the Company's emergence from Chapter 11 bankruptcy protection will occur not later than the end of October 2002.

On the Effective Date, the Company will apply Fresh Start reporting ("Fresh Start") in accordance with GAAP and the requirements of SOP 90-7. Under Fresh Start, the Company and its financial advisors will determine the reorganization value of the Company, which generally represents the going concern value. On the Effective Date, a new capital structure will be established and assets and liabilities, other than deferred taxes, will be stated at their relative fair values. Deferred taxes will be determined in conformity with the Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes."

The Company, assisted by its financial advisors, Miller Buckfire Lewis & Co., LLC (the principals of which were formerly executives of Dresdner Kleinwort & Wasserstein, Inc.), has reevaluated the reorganization value of the Company in connection with the Modified Plan. The reorganization value of the Company on a going concern basis is now estimated to be between $250 million and $325 million. The Modified Plan as submitted reflects a reorganization value of $287.5 million, which would result in a valuation of the new common equity and outstanding warrants totaling $82.6 million. The range of reorganization values in the Modified Plan indicates that the value of property and equipment may need to be reduced by up to $270 million at the Effective Date pursuant to Fresh Start requirements. However, the Modified Plan assumptions may differ from the actual business conditions on the Effective Date. Therefore, the fair values assigned to assets and liabilities on the Effective Date may also be different. The valuation is based on numerous assumptions, including, among other things, the achievement of certain operating results, market values of publicly-traded securities of other similar companies, and general economic and industry conditions.

No assurance can be given that the Company will be successful in reorganizing its affairs within the Chapter 11 bankruptcy proceedings. Notwithstanding the foregoing, based on discussions with the Company's creditors, the Company anticipates that both the Bankruptcy Court and the requisite number of the Company's creditors will approve the Modified Plan. Because of the ongoing nature of the reorganization cases, the outcome of which is not determinable until finally approved by the creditors and the Bankruptcy Court, the consolidated financial statements contained herein are subject to material uncertainties.

The ability of the Company to continue as a going concern is dependent upon, but not limited to, successfully emerging from Chapter 11 bankruptcy protection, access to adequate sources of capital, customer and employee retention, the ability to provide high quality services and the ability to sustain positive results of operations and cash flows sufficient to continue to fund operations.

(2) Reorganization Expense, Net

In accordance with SOP 90-7 (see note 1), the Company has segregated and classified certain income and expenses as reorganization items. The following reorganization items were incurred during the three and six months ended June 30, 2001 and 2002, respectively:

	Three months ended June 30,		Six months ended June 30,	
	2001	2002	2001	2002
	(in thousands)			
Severance and employee retention costs	$ 1,560	$ 3,582	$ 11,819	$ 3,894
Legal and professional fees	6,239	3,249	12,690	6,957
Switch site closure costs	929	630	3,182	1,336
Contract termination expenses	2,407	1,754	2,719	23,308
Net loss (gain) on disposal of long-lived assets	-	2,759	-	(195)
Net gain on contract settlements	-	(6,854)	-	(6,854)
Interest income	(1,578)	(411)	(4,206)	(988)
Other	262	732	1,301	1,274
	$ 9,819	$ 5,441	$ 27,505	$ 28,732

The Company is required to reconcile recorded pre-petition liabilities with claims filed by its creditors with the Bankruptcy Court. Differences resulting from that reconciliation process are recorded as adjustments to pre-petition liabilities with an offset for significant items not relating to ongoing operations included in reorganization expense, net. During the six months ended June 30, 2002, the Company recorded an increase in pre-petition liabilities of $23 million for contract termination expenses. Of this, $19 million is related to a pre-petition contract for system design and implementation. In the first quarter of 2002, in connection with its ongoing reconciliation of outstanding claims, the Company determined that this amount should be recognized as additional pre-petition liability.

(3) Liabilities Subject to Compromise

Pursuant to SOP 90-7 (see note 1), the Company has segregated and classified certain pre-petition obligations as liabilities subject to compromise. Liabilities subject to compromise have been recorded at the allowed claim amount. The following table sets forth the liabilities of the Company subject to compromise as of December 31, 2001 and June 30, 2002, respectively:

	December 31, 2001	June 30, 2002
	(in thousands)	
Unsecured long-term debt	$ 1,968,781	$ 1,968,781
Unsecured creditors	476,243	481,882
Capital lease obligations, secured	166,637	156,311
Capital lease obligations, unsecured	18,881	18,251
Senior Facility	85,503	85,503
Priority creditors	13,545	13,348
	$ 2,729,590	$ 2,724,076

Between December 31, 2001 and June 30, 2002, liabilities to unsecured creditors increased primarily due to the recognition of contract termination expenses. Capital lease obligations, secured, decreased as a result of the Company's negotiations with vendors to reduce the amount of equipment under lease, as well as principal payments on certain capital leases.

As a result of the Company's bankruptcy proceedings, all pre-petition contractual debt payments are suspended and subject to revised payment terms during the bankruptcy process on a case-by-case basis. As of June 30, 2002, the Company is in default with respect to all of its pre-petition debt. All deferred financing costs have been written off, except the $3 million at June 30, 2002 that relates to the Senior Facility of $85 million.

In connection with its bankruptcy filing, the Company is no longer accruing or paying interest on the unsecured long-term debt and the rejected pre-petition capital lease obligations. Contractual interest not recorded amounted to $60 million and $63 million for the three months ended June 30, 2001 and 2002, respectively, and $120 million and $126 million for the six months ended June 30, 2001 and 2002, respectively.

The Company continues to accrue and make interest payments on the Senior Facility, as approved by the Bankruptcy Court. The Bankruptcy Court has stayed the payment of principal due under the Senior Facility.

The Modified Plan contemplates the conversion of the Debtors' existing unsecured debt into common equity in the post-bankruptcy, reorganized Company. The Modified Plan also contemplates the issuance of a new $25 million Senior Subordinated Term Loan (the proceeds of which would be utilized to pay down the Senior Facility to a balance of approximately $60 million) and the restructuring of the Senior Facility with new terms and new notes (the "Secured Notes").

(4) Property and Equipment

Property and equipment, including assets held under capital leases, is comprised of the following:

	December 31, 2001	June 30, 2002
	(in thousands)	
Land	$ 1,214	$ -
Buildings and improvements	50,358	50,355
Furniture, fixtures and office equipment	33,593	28,780
Machinery and equipment	14,548	13,914
Fiber optic equipment	150,982	144,813
Switch equipment	136,133	136,636
Fiber optic network	90,137	98,580
Site improvements	11,245	4,042
Construction in progress	95,415	124,781
Assets held for sale	8,570	4,035
	592,195	605,936
Less accumulated depreciation	(61,008)	(102,916)
	$ 531,187	$ 503,020

Property and equipment includes $125 million of equipment that has not been placed in service and $4 million of equipment that is being held for sale at June 30, 2002, and, accordingly, is not being depreciated.

(5) Major Customers

A significant amount of the Company's revenue is derived from long-term contracts with certain large customers, including one major customer, Qwest Communications Corporation (together with its affiliated entities, "Qwest"). Revenue from Qwest accounted for 15% and 31% of total revenue in the three months ended June 30, 2001 and 2002. Revenue from Qwest accounted for 12% and 28% of total revenue in the six months ended June 30, 2001 and 2002, respectively. As of June 30, 2002, the Company had $1.6 million in net trade receivables from Qwest.

Prior to the bankruptcy filing, the Company and Qwest developed a number of important and mutually valuable business relationships, governed by a number of contracts (collectively, the "Pre-petition Agreements"). During the pendency of the Chapter 11 cases, both the Company and Qwest asserted various breaches of, and claims under, the Pre-petition Agreements. Following lengthy negotiations, the parties agreed to enter into a settlement

resolving all of the claims and issues between the parties (the "Qwest Settlement Agreement") in order to continue a cooperative, mutually beneficial relationship and to avoid potentially costly litigation. The Bankruptcy Court approved the Qwest Settlement Agreement in June 2001.

The Qwest Settlement Agreement contemplates the transfer of certain of the Company's assets with a net carrying value at June 30, 2002 of approximately $13 million and a remaining economic life of approximately two years. The transfer requires the approval by a major vendor whose approval is contingent upon acceptance of the Modified Plan by the Bankruptcy Court. Further, the transfer requires approval by the Senior Secured Lenders. Management believes that the release of pre-existing liens on this equipment by the Senior Secured Lenders is remote. Therefore, the transfer of the assets has not been reflected in the financial statements as of June 30, 2002.

At June 30, 2002, the Company had $143 million of deferred revenue related to an agreement, which was not part of the Qwest Settlement Agreement, to provide exclusive service to Qwest over designated portions of the Company's local fiber optic networks (see note 7(a)).

In the first quarter and first half of 2002, the companies that individually represented more than 5% of total revenue were Qwest, UUNet (a division of WorldCom, Inc.) and a large national ISP. MCI, another subsidiary of WorldCom, Inc., was also a significant customer, although it individually represented less than 5% of total revenue. On July 21, 2002 WorldCom, Inc. and substantially all of its active U.S. subsidiaries, including UUNet and MCI, filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code (see note 7(b)). All WorldCom, Inc. subsidiaries combined represented 12% of total revenue in the three and six months ended June 30, 2002, up from 11% and 9% in the three and six months ended June 30, 2001, respectively.

(6) Settlement with SBC Communications, Inc.

In January 2002, SBC Communications, Inc., on behalf of various subsidiaries (collectively "SBC") filed a motion in the Company's bankruptcy case seeking permission to terminate the services it provides the Company pursuant to its interconnection agreements. SBC contended that the Company owed SBC in excess of $24 million related to past billing, and, as a result, should be entitled to terminate services and pursue an administrative claim for the alleged past due receivable. The Company filed a response to SBC's motions contending that it did not owe a significant portion of the alleged past due amount. Additionally, the Company's response provided that SBC owed the Company more than the Company owed SBC. On March 29, 2002, the Company and SBC entered into a settlement agreement regarding wholesale services. On April 30, the Bankruptcy Court issued an order approving the terms of the settlement. Under the terms of the settlement, the Company recorded a net $5 million of non-recurring reciprocal compensation revenue in the three months ended March 31, 2002. As no expenses were directly attributable to the revenue, none were recorded in the three months ended March 31, 2002.

On May 10, 2002, the order became final and non-appealable. Only amounts allegedly owed for retail services have yet to be resolved. The Company believes that the ultimate resolution of the remaining items relating to retail services will be immaterial to the Company's operating results.

As of the date of this report, the Company has not received the full amount of the settlement contemplated in the settlement agreement, but anticipates that it will be received in the near future.

(7) Commitments and Contingencies

As a result of the Company's bankruptcy filing, all commitments and contingencies could be substantially modified during the Company's reorganization process.

(a) Network Capacity and Construction

At June 30, 2002, the Company had $143 million of deferred revenue, which is included in liabilities subject to compromise, related to an agreement with Qwest to provide exclusive service over designated portions of the Company's local fiber optic networks. Qwest has not yet fully ordered from the Company, and the Company has not yet delivered, certain equipment and services required by this agreement. The Company recognized $4 million and $5 million of revenue in the six months ended June 30, 2001 and 2002,

respectively, relating to certain equipment and services which Qwest has ordered and the Company has delivered under this agreement. The Company anticipates that the deferred revenue balance will be revalued in connection with Fresh Start based on the expected value of providing future services. The Modified Plan as submitted reflects a deferred revenue balance of $49 million related to this agreement in the projected pro-forma reorganized balance sheet. The actual value of the deferred revenue after application of Fresh Start may differ.

(b) ***Impact of WorldCom, Inc. Bankruptcy***

On July 21, 2002, WorldCom, Inc. and substantially all of its active U.S. subsidiaries (collectively referred to as "WorldCom") filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code. As of June 30, 2002, ICG had $2.6 million on deposit with WorldCom, pursuant to an order issued in ICG's bankruptcy proceedings, whereby ICG was required to post a deposit to provide WorldCom with adequate assurance of future payment for services rendered by WorldCom to the Company. On July 16, 2002, WorldCom applied $1 million of this deposit to outstanding balances owed by ICG to WorldCom. The Company believes that the remaining $1.6 million of the deposit has been or should be held by WorldCom in trust for the Company's benefit. As such, at this time the Company is not reserving for the deposit. Further, as of June 30, 2002, the Company had $0.7 million in trade receivables from WorldCom, all of which has been reserved for in the allowance for doubtful accounts.

Between June 30, 2002 and July 21, 2002, ICG provided $2.4 million of services to WorldCom. Due to WorldCom's bankruptcy filing, the collectibility of this amount is in question; therefore, it will not be recorded as revenue in the third quarter of 2002. In the event WorldCom elects to affirm one or more of its contracts with the Company through its bankruptcy proceedings, and thus is required to cure pre-petition defaults as provided by the Bankruptcy Code, the Company will record the revenue accordingly.

All WorldCom subsidiaries combined, including UUNet and MCI, represented 12% of total revenue in the three and six months ended June 30, 2002, up from 11% and 9% in the three and six months ended June 30, 2001, respectively.

(c) ***Other Commitments and Contingencies***

The bankruptcy filing and the severe downturn in the telecommunications industry have had a significant negative effect on the Company's basic operations and its dealings with all third parties including its customers, vendors and employees. Significant amounts of both pre-petition and post-petition billings to customers and costs billed to the Company by vendors are in dispute. Some of these disputes may result in litigation. As a result, significant judgment is needed in determining the proper presentation and valuation of revenues and costs in the financial statements. The Company expects that negotiations with major customers and vendors to settle disputed amounts could involve a lengthy process. The Company cannot predict the possible outcome of such negotiations. Accordingly, the consolidated financial statements do not include all the adjustments that may ultimately be required to settle such contingencies or any other contingencies, which may be required pursuant to the Company's Chapter 11 proceedings.

Under the Bankruptcy Code, the Company may elect to assume or reject pre-petition real estate leases, employment contracts, personal property leases, service contracts, and other unexpired executory pre-petition contracts, subject to Bankruptcy Court approval. Conversely, the Company will be required to cure all pre-petition defaults with respect to contracts that are affirmed by the Company. The Company cannot presently determine with certainty the ultimate aggregate liability that will result from the filing and settlement of claims relating to such pre-petition contracts, which may be affirmed or rejected.

The Company has entered into various equipment and line 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, either the Company or the vendor, upon prior written notice, may terminate the agreements.

(8) New Accounting Standard

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity's commitment to an exit plan, as was required under Issue 94-3. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. This Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section and other parts of this Report contain "forward-looking statements" intended to qualify as safe harbors from liability as established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statements include words such as "intends," "anticipates," "expects," "estimates," "plans," "believes" and other similar words. Additionally, statements that describe the Company's future plans, objectives or goals also are forward-looking statements. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results or outcomes to differ materially from those currently anticipated. Factors that could affect actual results include, but are not limited to, the following:

- *The material uncertainty of the Company's ability to continue as a going concern due to the filing for protection under bankruptcy law;*
- *The approval and confirmation of a plan of reorganization;*
- *The significant amount of indebtedness incurred by the Company and the Company's ability to successfully restructure this indebtedness within the bankruptcy proceeding;*
- *The existence of historical operating losses and the possibility of continued operating losses;*
- *The Company's ability to achieve and sustain a level of operating profitability sufficient to fund its business;*
- *The Company's ability to successfully maintain commercial relationships with its critical vendors and suppliers;*
- *The Company's ability to retain its major customers on profitable terms;*
- *The extensive competition the Company will face;*
- *The Company's ability to attract and retain qualified management and employees;*
- *The Company's ability to access capital markets in a timely manner, at reasonable costs and on satisfactory terms and conditions;*
- *Changes in, or the Company's inability to comply with, existing government regulations; and,*
- *General economic conditions and the related impact on demand for the Company's services.*

These forward-looking statements speak only as of the date of this Quarterly Report. The Company does not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Although the Company believes that its plans, intentions and expectations reflected in or suggested by the forward-looking statements made in this Quarterly Report are reasonable, there is no assurance that such plans, intentions or expectations will be achieved.

The results of operations for the three and six months ended June 30, 2001 and 2002 represent the consolidated operating results of the Company. (See the unaudited consolidated financial statements of the Company for the three and six months ended June 30, 2002 included elsewhere herein.) The terms "fiscal" and "fiscal year" refer to the Company's fiscal year ending December 31. All dollar amounts are in U.S. dollars.

COMPANY OVERVIEW

ICG is a facilities-based, nationwide communications provider focused on providing data and voice services to Internet service providers ("ISP"s), telecommunication carriers and corporate customers. ICG is a competitive local exchange carrier ("CLEC") certified in most of the United States, having interconnection agreements with every major local exchange carrier. ICG's facilities support three product offerings: (i) Dial-Up Services, providing wholesale managed modem connection to ISPs and other carriers; (ii) Point-to-Point Broadband, or special access service, providing dedicated broadband connections to other carriers, as well as SS7 and switched access services; and (iii) Corporate Services, providing voice and data services to corporate customers with an emphasis on Dedicated Internet Access ("DIA") services.

- **Dial-Up Services**: The Company provides primary rate interface ("PRI") ports (one and two way) and managed modem services ("IRAS") to many of the largest national ISPs and other telecommunications carriers, as well as to numerous regional ISPs and other communication service companies. Most of these services are on-switch through the Company's owned facilities. Before the related reciprocal compensation, revenue from these services accounted for 44% of the Company's total second quarter 2002 revenue. Associated reciprocal compensation revenue accounted for 13% of the Company's revenue.

- **Point-to-Point Broadband Service**: The Company provides dedicated bandwidth to connect (i) long-haul carriers to local markets, large corporations and other long-haul carrier facilities and (ii) large corporations to their long-distance carrier sites and other corporate locations. Special access sales are focused in areas where ICG maintains local fiber and buildings on-net or in close proximity. Point-to-Point Broadband service also includes switched access and SS7 services. Point-to-Point Broadband service accounted for 26% of the Company's total second quarter 2002 revenue.

- **Corporate Services**: The Company offers Internet access, data and voice service to corporate customers. ICG is well positioned to expand this service with its metropolitan asset base, data network infrastructure, and Internet experience. Corporate Services accounted for 17% of total second quarter 2002 revenue.

To provide its service offerings, ICG combines its 5,542 route miles of metropolitan and regional fiber network infrastructure, nationwide data backbone, data points of presence, 26 asynchronous transfer mode switches, numerous private and public Internet peering arrangements and 46 voice and data switches. The Company's data network is supported by a nationwide fiber optic backbone currently operating at OC-12 capacity. The design of the physical network permits the Company to offer flexible, high-speed telecommunications services to its customers.

The metropolitan and regional network infrastructure consists of fiber optic cables and associated advanced electronics and transmission equipment. The Company's network is generally configured in redundant synchronous optical network rings to make the network accessible to the largest concentration of telecommunications intensive business customers within a given market. This network architecture also offers the advantage of uninterrupted service in the event of a fiber cut or equipment failure, thereby resulting in limited outages and increased network reliability in a cost efficient manner.

REORGANIZATION AND EMERGENCE FROM BANKRUPTCY

During the second half of 2000, a series of financial and operational events negatively impacted ICG and its subsidiaries. These events reduced the Company's expected revenue and cash flow generation for the remainder of 2000 and 2001, which in turn jeopardized the Company's ability to comply with its existing senior secured credit facility (the "Senior Facility"). As a result of these and other events, on November 14, 2000 (the "Petition Date"), ICG and its operating subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States District Court for the District of Delaware (the "Bankruptcy Court") in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations. (ICG and its operating subsidiaries are collectively referred to as the "Debtors.") The Debtors are currently operating as debtors-in-possession under the supervision of the Bankruptcy Court.

Under the Bankruptcy Code, the rights and treatment of pre-petition creditors and shareholders will be substantially altered. As a result of these bankruptcy proceedings, virtually all liabilities, litigation and claims against the Company that were in existence as of the Petition Date are stayed unless the stay is modified or lifted or payment has been otherwise authorized by the Bankruptcy Court. Because of the bankruptcy filings, all of the Company's liabilities incurred prior to the Petition Date, including certain secured debt, are subject to compromise. At this time, it is not possible to predict with certainty the outcome of the Chapter 11 cases in general, the effects of such cases on the Company's business, or the effects on the interests of creditors.

On December 19, 2001, the Debtors filed a proposed Plan of Reorganization and a Disclosure Statement in the Bankruptcy Court. The Debtors subsequently filed a First Amended Disclosure Statement on March 1, 2002 and a Second Amended Disclosure Statement on March 26, 2002, which was amended on April 3, 2002 (the Plan of Reorganization, the Disclosure Statement, the First Amended Disclosure Statement and the Second Amended Disclosure Statement are collectively referred to herein as the "Original Plan"). On April 3, 2002, the Company submitted the Original Plan to the Company's creditors for approval. On May 16, 2002, the Company's balloting agent filed an affidavit indicating that the Original Plan had been accepted by all classes of creditors entitled to vote. On May 21, 2002, the Bankruptcy Court entered an order ("the Original Confirmation Order") confirming the Original Plan.

The Original Plan was formulated on the basis of extensive negotiations conducted among the Debtors and their primary constituencies. As part of the Original Plan, the Debtors received commitment letters for new financing totaling $65 million (the "Original Exit Financing"). The Original Exit Financing was to be funded predominantly by Cerberus Capital Management, L.P. ("CCM"). After the Original Confirmation Order was entered by the Bankruptcy Court, but before completion of the final Original Exit Financing documents, CCM requested the inclusion of certain provisions in the Original Exit Financing documents. CCM asserted that these additional provisions were both customary, as contemplated by the Original Plan and CCM's commitment letters, and necessary as a result of the Debtors' recent operating results and CCM's belief that a Material Adverse Change and a Financial Markets Disruption had occurred (as those terms are defined in the commitment letters for the Original Exit Financing). The Debtors disagreed with CCM's contentions and believed that the requested provisions were neither customary nor consistent with the commitment letters for the Original Exit Financing. Further, because the inclusion of these provisions would have resulted in a significant change to the economics described in the original disclosure statement, the Debtors believed that they would have been in contravention of the Original Plan. The Debtors also disputed CCM's contention that a Material Adverse Change or Financial Markets Disruption had occurred and believed that CCM was contractually obligated to close the Original Exit Financing transactions. Therefore, although the Bankruptcy Court confirmed the Original Plan, the closing of the Original Exit Financing transactions did not occur and the Original Plan did not become effective.

After consulting with the Debtors' official committee of unsecured creditors (the "Creditors Committee") and the Debtors' senior secured lenders (the "Senior Secured Lenders"), the Debtors engaged in settlement discussions with CCM. As a result of those negotiations, on July 25, 2002 the Debtors entered into an agreement with CCM that is supported by both the Creditors Committee and the Senior Secured Lenders, which agreement is embodied in a proposed modification to the Original Plan (the Original Plan as modified is referred to herein as the "Modified Plan").

Under the Modified Plan, the Debtors will receive new financing consisting of a $25 million senior subordinated term loan (the "Senior Subordinated Term Loan" or the "New Exit Financing"). Proceeds from the New Exit Financing will be used to pay down a portion of the Senior Facility. Pursuant to the settlement with CCM, as of July 25, 2002, all principal documents necessary to consummate the Modified Plan were fully executed and the $25 million in proceeds from the New Exit Financing was funded by CCM into escrow.

The Debtors determined that the changes to the Original Plan as reflected in the Modified Plan were of such a significant nature as to require a resolicitation of votes from certain classes of creditors. Thus, on July 26, 2002, the Debtors filed the proposed Modified Plan and a Supplement to the Disclosure Statement in the Bankruptcy Court. A hearing has been scheduled for August 23, 2002 at which time the Bankruptcy Court will make a determination as to the adequacy of the Supplement to the Disclosure Statement. If approved by the Bankruptcy Court, the Debtors will then submit the Modified Plan to a vote by certain classes of creditors.

Accordingly, if the Debtors' creditors again vote in favor of the Modified Plan and it is confirmed by the Bankruptcy Court, upon certification by the Debtors that they are in compliance with certain covenants, representations and warranties, the escrowed proceeds from the New Exit Financing will be released for distribution on account of the Senior Secured Lenders in accordance with the terms of the Modified Plan, and the Effective Date for the Modified Plan can immediately occur. It is anticipated that the Effective Date and the Company's emergence from Chapter 11 bankruptcy protection will occur not later than the end of October 2002.

On July 23, 2002, the Company and the Senior Secured Lenders agreed to a stipulated order to be issued by the Bankruptcy Court that authorizes the Company to continue using the Senior Secured Lenders' cash collateral in accordance with a proposed budget. Under the terms of the stipulation, the Company has agreed to maintain a total, consolidated cash balance of approximately $90 million. The stipulation also provides that ICG Holdings, Inc. and its subsidiaries may use the cash collateral in an amount not to exceed $10 million at any one time. The remaining balance of cash collateral is to remain in

an account established by ICG Services, Inc. This stipulated order will remain in place until the earlier of October 31, 2002 or the Effective Date.

Under the New Exit Financing, the Company will be subject to a number of customary affirmative, negative and financial covenants. Among other restrictions, these covenants limit the Company's ability to incur additional debt and liens, prohibit investments by the Company and restrict mergers and sales of the Company's assets. The Company must also comply with several financial covenants that restrict the Company's capital spending and require the Company to maintain certain minimum EBITDA and cash levels.

The Company's management, assisted by its financial advisors, Miller Buckfire Lewis & Co., LLC (the principals of which were formerly executives of Dresdner Kleinwort & Wasserstein, Inc.), has reevaluated the reorganization value of the Company in connection with the Modified Plan. The reorganization value of the Company on a going concern basis was estimated to be between $250 million and $325 million. The Modified Plan as submitted reflects a reorganization value of $287.5 million, which would result in a valuation of the new common equity and outstanding warrants totaling $82.6 million. However, the Modified Plan assumptions may differ from the actual business conditions on the Effective Date. Therefore, the fair values assigned to assets and liabilities on the Effective Date may also be different. The valuation is based on numerous assumptions, including, among other things, the achievement of certain operating results, market values of publicly-traded securities of other similar companies, and general economic and industry conditions.

No assurance can be given that the Company will be successful in reorganizing its affairs within the Chapter 11 bankruptcy proceedings. Notwithstanding the foregoing, based on discussions with the Company's creditors, the Company anticipates that both the Bankruptcy Court and the requisite number of the Company's creditors will approve the Modified Plan.

The ability of the Company to continue as a going concern is dependent upon, but not limited to, successfully emerging from Chapter 11 bankruptcy protection, access to adequate sources of capital, customer and employee retention, the ability to provide high quality services and the ability to sustain positive results of operations and cash flows sufficient to continue to fund operations.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, uncollectible accounts receivable, long-lived assets, operating costs and accruals, reorganization costs, litigation and contingencies. Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition and Accounts Receivable

Revenue for dedicated transport, data, Internet, and the majority of switched services, exclusive of switched access, is generally billed in advance on a fixed rate basis and recognized over the period the services are provided. Switched access revenue, including reciprocal compensation and carrier access, is generally billed on a transactional basis determined by customer usage. The transactional elements of switched access services are billed in arrears and estimates are used to recognize revenue in the period earned. Fees billed in connection with customer installations and other up front charges are recognized ratably over the estimated customer life.

The Company records inter-carrier compensation in accordance with regulatory authority approval and pursuant to interconnection agreements with incumbent local exchange carriers ("ILEC"s) and inter-exchange carriers ("IXC"s). The Company recognizes inter-carrier revenue as it is earned, except in those cases where the revenue is under dispute and

collection is uncertain. The Company pays reciprocal compensation expense to other local exchange carriers ("LEC"s) for local exchange traffic it terminates on the LECs' facilities and such costs are recognized as incurred.

Revenue attributable to leases of metropolitan fiber and other infrastructure pursuant to indefeasible rights-of-use agreements ("IRU"s) that qualify for sales-type lease accounting, and were entered into prior to June 30, 1999, were recognized at the time of delivery and acceptance of the fiber by the customer. Certain sale and long-term IRU agreements of fiber and capacity entered into after June 30, 1999 are required to be accounted for in the same manner as sales of real estate with property improvements or integral equipment which results in the deferral of revenue recognition over the term of the agreement (currently up to 20 years).

The Company establishes valuation allowances for: i) customer billings if realization of the billing is not assured; ii) billing and service adjustments; and iii) uncollectible accounts receivable. Valuation allowances for billings in dispute or at risk of realization and for billing and service credits are established through a charge to revenue, while valuation allowances for uncollectible accounts receivable are established through a charge to selling, general and administrative expenses. The Company assesses the adequacy of these reserves periodically, evaluating general factors; such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the credit worthiness of customers. The Company also assesses the ability of specific customers to meet their financial obligations and establishes specific valuation allowances based on the amount the Company expects to collect from these customers, as considered necessary. If circumstances relating to specific customers change or economic conditions improve or worsen such that past collection experience and assessment of the economic environment are no longer relevant, the estimate of the recoverability of the Company's trade receivables may change.

Operating Costs and Accrued Liabilities

The Company leases certain network facilities, primarily circuits, from LECs and CLECs to augment its owned infrastructure. The Company issued a significant number of disconnect orders to LECs and CLECs for leased circuits throughout 2001 as a result of the curtailment of the Company's expansions plans, as well as the rationalization of its network. In addition, many of these facilities-providers changed the Company's billing account numbers in an attempt to segregate the Company's pre- and post-Chapter 11 petition billing activity. Disconnected services are frequently not reflected on a timely basis on the Company's invoices, resulting in inaccurate invoices and disputes. In addition, the assignment of new billing account numbers frequently resulted in incorrect balances being carried forward on invoices. As a result of these and other types of billing disputes, the Company is in negotiations with certain providers. In determining the amount of line cost expenses and related accrued liabilities to reflect in its financial statements, the Company considers the adequacy of documentation of disconnect notices and disputes, as well as compliance with prevailing contractual requirements for submitting such disconnect notices and disputes to the provider of the facilities. Significant judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts that may be incurred to conclude the negotiations or settle any litigation.

Long-Lived Assets

The Company provides for the impairment of long-lived assets, including goodwill, pursuant to Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", 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. Such events include, but are not limited to, a significant decrease in the market value of an asset, a significant adverse change in the business climate that could affect the value of an asset or a current period operating or cash flow loss combined with a history of operating or cash flow losses. 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, appraisals or other pricing models as appropriate.

The Company recognized impairments of long-lived assets of approximately $1.7 billion and $28 million during the years ended December 31, 2000 and 2001, respectively. The Company recorded an impairment of long-lived assets of $0.6 million in the six months ended June 30, 2002. The Company performed an analysis pursuant to the requirements of SFAS No. 144 as of June 30, 2002 to determine if a further impairment of its long-lived assets was required. The analysis compared the Company's estimate of future undiscounted cash flows that will be generated by the existing long-lived assets to their net book value of $503 million. The basis for the estimate of future cash flows was the financial projections included in the Modified Plan. The analysis indicated that no impairment was required. The Company expects to recognize

a write-down in the value of long-lived assets of up to $270 million under Fresh Start reporting (defined below) upon emergence from bankruptcy.

Financial Reporting by Entities in Reorganization under the Bankruptcy Code

These consolidated financial statements have been prepared in accordance with AICPA Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Pursuant to SOP 90-7, an objective of financial statements issued by an entity in Chapter 11 is to reflect its financial evolution during the proceeding. For that purpose, the consolidated financial statements for periods including and subsequent to filing the Chapter 11 petition should distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Expenses and other items not directly related to ongoing operations are reflected separately in the consolidated statement of operations as reorganization expense, net. Reorganization expense, net was $10 million and $5 million during the three months ended June 30, 2001 and 2002, respectively. Reorganization expense, net was $28 million and $29 million during the six months ended June 30, 2001 and 2002, respectively.

On the Effective Date, the Company will apply Fresh Start reporting ("Fresh Start") in accordance with GAAP and the requirements of SOP 90-7. Under Fresh Start, the Company and its financial advisors will determine the reorganization value of the Company, which generally represents the going concern value. On the Effective Date, a new capital structure will be established and assets and liabilities, other than deferred taxes, will be stated at their relative fair values. Deferred taxes will be determined in conformity with SFAS No. 109, "Accounting for Income Taxes."

As of the Effective Date, it is anticipated that approximately $2.5 billion of unsecured creditor and debt liabilities will be discharged in exchange for new common stock and warrants to purchase additional common stock with an estimated value of approximately $83 million. In addition, the existing outstanding preferred and common stock, including warrants and options, will be extinguished.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

Reorganized Capital Structure

Under the terms of the Modified Plan, the Senior Facility will be restructured and new notes (the "Secured Notes") will be issued to the Senior Secured Lenders. In addition, the Modified Plan contemplates the issuance of a $25 million Senior Subordinated Term Loan. Proceeds from the issuance of the Senior Subordinated Term Loan will be utilized to pay down the Secured Notes, concurrent with the Effective Date. Accordingly, the remaining balance due on the Secured Notes on a projected, pro forma, reorganized basis is approximately $60 million.

The New Exit Financing is contingent upon the Company consummating the Modified Plan, which will include obtaining the necessary approvals from the Bankruptcy Court and the Company's creditors. The Modified Plan contains the endorsement of the Company's Creditors Committee and their recommendation that the creditors vote to accept the Modified Plan; however, there is no assurance that the Bankruptcy Court and the Company's creditors will approve the proposed Plan. Notwithstanding the foregoing, based on discussions with the Company's creditors, the Company anticipates that both the Bankruptcy Court and the requisite number of the Company's creditors will approve the Modified Plan.

The following table compares the capital structure of the Company as of June 30, 2002, as reported in the Company's interim unaudited financial statements, with the projected pro forma reorganized capital structure of the reorganized ICG upon confirmation of the Modified Plan. Amounts presented below as the Projected Pro Forma elements of the reorganized ICG's capital structure are taken from the Modified Plan that assumes an Effective Date of October 31, 2002.

Condensed Capital Structure

	Actual June 30, 2002	Projected Pro Forma Reorganized October 31, 2002
	(in thousands)	
Debt:		
Capital lease obligations	$ 225,563	$ 95,013
Senior Facility	84,574	-
Secured Notes	-	59,574
Senior Subordinated Term Loan, net of $5 million of debt discount	-	19,711
Other secured debt	929	15,900
Unsecured debt	1,968,781	14,696
Total debt	2,279,847	204,894
Preferred stock	1,289,789	-
Stockholders' equity (deficit)	(3,457,121)	82,589
Total debt and stockholders' equity	$ 112,515	$ 287,483

Capital lease obligations at the Effective Date will primarily include long-term leases for certain fiber facilities and the corporate headquarters building. The effective interest rate is assumed to average 14.8% per annum for fiber leases and 11.7% per annum for the building.

The Secured Notes will be secured by substantially all assets of the Company and are projected to have a principal balance of approximately $60 million outstanding as of the Effective Date. Interest will accrue as a premium over LIBOR or the bank's prime rate and is assumed at 11% per annum until loan maturity, payable quarterly in arrears. The principal balance of the Secured Notes is projected to begin amortizing in 2003 and will mature in 2005.

The $25 million Senior Subordinated Term Loan will be arranged by CCM. The Senior Subordinated Term Loan will be subordinated to the Secured Notes and will be secured by liens on substantially all assets of the Company. The loan will accrue interest at 14% per annum, will be payable monthly in arrears, and will mature four years from the Effective Date. In addition, two separate issuances of warrants to purchase a total of 673,684 New Common shares of the reorganized ICG will be issued in connection with the Senior Subordinated Term Loan. Warrants to purchase 200,000 New Common shares will have an exercise price equal to the reorganization value per share. Warrants to purchase 473,684 New Common shares will have an exercise price of $0.01. Both warrant issues will expire, if unexercised, on the fifth anniversary of the Effective Date. The warrants have an estimated fair market value of $5 million, which has been established as a debt discount with a corresponding increase to additional paid-in capital of stockholders' equity in the accompanying table.

The Secured Notes and the Senior Subordinated Term Loan will require the Company to meet certain financial covenants. The financial covenants will include minimum EBITDA requirements and capital expenditure limitations. The covenants will also require that the Company maintain a minimum cash balance calculated as a ratio to the outstanding balance of the Secured Notes. Certain of these financial covenants have been established based on the Company's projected financial results set forth in the Modified Plan. The Modified Plan, however, is based on the good faith assumptions and projections of management, which are inherently uncertain. Actual results could differ materially from the Modified Plan, which in turn could negatively impact the Company's compliance with the financial covenants.

Based on the Company's current EBITDA projections, and assuming the Company does not raise additional funds, or cut its projected capital spending, the Company would need to request a modification or waiver with respect to the minimum cash coverage ratio covenant by the first quarter of 2004. Management anticipates that the Company's business plan provides sufficient flexibility to reduce spending as appropriate to remain in compliance with this covenant. New sources of capital may also be available beyond that which is currently projected by management. There is no assurance, however, that these objectives can be realized, or that the Company will be able to secure additional capital or alternative financing. In such event, the Senior Secured Lenders could declare a default and take certain actions that would require the Company to accelerate repayment.

Other secured and unsecured debt as of the Effective Date consists primarily of notes issued to vendors, taxing authorities and professional services providers, and are projected to have a principal balance totaling $31 million. Associated interest expense is projected at 7% to 10% per annum, payable monthly.

Other Sources of Funding

The Company had cash and cash equivalents of $102 million at June 30, 2002. The Company is projected to have $70 million in cash on the Effective Date to fund capital expenditures, debt principal and interest obligations, and working capital requirements. The Company anticipates that it will need $12 million and $57 million of new debt financing in 2004 and 2005, respectively, to meet funding requirements and to refinance the bank debt due in 2005.

The Company expects that the demand for telecommunication services will grow and, notwithstanding the current downturn in the general economy and specifically the telecommunications industry, that it will be able to increase its relatively small share of the markets it serves. The Company also believes that as the Company's revenues grow, cash provided by operating activities will increase. The Company anticipates that it will be able to refinance all or a portion of the amounts due at the term of the respective debt facilities, although such refinancing is contingent upon market conditions and the Company's results of operations and is therefore not assured.

Capital Commitments

Contractual Cash Commitments

The following table summarizes the Company's contractual cash commitments. The table assumes the Bankruptcy Court and the creditors will confirm the Modified Plan and that the final provisions of the Exit Financing will exhibit terms and conditions substantially in agreement with the executed commitments discussed above.

	Four Months Ended Oct.31, 2002	Two Months Ended Dec. 31, 2002	Six Months Ended Dec. 31, 2002	Years ended December 31,			
				2003	2004	2005	2006 and thereafter
Principal payments on debt and capital lease obligations (1):							
Capital lease obligations	$ 1,768	$ 107	$ 1,875	$ 9,105	$ 9,251	$ 9,353	$ 98,424
Senior Facility (2)	25,000	-	25,000	-	-	-	-
Secured Notes	-	-	-	2,979	7,447	49,148	-
Senior Subordinated Term Loan	-	-	-	-	-	-	25,000
Other secured debt	-	925	925	5,821	5,864	3,290	-
Unsecured debt	-	576	576	2,665	2,894	2,902	5,659
	26,768	1,608	28,376	20,570	25,456	64,693	129,083
Other obligations							
Interest payments	7,845	1,752	9,597	19,376	20,896	24,534	97,999
Restructuring fees (3)	9,887	-	9,887	-	-	-	-
Operating leases, rents and other contracts	7,202	3,379	10,581	18,438	15,809	14,013	12,947
	24,934	5,131	30,065	37,814	36,705	38,547	110,946
Total Contractual Cash Obligations	$ 51,702	$ 6,739	$ 58,441	$ 58,384	$ 62,161	$ 103,240	$ 240,029

(1) Excludes the interest component – included in "Interest payments".

(2) Will be paid using proceeds form the Senior Subordinated Term Loan.

(3) Includes the estimated settlement of Administrative (Professional fees), Convenience and Priority Claims and cash disbursed with the affirmation of certain executory contracts (as these terms are defined in the Modified Plan).

Capital Expenditures

Capital expenditures in the Modified Plan are projected to be approximately $73 million in 2002 and $351 million through 2005. Capital expenditures, exclusive of amounts required to maintain the current network functionality, will be driven by customer demand for the Company's services. If customer demand for new services does not meet the expectation of the Modified Plan, capital expenditures will be proportionally reduced. The Company also has available capacity on its data backbone, intracity fiber and in its modem banks. It is the Company's objective to use this capacity to generate future revenue streams.

Assessment of Risks and Uncertainty

Availability of Financing

The Company anticipates that it will need $12 million and $57 million of new debt financing in 2004 and 2005, respectively, to meet funding requirements and to refinance the Secured Notes due in 2005. There can be no assurance, however, that refinancing will be available on acceptable terms, or at all. Further, there is no assurance that such resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements, or that the Company will achieve or sustain profitability or positive EBITDA in the future, which will allow it to maintain cash reserves or attract capital with which to refinance the Secured Notes.

As stated above, under the Modified Plan, the proceeds from the New Exit Financing will be released from escrow on the Effective Date if the Debtors' creditors again vote in favor of the Modified Plan, it is confirmed by the Bankruptcy Court, and the Company certifies that it is in compliance with certain covenants, representations and warranties. In the event the Company does not obtain such financing, the Company's ability to execute its business plan and meet future commitments may be materially adversely impacted.

Business Environment

The general economic downturn and the severe downturn in the telecommunications industry have resulted in increased exposure to several risks, including customer credit risk, increased customer disconnections, pricing pressure created by an oversupply of backbone and other services, and possible financial difficulties that may be experienced by the Company's suppliers.

The slowing economy has caused customers to go out of business, file for bankruptcy protection and look for opportunities to cut costs. As a result, the Company has experienced an acceleration of customers disconnecting services, which has resulted in downward pressure on revenue. In addition, customers are taking longer to make buying decisions, lengthening the sales cycle. During the second quarter of 2002, $2 million of recurring revenue was eliminated due to customer disconnections.

Management believes that such downward pressure on revenue will continue to negatively impact financial performance for the remainder of 2002. Approximately 16% of the Company's June, 2002 recurring revenue was earned from customers who had filed for Chapter 11 bankruptcy protection by July 31, 2002, including WorldCom, Inc. and its subsidiaries. The Company cannot predict how much of this revenue will be lost in the future to disconnections. Other customers of the Company have been adversely affected by overall industry trends and may also be experiencing financial difficulties. The Company anticipates further disconnections due to customers optimizing their existing networks, continued cost cutting efforts, and additional customer bankruptcies or other financial difficulties. There is no assurance that the Company will be able to replace lost revenue with new revenue from sales.

While bankruptcies and financial difficulties in the telecommunications industry present a threat to revenue growth, the contraction in the number of providers may benefit the Company in the following respects:

(i) As some emerging providers go out of business, their customers may seek to purchase services from the Company; and

(ii) The failure of some emerging telecommunications providers may reduce some of what the Company believes is artificially low pricing of services that exists in the market for certain telecommunications services.

There is no assurance that the Company will realize any benefits from the downturn in the telecommunications industry or that the Company will not be adversely affected by conditions in the industry or the economy in general.

The immense capital investments made in the telecommunications industry have created an oversupply of network infrastructure. This oversupply, rapid technological advancements and intense competition have resulted in significant pricing pressure in each of the Company's main service areas. While the Company believes it is price competitive overall, it cannot predict the impact that the oversupply of network infrastructure will have on future operating results.

The Company's suppliers may also become adversely affected by overall industry trends and may experience financial difficulties. There is no assurance that the Company will be able to replace lost vendor contracts under similar terms.

Reciprocal compensation revenue is primarily associated with the Company's Dial-Up revenue and represents compensation from other LECs for local exchange traffic originated on another LEC's facilities and terminated on the Company's facilities. Reciprocal compensation rates are established by interconnection agreements between the parties. In most states in which the Company provides services, regulatory bodies have established lower traffic termination rates than the rates provided under the Company's interconnection agreements. As a result, future rates will likely be lower than the rates under the expiring interconnection agreements. In addition, a 2001 FCC ruling on reciprocal compensation for ISP-bound traffic has reduced rates and will further reduce rates in June 2003. The ruling also capped the number of minutes that can be billed for ISP-bound traffic. Reciprocal compensation represented 13% of revenue in the three months ended June 30, 2001 and 2002, respectively. Reciprocal compensation, including $5 million from a settlement reached with SBC Communications, Inc., represented 13% and 14% of revenue in the six months ended June 30, 2001 and 2002, respectively. The Company believes that the revenue earned from reciprocal compensation will be significantly reduced in future years.

Loss of significant customers

The Company has substantial business relationships with a few large customers. For the three months ended June 30, 2001, and 2002, the top ten customers accounted for 52% and 65%, respectively, of total revenue. For the six months ended June 30, 2001, and 2002, the top ten customers accounted for 48% and 63%, respectively, of total revenue. The Company's largest customer accounted for 15% and 31% of total revenue in the three months ended June 30, 2001, and 2002, respectively. The Company's largest customer accounted for 12% and 28% of total revenue in the six months ended June 30, 2001, and 2002, respectively. In the first quarter and first half of 2002 the companies that individually represented more than 5% of total revenue were Qwest Communications, Inc. UUNet (a division of WorldCom, Inc.) and a large national ISP. MCI, also a subsidiary of WorldCom, was one of the top ten customers, although it individually represented less than 5% of total revenue in the three and six months ended June 30, 2002. Revenue from all WorldCom subsidiaries represented 11% and 12% of total revenue in the three months ended June 30, 2001 and 2002, respectively, and 9% and 12% of total revenue in the six months ended June 30, 2001 and 2002, respectively.

Off Balance Sheet Financing

The Company has no off balance sheet financing other than long term commitments for operating leases and rents.

Historical Cash Activities

Net Cash Used By Operating Activities

The Company's operating activities used $37 million and $16 million in the six months ended June 30, 2001 and 2002, respectively. Net cash used by operating activities is comprised primarily of net losses, reorganization items and fluctuations in operating assets and liabilities (working capital), offset by non-cash items included in the net losses, such as depreciation and amortization, provision for uncollectible accounts and deferred interest expense.

The Company's operating activities before reorganization items provided $2 million and $4 million in 2001 and 2002, respectively. For the six months ended June 30, 2002 working capital items used cash of $26 million, primarily due to a $24 million decrease in accounts payable and accrued liabilities. For the six months ended June 30, 2001, working capital items provided cash of $12 million, primarily due to $19 million decrease in receivables.

Reorganization items included in cash flows from operating activities used $39 million and $20 million in 2001 and 2002, respectively. Reorganization items represent primarily reorganization expense, net, adjusted for non-cash items recognized during the bankruptcy process, and are comprised primarily of changes in liabilities subject to compromise, gains and losses related to contract settlements and disposals of long-lived assets, and post-petition accruals directly related to reorganization activities.

Net Cash Used By Investing Activities

Investing activities used $7 million and $21 million in the six months ended June 30, 2001 and 2002, respectively. Net cash used by investing activities is primarily comprised of cash purchases of property and equipment, proceeds from disposition of property, equipment and other assets, purchases and sales of short-term investments, and fluctuations in long-term deposit balances.

Net Cash Used By Financing Activities

Financing activities used $18 million and $8 million in the six months ended June 30, 2001 and 2002, respectively. Cash used by financing activities in 2001 and 2002 represents primarily principal payments on capital lease obligations that are subject to compromise.

The Company continues to make interest-only payments on the Senior Facility balance as approved by the Bankruptcy Court. The Bankruptcy Court has stayed the payment of principal due under the Senior Facility. The Company anticipates that in connection with the Exit Financing proposed in its Plan (see "Reorganized Capital Structure" under "Liquidity and Capital Resources"), the Company will repay $25 million on or about the Effective Date, and the remaining $60 million will be replaced with the Secured Notes.

As of June 30, 2002, the Company had an aggregate accreted value of approximately $2 billion outstanding under the 13 1/2% Senior Discount Notes due 2005, the 12 1/2% Senior Discount Notes due 2006, the 11 5/8% Senior Discount Notes due 2007, the 10% Notes and the 9 7/8% Notes. It is anticipated that this debt will be discharged pursuant to the confirmation of the Modified Plan.

As of June 30, 2002, an aggregate amount of approximately $1.3 billion was outstanding under the 6 3/4% Preferred Securities, the 14% Preferred Stock, the 14 1/4% Preferred Stock and the 8% Series A Convertible Preferred Stock. It is anticipated that the preferred stock will be extinguished pursuant to the confirmation of the Modified Plan.

Capital Expenditures

The Company's capital expenditures, which represent assets acquired with cash and under capital leases, were $67 million and $24 million for the six months ended June 30, 2001 and 2002, respectively.

RESULTS OF OPERATIONS

The following table provides a breakdown of revenue, operating costs and selling, general and administrative expenses 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.

Financial Data

	Three months ended June 30,				Six months ended June 30,			
	2001		2002		2001		2002	
	$	%	$	%	$	%	$	%
	(unaudited) ($ values in thousands)							
Statement of Operations Data:								
Revenue	121,252	100	102,780	100	257,649	100	214,951	100
Operating costs	84,813	70	60,912	59	197,375	77	128,290	60
Selling, general and administrative	26,470	22	23,960	23	57,166	22	51,562	24
Depreciation and amortization	16,194	13	25,311	25	32,183	12	44,937	21
Loss on disposal of asset	7,562	6	(108)	-	7,633	3	(114)	-
Provision for impairment of long-lived assets	-	-	643	1	-	-	643	-
Operating loss	(13,787)	(11)	(7,938)	(8)	(36,708)	(14)	(10,367)	(5)
Other Data:								
EBITDA (1)	9,969	8	17,908	17	3,108	1	35,099	16
Net cash provided (used) by operating activities	24,290		15,470		(37,354)		(15,866)	
Net cash used by investing activities	(1,536)		(4,122)		(6,547)		(21,219)	
Net cash provided (used) by financing activities	(15,980)		(7,270)		(17,783)		(7,970)	
Capital expenditures (2)	59,376		16,614		67,274		24,223	

Statistical Data (unaudited) (3)

	June 30, 2001	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002
Full time employees	1,422	1,389	1,368	1,342	1,138
Telecom services:					
Access lines in service, in thousands (4)	719	789	742	807	834
Buildings connected:					
On-net	881	902	901	911	912
Hybrid (5)	7,264	6,315	5,727	5,189	4,748
Total buildings connected	8,145	7,217	6,628	6,100	5,660
Operational switches:					
Circuit	44	43	43	47	46
ATM	27	26	27	25	26
Total operational switches	71	69	70	72	72
Operational regional fiber route miles (6):	5,577	5,542	5,542	5,542	5,542
Operational regional fiber strand miles (7):	166,498	165,847	165,847	165,847	165,927
Collocations with ILECs	160	148	161	160	158

(1) EBITDA consists of net income (loss) from continuing operations before interest, income taxes, reorganization expense, net, depreciation and amortization, other expenses, net. EBITDA 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 GAAP for the periods indicated. EBITDA is not a measurement under GAAP and is 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. The following table is a reconciliation of the net loss reported by the Company to EBITDA:

	Three months ended June 30,		Six months ended June 30,	
	2001	2002	2001	2002
	(in thousands)			
Net loss	$ (33,321)	$ (18,035)	$ (86,678)	$ (49,319)
Depreciation and amortization	16,194	25,311	32,183	44,937
Interest expense	11,081	4,599	23,799	10,303
Reorganization expense, net	9,819	5,441	27,505	28,732
Loss (gain) on disposal of assets	7,562	(108)	7,633	(114)
Provision for impairment of long-lived assets	-	643	-	643
Other expense (income), net	(1,366)	57	(1,334)	(83)
EBITDA	$ 9,969	$ 17,908	$ 3,108	$ 35,099

(2) Capital expenditures include assets acquired with cash, payables, under capital leases, and pursuant to IRU agreements.

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

(4) Access lines in service include only provisioned lines generating revenue.

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

(6) Regional fiber route miles refers to the number of miles of fiber optic cable, including leased fiber. None of the regional fiber route miles at June 30, 2002 were leased under operating leases.

(7) 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 June 30, 2002, the Company had 165,927 regional fiber strand miles, 45,445 of which were leased under operating leases.

THREE MONTHS ENDED JUNE 30, 2002 COMPARED TO THREE MONTHS ENDED JUNE 30, 2001

Revenue

	Three Months Ended June 30,			
	2001		2002	
	$	%	$	%
	($ values in thousands)			
Dial-Up	40,658	34	45,056	44
Point-to-Point Broadband	38,981	32	27,009	26
Corporate Services	25,877	21	17,445	17
Reciprocal Compensation	15,736	13	13,270	13
Total Revenue	121,252	100	102,780	100

Total revenue decreased $18 million, or 15%, between the three months ended June 30, 2001 and 2002, respectively. The decrease was due to a $12 million decrease in Point-to-Point Broadband revenue, an $8 million decrease in Corporate Services revenue and a $2 million decrease in Reciprocal Compensation revenue, offset by a $4 million increase in Dial-Up revenue.

The general economic downturn and the severe downturn in the telecommunications industry have resulted in an oversupply of network infrastructure. In addition, the slowing economy has resulted in the Company's customers going out of business, filing for bankruptcy protection, and looking for opportunities to cut costs. The effects on the Company include higher levels of customer disconnections and increased pricing pressure on new and existing customer contracts. In addition, customers are taking longer to make buying decisions, lengthening the sales cycle.

Dial-Up revenue is earned by providing PRI ports (one and two way) and managed modem (IRAS) services to ISPs and other communication service companies. Dial-Up revenue increased 11% from $41 million in 2001 to $45 million in 2002, due primarily to an 18% increase in the billed line count, offset by a 6% decrease in the average monthly revenue per

customer port in service. Dial-Up revenue's contribution to total revenue rose from 34% in the second quarter of 2001 to 44% in the second quarter of 2002.

Point-to-Point Broadband revenue is generated from service provided to inter-exchange carriers ("IXCs") and end-user business customers. This service provides dedicated bandwidth and offers DS1 to OC-192 capacity to connect: (i) long-haul carriers to local markets, large companies and other long-haul carrier facilities; and (ii) large companies to their long distance carrier facilities and other facilities. Point-to-Point Broadband revenue decreased 31% from $39 million in 2001 to $27 million in 2002. The decrease in Point-to-Point Broadband revenue was comprised of decreases in special access, switched access and SS7 revenues of 24%, 65% and 62%, respectively, which occurred primarily due to customer churn. Point-to-Point Broadband revenue's contribution to total revenue declined from 32% in the first quarter of 2001 to 26% in the first quarter of 2002.

Corporate Services revenue includes local enhanced telephony (voice) and data (internet access) services to businesses over its fiber optic networks located in major metropolitan areas. Corporate Services revenue decreased 33% from $26 million in 2001 to $17 million in 2002. The billed line count decreased 42% from the second quarter of 2001 to the second quarter of 2002, while the average monthly revenue per line increased 16%. The decrease in the billed line count is primarily the result of customer churn in the telephony services, as well as planned transition of customers in certain service areas. In addition, the Company entered into an agreement to transfer its long distance revenue stream in the fourth quarter of 2001. These customers generated $1.3 million of revenue in the three months ended June 30, 2001. The lost revenue's impact on EBITDA was not significant. Corporate Services revenue's contribution to total revenue declined from 21% in the second quarter of 2001 to 17% in the second quarter of 2002.

Reciprocal Compensation revenue is primarily earned pursuant to interconnection agreements with ILECs for the transport and termination of calls originated by ILEC customers, including Internet bound calls. Reciprocal Compensation revenue decreased 16% from $16 million in 2001 to $13 million in 2002. The decrease in revenue was due to a 12% decrease in the average revenue earned per minutes of use, as well as a 5% decrease in the minutes of use. Reciprocal Compensation's contribution to total revenue remained consistent at 13% in 2001 and 2002. The Company anticipates that Reciprocal Compensation revenue will decline in the future based on future negotiated rates and expiration of agreements beginning in the first quarter of 2003.

The Company has substantial business relationships with a few large customers. For the three months ended June 30, 2001, and 2002, the top ten customers accounted for 52% and 65%, respectively, of total revenue. The Company's largest customer accounted for 15% and 31% of total revenue in the three months ended June 30, 2001, and 2002, respectively. In 2002 the companies that individually represented more than 5% of total revenue were Qwest Communications, Inc., UUNet (a division of WorldCom, Inc.) and a large national ISP. MCI, also a subsidiary of WorldCom, Inc., was one of the top ten customers, although it individually represented less than 5% of total revenue. All WorldCom subsidiaries combined represented 11% and 12% of total revenue in the three months ended June 30, 2001 and 2002, respectively.

Operating costs

Total operating costs decreased 28% from $85 million for the three months ended June 30, 2001 to $61 million for the same period in 2002. As a percentage of revenue, operating costs also decreased from 70% in the second quarter of 2001 to 59% in the second quarter of 2002. Operating costs consist primarily of payments to ILECs, other CLECs, and long distance carriers for the use of network facilities to support local, special, switched access services, and long distance services as well as internal network operating costs, right of way fees and other operating costs. Internal network operating costs include the cost of engineering and operations personnel dedicated to the operations and maintenance of the network. Since filing for bankruptcy, the Company has significantly reduced excess network capacity, eliminated services in unprofitable markets, and reconfigured its network for better performance. This has resulted in lower operating costs for both internal and leased network facilities.

Selling, general and administrative ("SG&A") expenses

Total SG&A expenses decreased 9% from $26 million for the three months ended June 30, 2001 to $24 million for the same period in 2002. As a percentage of revenue, SG&A expenses increased slightly from 22% for 2001 to 23% for 2002. The average number of full-time employees during the period decreased 14% from 1,443 in 2001 to 1,243 in 2002. The decrease in SG&A costs was due primarily to reduced costs associated with the lower headcount, lower facilities costs as the Company consolidates its locations during the restructuring process, lower software maintenance costs, and lower bad

debt expense. In addition, real estate and personal property taxes decreased as a result of write downs in the value of the Company's property and equipment.

In the second quarter of 2002 the Company announced that it would reduce its workforce. As a result, the number of full-time employees decreased 15% from March 31, 2002 to June 30, 2002. Because the reduction did not become effective until June 2002, the full impact on SG&A will not be seen until the third quarter of 2002.

Depreciation and amortization

Depreciation and amortization increased 56% from $16 million for the three months ended June 30, 2001 to $25 million for the same period in 2002, primarily due to higher levels of property and equipment placed in service and subject to depreciation.

Interest expense

Interest expense decreased 58% from $11 million for the three months ended June 30, 2001 to $5 million for the same period in 2002, primarily due to interest expense eliminated as a result of the Company's rejection of certain capital leases in connection with the bankruptcy process. In addition, interest expense in the three months ended June 30, 2001 included $2 million of deferred financing cost amortization relating to the Debtor-In-Possession Revolving Credit Agreement. The Company terminated the Revolving Credit Agreement on November 7, 2001 and wrote off the remaining unamortized deferred financing costs to interest expense at that time.

Reorganization expense, net

Reorganization expense, net decreased 45% from $10 million for the three months ended June 30, 2001 to $5 million for the same period in 2002. Reorganization expense, net consists of items associated with the bankruptcy proceedings that are not directly attributable to the ongoing operations of the Company. The decrease is attributable primarily to the $7 million gain recorded in the quarter ended June 30, 2002 related to contract settlements reached with vendors.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO SIX MONTHS ENDED JUNE 30, 2001

Revenue

	Six Months Ended June 30,			
	2001		2002	
	$	%	$	%
	($ values in thousands)			
Dial-Up	87,251	34	89,278	42
Point-to-Point Broadband	78,517	30	56,970	26
Corporate Services	59,097	23	37,686	18
Reciprocal Compensation	32,784	13	31,017	14
Total Revenue	257,649	100	214,951	100

Total revenue decreased $43 million, or 17%, between the six months ended June 30, 2001 and 2002, respectively. The decrease was due primarily to a $22 million decrease in Point-to-Point Broadband revenue, a $21 million decrease in Corporate Services revenue, and a $2 million decrease in Reciprocal Compensation revenue, offset by a $2 million increase in Dial-Up revenue. 2002 Reciprocal Compensation revenue includes $5 million from a settlement reached with SBC Communications, Inc.

Dial-Up revenue increased 2% from $87 million in 2001 to $89 million in 2002, due primarily to a 9% increase in the billed line count, offset by an 6% decrease in the average monthly revenue per customer port in service. Dial-Up revenue's contribution to total revenue rose from 34% in the first half of 2001 to 42% in the first half of 2002.

The decrease in Point-to-Point Broadband revenue was comprised of decreases in special access, switched access and SS7 revenues of 22%, 56% and 50%, respectively, which occurred primarily due to customer churn. Point-to-Point Broadband revenue's contribution to total revenue declined from 30% in the first quarter of 2001 to 26% in the first quarter of 2002.

Corporate Services revenue decreased 36% from $59 million in 2001 to $38 million in 2002, primarily due to a 43% decrease in the billed line count, offset by a 12% increase in the average monthly revenue per line from the first half of 2001 to the first half of 2002. The decrease in the billed line count is primarily the result of customer churn in the telephony services, as well as planned transition of customers in certain service areas. In addition, the Company entered into an agreement to transfer its long distance revenue stream in the fourth quarter of 2001. These customers generated $3.8 million of revenue in the six months ended June 30, 2001. The lost revenue's impact on EBITDA was not significant. Corporate Services revenue's contribution to total revenue declined from 23% in the first half of 2001 to 18% in the first half of 2002.

Reciprocal Compensation revenue decreased 5% from $33 million in 2001 to $31 million in 2002. Reciprocal Compensation's contribution to total revenue increased from 13% in 2001 to 14% in 2002. Reciprocal Compensation revenue in 2002 includes $5 million from a settlement reached with SBC Communications, Inc. The revenue from the settlement was recorded in the first quarter of 2002. If the revenue from the settlement were to be excluded, Reciprocal Compensation revenue would have decreased 21% to $26 million, or 12% of total revenue. Excluding the effect of the settlement on revenue, average revenue earned per minutes of use decreased 15% and minutes of use decreased 8%. The Company anticipates that Reciprocal Compensation revenue will decline in the future based on future negotiated rates and expiration of agreements beginning in the first quarter of 2003.

The Company has substantial business relationships with a few large customers. For the six months ended June 30, 2001, and 2002, the top ten customers accounted for 48% and 63%, respectively, of total revenue. The Company's largest customer accounted for 12% and 28% of total revenue in the six months ended June 30, 2001, and 2002, respectively. In 2002 the companies that individually represented more than 5% of total revenue were Qwest Communications, Inc., UUNet (a division of WorldCom, Inc.) and a large national ISP. MCI, also a subsidiary of WorldCom, Inc., was one of the top ten customers, although it individually represented less than 5% of total revenue. All WorldCom subsidiaries combined represented 9% and 12% of total revenue in the six months ended June 30, 2001 and 2002, respectively.

Operating costs

Total operating costs decreased 35% from $197 million for the six months ended June 30, 2001 to $128 million for the same period in 2002. As a percentage of revenue, operating costs also decreased from 77% in the first half of 2001 to 60% in the first half of 2002. Since filing for bankruptcy, the Company has significantly reduced excess network capacity, eliminated services in unprofitable markets, and reconfigured its network for better performance. This has resulted in lower operating costs for both internal and leased network facilities.

Selling, general and administrative ("SG&A") expenses

Total SG&A expenses decreased 10% from $57 million for the six months ended June 30, 2001 to $52 million for the same period in 2002. As a percentage of revenue, SG&A expenses increased from 22% for 2001 to 24% for 2002. The average number of full-time employees during the period decreased 18% from 1,578 in 2001 to 1,300 in 2002. The decrease in SG&A costs was due primarily to reduced costs associated with the lower headcount, lower facilities costs as the Company consolidates its locations during the restructuring process, lower software maintenance costs, and lower bad debt expense. In addition, real estate and personal property taxes decreased as a result of write downs in the value of the Company's property and equipment.

In the second quarter of 2002 the Company announced that it would reduce its workforce. As a result, the number of full-time employees decreased 15% from March 31, 2002 to June 30, 2002. Because the reduction did not become effective until June 2002, the full impact on SG&A will not be seen until the third quarter of 2002.

Depreciation and amortization

Depreciation and amortization increased 40% from $32 million for the six months ended June 30, 2001 to $45 million for the same period in 2002, primarily due to higher levels of property and equipment placed in service and subject to depreciation.

Interest expense

Interest expense decreased 57% from $24 million for the six months ended June 30, 2001 to $10 million for the same period in 2002, primarily due to interest expense eliminated as a result of the Company's rejection of certain capital leases in connection with the bankruptcy process. In addition, interest expense in the six months ended June 30, 2001 included $4 million of deferred financing cost amortization relating to the Debtor-In-Possession Revolving Credit Agreement. The Company terminated the Revolving Credit Agreement on November 7, 2001 and wrote off the remaining unamortized deferred financing costs to interest expense at that time.

Reorganization expense, net

Reorganization expense, net increased 4% from $28 million for the six months ended June 30, 2001 to $29 million for the same period in 2002. The increase is primarily attributable to a $21 million increase in contract termination expenses, offset by an $8 million decrease in severance and employee retention costs, a $6 million decrease in legal and professional fees and a $6 million gain from contract settlements recorded in 2002. As part of its restructuring activities, including reconciliation of pre-petition claims, during the six months ended June 30, 2002 the Company recognized $23 million of contract termination expenses, which have been accrued as unsecured liabilities subject to compromise. Severance and employee retention costs were lower because the Company's reductions in workforce were more significant in the first half of 2001 than in 2002. In the first half of 2002, the number of full-time employees decreased by 230 employees, compared to a decrease of 632 employees in the first half of 2001.

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.

PART II

ITEM 1. **LEGAL PROCEEDINGS**

On November 14, 2000, the Company and most of its subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code in the Federal District of Delaware (Joint Case Number 00-4238 (PJW)). The Company is currently operating as a debtor-in-possession under the supervision of the Bankruptcy Court. The bankruptcy petition was filed in order to preserve cash and give the Company the opportunity to restructure its debt.

During the third and fourth quarters of 2000, the Company was served with fourteen lawsuits filed by various shareholders in the United States District Court for the District of Colorado (the "District Court"). The complaints sought class action certification for similarly situated shareholders. All of the initial suits named as defendants the Company, the Company's former Chief Executive Officer, J. Shelby Bryan, and the Company's former President, John Kane. Additionally, one of the complaints named the Company's former President, William S. Beans, Jr., as a defendant. (Both Messrs. Bryan and Beans remain on the Company's Board of Directors.) The claims against the Company were stayed pursuant to the Company's filing for bankruptcy.

In October 2001, the District Court consolidated the various actions and appointed lead plaintiffs' counsel. In February 2002, lead plaintiffs' counsel for the various shareholders filed a consolidated amended complaint. In addition to naming Messrs. Bryan and Beans as defendants, the amended complaint names as a defendant the Company's former chief financial officer, Harry R. Herbst. The consolidated amended complaint does not name the Company's former president, John Kane. In addition, the amended complaint does not name the Company as a defendant. The consolidated complaint, however, indicates that, but for the fact that claims against ICG have been stayed pursuant to the Bankruptcy Code, the Company would be named as a defendant. The consolidated amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 and seeks class action certification under Rule 23 of the Federal Rules of Civil Procedure. The complaint seeks unspecified compensatory damages.

The claims against the individual defendants are proceeding and these defendants have retained separate legal counsel to prepare a defense. Under Section 510(b) of the Bankruptcy Code, all pre-petition securities claims against ICG are mandatorily subordinated and will be discharged upon the confirmation of the Modified Plan. Holders of pre-petition equity securities claims will not receive any recovery from the Company under the proposed Plan.

In January 2002, SBC Communications, Inc., on behalf of various subsidiaries (collectively "SBC") filed a motion in the Company's Bankruptcy case seeking permission to terminate the services it provides the Company pursuant to its interconnection agreements. SBC contended that the Company owed SBC in excess of $24 million related to past billing, and, as a result, was entitled to terminate services and pursue an administrative claim for the alleged past due receivable. The Company filed a response to SBC's motions stating that it did not owe a significant portion of the alleged past due amount. Additionally, the Company's response contended that SBC owed the Company considerably more than the Company owed SBC.

On March 29, 2002 the Company and SBC entered into a settlement agreement regarding wholesale services provided by SBC and the Company to each other pursuant to the interconnection agreements. On April 30, the Bankruptcy Court issued an order approving the terms of the settlement. On May 10, 2002, the order became final and non-appealable. Only amounts allegedly owed for the retail services, which are not governed by the interconnection agreements, have yet to be resolved. The Company believes that the ultimate resolution of the remaining items relating to retail services will be immaterial to the Company's operating results.

In January 2001, certain shareholders of ICG Funding, LLC ("ICG Funding") a wholly-owned subsidiary of the Company, filed an adversary proceeding in the United States Bankruptcy Court for the District of Delaware (Case number 00-04238 PJW Jointly Administered, Adversary Proceeding No. 01-000 PJW) against the Company and ICG Funding. The shareholders in this adversary action

sought to recover approximately $2.3 million from an escrow account established to fund certain dividend payments to holders of the ICG Funding Exchangeable Preferred Securities. Because ICG Funding filed for bankruptcy protection, ICG Funding did not declare the last dividend that was to have been paid with the remaining proceeds of the escrow account. In April 2001, the Company and ICG Funding finalized a settlement agreement with the shareholders that has been approved by the Bankruptcy Court. Under the terms of the settlement, the shareholders received approximately two-thirds of the funds in the escrow account and the Company received the remaining one-third of the escrowed funds, subject to certain contingencies and holdbacks related to shareholders that did not participate in the settlement.

The Company is a party to certain other litigation that 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. The Company is not involved in any administrative or judicial proceedings relative to an environmental matter.

ITEM 2. **CHANGES IN SECURITIES**

None.

ITEM 3. **DEFAULTS UPON SENIOR SECURITIES**

Due to the bankruptcy proceedings discussed in note 1 to the Company's unaudited consolidated financial statements for the three months ended June 30, 2002, the Company is currently in default under the 13 ½ % Notes, 12 ½% Notes, 11 5/8% Notes, 10% Notes, 9 7/8% Notes and the Senior Facility. In addition, the Company is in default under the 14 ¼% Preferred Stock, 14% Preferred Stock, 6 ¾% Preferred Securities and 8% Series A Convertible Preferred Stock.

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.

2.4 Findings of Fact, Conclusions of Law, and Order Confirming Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated May 21, 2002. [Incorporated by reference to Exhibit 2.1 to ICG Communications, Inc.'s Current Report on Form 8-K dated May 21, 2002].

2.5 Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated April 3, 2002. [Incorporated by reference to Exhibit 2.2 to ICG Communications, Inc.'s Current Report on Form 8-K dated May 21, 2002].

2.6 Disclosure Statement with Respect to Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated April 3, 2002. [Incorporated by reference to Exhibit 2.3 to ICG Communications, Inc.'s Current Report on Form 8-K dated May 21, 2002].

2.7 Modification to the Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated July 26, 2002. [Incorporated by reference to Exhibit 2.7 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002].

2.8 Supplemental Disclosure With Respect to Second Amended Joint Plan of Reorganization of ICG Communications, Inc. Regarding Modification of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated July 26, 2002. [Incorporated by reference to Exhibit 2.8 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002].

2.9 Senior Financing Agreement by and among ICG Communications, Inc. and its affiliated debtor subsidiaries identified herein, Royal Bank of Canada, as Administrative Agent and as collateral agent, and Wachovia Bank, National Association, as documentation agent, dated as of July 25, 2002. [Incorporated by reference to Exhibit 2.9 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002].

10.85 Note and Warrant Purchase Agreement by and among ICG Communications, Inc., Madeleine L.L.C. and Morgan Stanley & Co., Incorporated, dated as of July 25, 2002. [Incorporated by reference to Exhibit 10.85 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002].

10.86 Escrow Agreement by and among ICG Communications, Inc., Madeleine L.L.C. and Morgan Stanley & Co., Incorporated, dated as of July 25, 2002. [Incorporated by reference to Exhibit 10.86 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002].

99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(B) Report on Form 8-K.

The following reports on Form 8-K were filed by the registrant during the three months ended June 30, 2002:

(i) Current Report on Form 8-K dated May 21, 2002, announcing that ICG's Second Amended Joint Plan of Reorganization and accompanying Disclosure Statement had been accepted by all classes of creditors entitled to vote on the Plan and confirmed by the Bankruptcy Court.

The following reports on Form 8-K were filed by the registrant after June 30, 2002 but before the date of this Report:

(i) Current Report on Form 8-K dated August 9, 2002, announcing that:

a) On July 25, 2002, the Debtors entered into the Senior Facility, the Note and Warrant Purchase Agreement and Escrow Agreement, pursuant to which $25 million was deposited into an escrow account. The release of the funds is contingent on approval by the Bankruptcy Court of the Modified Plan and satisfaction of certain conditions as set forth in the Note and Warrant Purchase Agreement.

b) On July 26, 2002, the Company filed a modification to ICG's Second Amended Joint Plan of Reorganization with the Bankruptcy Court.

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 August 14, 2002.

ICG COMMUNICATIONS, INC.

Date: August 14, 2002

By: /s/ RICHARD E. FISH, JR.
Richard E. Fish, Jr., Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: August 14, 2002

By: /s/ JOHN V. COLGAN
John V. Colgan, Senior Vice President and Controller (Principal Accounting Officer)

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ICG Communications, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randall Curran, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ RANDALL E. CURRAN

Randall E. Curran
Chief Executive Officer
August 14, 2002

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ICG Communications, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard E. Fish, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ RICHARD E. FISH, JR.

Richard E. Fish, Jr.
Executive Vice President and Chief Financial Officer
August 14, 2002

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Managerial Resources

Randall E. Curran – Chief Executive Officer

Randall E. Curran has been Chief Executive Officer since September 2000. Prior thereto, Mr. Curran was Chairman, President and Chief Executive Officer of Thermadyne Holdings Corporation ("Thermadyne"). From 1995 to 2000, Mr. Curran also held several other executive positions at Thermadyne including Chief Operating Officer and Chief Financial Officer. Prior to joining Thermadyne, Mr. Curran held various finance positions with Clarke Industries, Inc., McGraw-Edison Co., and Arthur Anderson & Co..

Richard Fish – President

Richard E. Fish Jr., President, has also been Executive Vice President and Chief Financial Officer of ICG Communications, Inc., since December 2000. Prior to his position, Mr. Fish was Senior Vice President of Finance since September 1999. Before joining the Company, Mr. Fish was Director-Access Management with AT&T Corp. from 1998 to 1999. AT&T Corp. acquired Teleport Communications Group, Inc. in 1998 where Mr. Fish was Director-Operations since 1995.

Bernard L. Zuroff – Vice President, General Counsel and Secretary

Bernard L. Zuroff has been Vice President, General Counsel and Secretary since October 2000. Prior to this position, Mr. Zuroff was Assistant General Counsel and Corporate Attorney since July 1996. Before joining the Company, he had eleven years of experience as an attorney with Gorsuch Kirgis, L.L.C., the Resolution Trust Company and Infotel, Inc..

Michael Kallet – Executive Vice President – Operations

Michael Kallet, Executive Vice President – Operations is also Chief Technology Officer of ICG Communications, Inc.. Prior to his current role, Mr. Kallet held positions as Executive Vice President of Data Networking Services and Executive Vice President of Products and Technology. Mr. Kallet joined the Company in 1995 through Netcom, a former subsidiary of ICG.

Christopher P. Kunkel – Senior Vice President and Treasurer

Christopher P. Kunkel, Senior Vice President and Treasurer, has been with the Company since 1999. His responsibilities include financial reporting, analysis and budgeting, as well as receivables management and revenue assurance. Since joining the Company, Mr. Kunkel has held two positions within the Finance department. He began as Director of Finance and was promoted to vice president of Finance and subsequently to senior vice president in April 2001. Prior to ICG, Mr. Kunkel was manager of Finance at AT&T Local Services.

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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 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 uncollectible and network nonrecurring and recurring installation, maintenance, service, and equipment network charges of the Company providing 911 services.

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 engage 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 foresee ability 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 are 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 calls 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 Quest 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 QUEST 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 QUEST 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 QUEST 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 QUEST 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 QUEST 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, 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 signaling 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 enable 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 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.

5.20 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 Quest 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 Quest'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 Quest'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 Dial tone 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
• 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 <u>Termination Liability</u>

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

When the Company furnishes a facility or Service for which a rate or charge is not specified in the Company's Tariff, or when the Company offers rates or charges which may vary from Tariff arrangements, rates and charges will be determined on an Individual Caser Basis (ICB). The rates and charges for ICBs will be specified by contract between the Company and the Customer. The Company will provide a copy of any ICG arrangement to the Commission upon request.

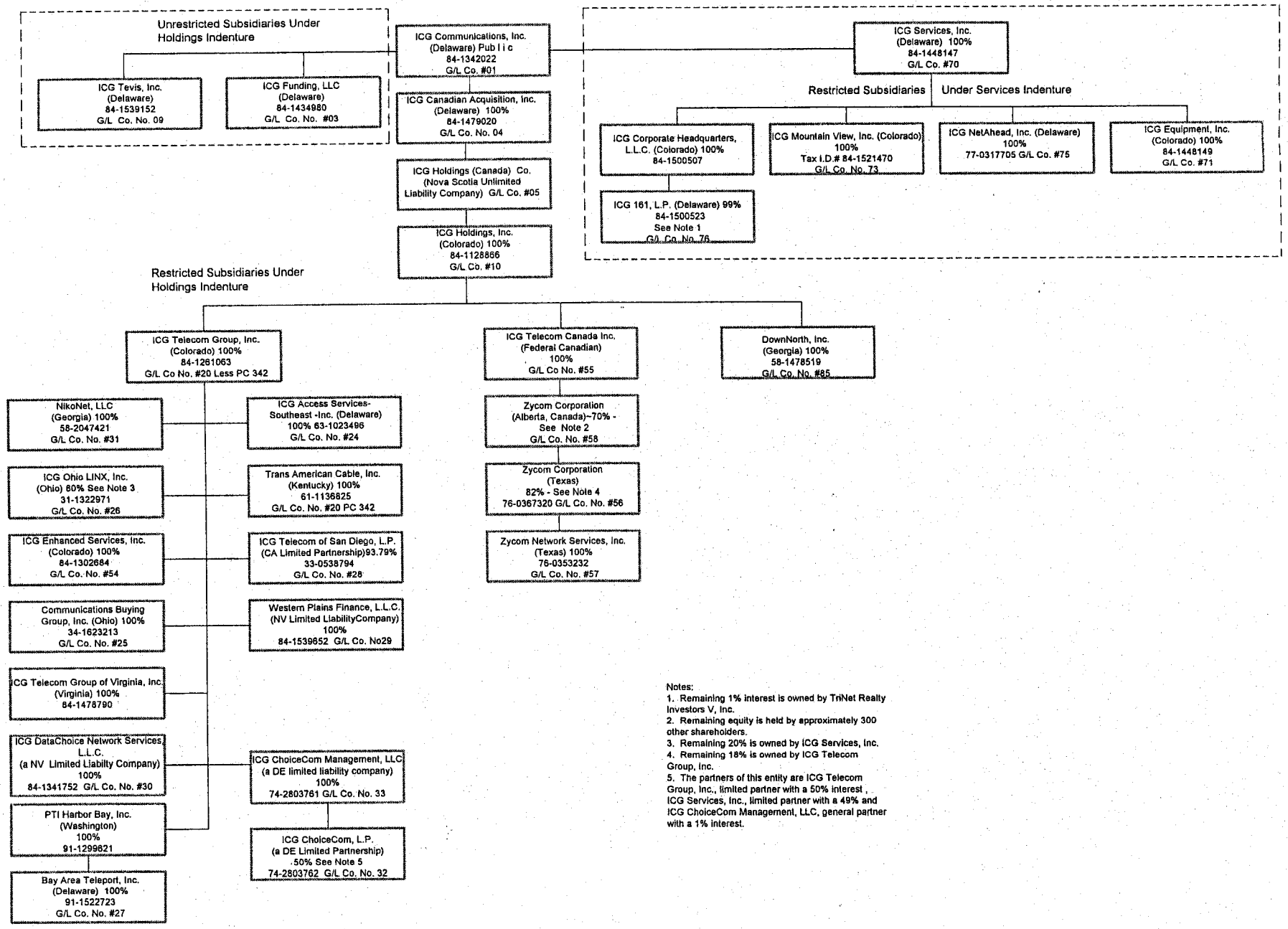
9.0 SPECIAL ARRANGEMENTS (cont'd.)

9.3 Service Trials and Special Promotions

The Company may conduct technical trials of its Service on a limited basis to test and evaluate service capabilities, implementation procedures, and technical processes. The Company may also offer special offerings for market research, rate experimentation, or promotions purposes. These trial/promotional offerings may include waving or reducing the applicable charges for the Service. The trial or promotion may also be held for a limited duration for specific locations within the state. The waiver of any charge, other than Nonrecurring Charge, shall not exceed one (1) year.

9

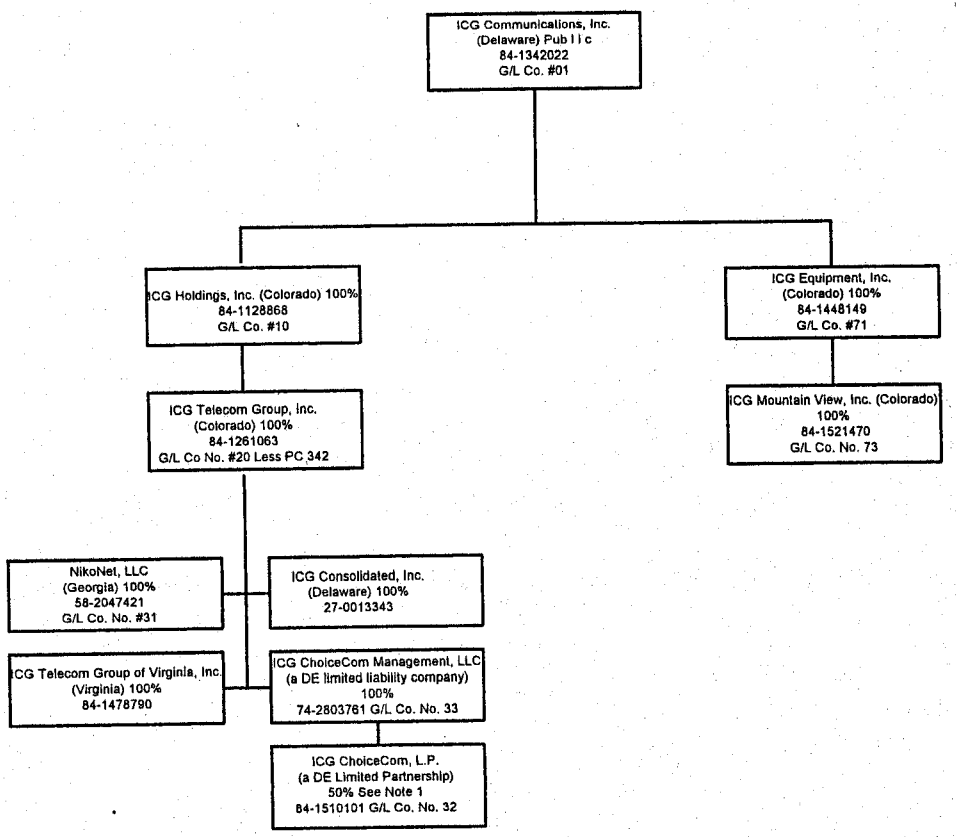
ICG Communications, Inc. Corporate Structure



Notes:
1. Remaining 1% interest is owned by TriNet Realty Investors V, Inc.
2. Remaining equity is held by approximately 300 other shareholders.
3. Remaining 20% is owned by ICG Services, Inc.
4. Remaining 18% is owned by ICG Telecom Group, Inc.
5. The partners of this entity are ICG Telecom Group, Inc., limited partner with a 50% interest, ICG Services, Inc., limited partner with a 49% and ICG ChoiceCom Management, LLC, general partner with a 1% interest.

Confidential Information/Not to be distributed without approval from the ICG Legal Department

ICG Communications, Inc. Post-Exit from Bankrupcty



Notes:
1. The partners of this entity are ICG Telecom Group, Inc., limited partner with a 50% interest , ICG Equipment, Inc., limited partner with a 49% and ICG ChoiceCom Management, LLC, general partner with a 1% interest.

ICG Communications, Inc.

Changes to Corporate Structure

1. Effective 5/22/02, Bay Area Teleport, Inc. merged into ICG Consolidated, Inc.

2. Effective 5/22/02, Communications Buying Group, Inc. merged into ICG Consolidated, Inc.

3. Effective 5/21/02, DownNorth, Inc. merged into ICG Telecom Group, Inc.

4. Effective 5/22/02, ICG Access Services, - Southeast, Inc. merged into ICG Consolidated, Inc.

5. Effective 1/14/2002, Articles of Dissolution were filed for ICG Corporate Headquarters, L.L.C.

6. Effective 5/6/02, ICG DataChoice Network Services, L.L.C. merged into ICG Consolidated, Inc.

7. Effective 5/22/02, ICG Enhanced Services, Inc. merged into ICG Consolidated, Inc.

8. Certificate of Surrender of the Certificate of Amalgamation issued 3/28/02 for ICG Holdings (Canada) Co.

9. Effective 5/17/02, ICG NetAhead, Inc. merged into ICG Telecom Group, Inc.

10. Effective 5/22/02, ICG Ohio LINX, Inc. merged into ICG Consolidated, Inc.

11. Effective 6/17/02, Articles of Dissolution were filed for ICG Telecom Canada Inc.

12. Effective 9.4/02, ICG Telecom of San Diego, L.P. merged into ICG Consolidated, Inc.

13. Effective 5/21/02, Articles of Dissolution were filed for ICG Tevis, Inc.

14. Effective 5/22/02, Certificate of Cancellation was filed for ICG 161, L.P.

15. Effective 5/22/02, PTI Harbor Bay, Inc. merged into ICG Consolidated, Inc.

16. Effective 5/22/02, Trans American Cable, Inc. merged into ICG Consolidated, Inc.

17. Effective 5/22/02, Western Plains Finance, L.L.C. merged into ICG Consolidated, Inc.

18. Effective 5/2/02, Articles of Dissolution were filed for Zycom Corporation (the Canadian corporation)

19. Effective 11/14/02, Articles of Dissolution were filed for Zycom Corporation (the Texas corportion)

20. Effective 7/10/2001, Articles of Dissolution were filed for Zycom Network Services, Inc.

EXHIBIT
A-4
admitted

ROSHKA HEYMAN & DEWULF

ROSHKA HEYMAN & DEWULF, PLC
ATTORNEYS AT LAW
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET
SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

October 28, 2002

VIA HAND DELIVERY

Timothy J. Sabo, Esq.
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Re: ICG Telecom Group, Inc.: Application for CC&N
Docket No. T-03566A-99-0743

Dear Tim:

As a supplement to ICG Telecom Group, Inc.'s ("ICG") responses to Staff's First Set of Data Requests, enclosed are two copies of ICG's Certificate of Good Standing in Arizona. Please call me if you have any questions.

Sincerely,

Michael W. Patten

MWP/djj
Enclosures

cc: Philip J. Dion III, Esq.

STATE OF ARIZONA

Office of the
CORPORATION COMMISSION

CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, Brian C. McNeil, Executive Secretary of the Arizona Corporation Commission, do hereby certify that

******ICG TELECOM GROUP, INC.******

a foreign corporation organized under the laws of Colorado did obtain authority to transact business in the State of Arizona on the 26th day of February 1998.

I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation has not had its authority revoked for failure to comply with the provisions of the Arizona Business Corporation Act; that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed an Application for Withdrawal as of the date of this certificate.

This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capitol, this 11th Day of October, 2002, A. D.

EXECUTIVE SECRETARY

BY:

STATE OF ARIZONA

Office of the
CORPORATION COMMISSION

CERTIFICATE OF GOOD STANDING

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IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capitol, this 11th Day of October, 2002, A. D.

SEAL OF THE ARIZONA CORPORATION COMMISSION
DITAT DEUS
* 1912 *

EXECUTIVE SECRETARY

BY:

EXHIBIT
A-5
admitted

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, 2002

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.

(Exact names of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

84-1342022
(IRS Employer Identification Number)

161 Inverness Drive West
Englewood, Colorado 80112
(Address of principal executive offices)

Registrant's 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 [X] No [ ]

The number of outstanding common shares of ICG Communications, Inc. (the "Predecessor Company", as defined herein) as of October 10, 2002 was 55,244,915. On October 10, 2002, all outstanding common shares of the Predecessor Company were cancelled in connection with its emergence from bankruptcy and in accordance with the Modified Plan of reorganization. Distribution of the common shares of the ICG Communications, Inc. (the "Reorganized Company", as defined herein) is expected to occur no later than December 31, 2002.

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ICG COMMUNICATIONS, INC. AND SUBSIDIARIES (Predecessor Company)
Consolidated Balance Sheets
December 31, 2001 and September 30, 2002 (Unaudited)

	December 31, 2001	September 30, 2002
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 146,587	$ 109,753
Trade receivables, net of allowance of $44 million and $13 million at December 31, 2001 and September 30, 2002, respectively	42,365	31,051
Other receivables	559	279
Prepaid expenses and deposits	13,559	10,906
Total current assets	203,070	151,989
Property and equipment, net (note 6)	531,187	496,723
Restricted cash	7,299	7,019
Investments	100	100
Deferred financing costs, net of accumulated amortization of $2 million	3,050	2,508
Deposits	10,459	10,063
Total Assets	$ 755,165	$ 668,402

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES (Predecessor Company)
Consolidated Balance Sheets (Unaudited), Continued

	December 31, 2001	September 30, 2002
	(in thousands)	
Liabilities and Stockholders' Deficit		
Current liabilities not subject to compromise:		
Accounts payable	$ 8,871	$ 12,167
Accrued liabilities	73,853	46,360
Deferred revenue	9,067	7,272
Total current liabilities not subject to compromise	91,791	65,799
Liabilities subject to compromise (note 3)	2,729,590	2,723,449
Long-term liabilities not subject to compromise:		
Capital lease obligations	50,708	51,154
Other long-term liabilities	1,088	348
Total liabilities	2,873,177	2,840,750
Predecessor Company Preferred stock, at liquidation value:		
Redeemable preferred stock of subsidiary	449,056	449,056
Mandatorily redeemable preferred securities of ICG Funding	92,336	55,380
8% Series A Convertible Preferred Stock	785,353	785,353
Total preferred stock	1,326,745	1,289,789
Stockholders' equity (deficit):		
Predecessor Company Common stock, $0.01 par value, 100,000,000 shares authorized; 53,706,777 and 55,244,915 shares issued and outstanding at December 31, 2001 and September 30, 2002, respectively	537	552
Additional paid-in capital	922,040	958,980
Accumulated deficit	(4,367,334)	(4,421,669)
Total stockholders' deficit	(3,444,757)	(3,462,137)
Commitments and contingencies (note 9)		
Total Liabilities and Stockholders' Deficit	$ 755,165	$ 668,402

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES (Predecessor Company)
Consolidated Statements of Operations (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2002	2001	2002
	(in thousands, except per share data)			
Revenue	$ 124,071	$ 105,914	$ 381,720	$ 320,865
Operating costs and expenses:				
Operating costs	84,954	63,053	282,329	191,343
Selling, general and administrative expenses	23,469	16,128	80,635	67,690
Depreciation and amortization	18,301	21,442	50,484	66,379
Loss (gain) on disposal of assets	1,908	(570)	9,541	(684)
Provision for impairment of long-lived assets	-	30	-	673
Total operating costs and expenses	128,632	100,083	422,989	325,401
Operating income (loss)	(4,561)	5,831	(41,269)	(4,536)
Other income (expense):				
Interest expense (note 3)	(277)	(5,087)	(24,076)	(15,390)
Reorganization income (expense), net (note 3)	30,697	(5,673)	3,192	(34,405)
Other income (expense), net	(95)	(87)	1,239	(4)
Total other income (expense), net	30,325	(10,847)	(19,645)	(49,799)
Net income (loss)	$ 25,764	$ (5,016)	$ (60,914)	$ (54,335)
Net income (loss) per share – basic and diluted	$ 0.48	$ (0.09)	$ (1.16)	$ (1.00)
Weighted average number of shares outstanding - basic and diluted	53,158	55,245	52,452	54,608

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES (Predecessor Company)
Consolidated Statement of Stockholders' Deficit (Unaudited)
(In Thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount			
Balances at January 1, 2002	53,707	$ 537	$ 922,040	$ (4,367,334)	$ (3,444,757)
Shares issued upon conversion of mandatorily redeemable preferred securities of ICG Funding	1,538	15	36,940	-	36,955
Net loss	-	-	-	(54,335)	(54,335)
Balances at September 30, 2002	55,245	$ 552	$ 958,980	$ (4,421,669)	$ (3,462,137)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES (Predecessor Company)
Consolidated Statements of Cash Flows (Unaudited)

	Nine months ended September 30,	
	2001	2002
	(in thousands)	
Cash flows from operating activities:		
Net loss	$ (60,914)	$ (54,335)
Adjustments to reconcile net loss to net cash provided by operating activities before reorganization items:		
Reorganization expense (income), net	(3,192)	34,405
Depreciation and amortization	50,484	66,379
Net loss (gain) on disposal of long-lived assets	9,541	(684)
Provision for uncollectible accounts	8,403	4,016
Provision for impairment of long-lived assets	-	673
Interest costs capitalized on assets under construction	(1,049)	(342)
Interest expense deferred and included in capital lease obligations	5,748	2,921
Amortization of deferred financing costs included in interest expense	6,657	537
Realized gain on sale of available for sale securities	(1,542)	-
Change in operating assets and liabilities, excluding the effects of dispositions and non-cash transactions:		
Receivables	20,114	7,663
Prepaid expenses and deposits	(1,819)	1,617
Accounts payable and accrued liabilities	5,498	(28,435)
Deferred revenue	(6,289)	(2,535)
Net cash provided by operating activities before reorganization items	31,640	31,880
Reorganization items:		
Reorganization income (expense), net	3,192	(34,405)
Net gain on contract settlements and disposals of long-lived assets	(36,421)	(3,637)
Increase (decrease) in post-petition restructuring accruals	(1,412)	1,798
Increase (decrease) in liabilities subject to compromise	(30,413)	10,352
Total cash used by reorganization items	(65,054)	(25,892)
Net cash provided (used) by operating activities	(33,414)	5,988
Cash flows from investing activities:		
Acquisition of property and equipment	(23,471)	(41,285)
Change in prepaid expenses, accounts payable and accrued liabilities for acquisition of property and equipment	438	3,312
Proceeds from disposition of property, equipment and other assets	3,052	2,768
Proceeds from sales of short-term investments	16,190	-
Decrease (increase) in restricted cash	(65)	30
Decrease (increase) in long-term deposits	(2,754)	236
Reorganization items:		
Proceeds from disposition of property, equipment and other assets	-	601
Decrease in restricted cash due to settlement of liabilities subject to compromise	2,096	-
Net cash used by investing activities	(4,514)	(34,338)

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES (Predecessor Company)
Consolidated Statements of Cash Flows (Unaudited), Continued

	Nine months ended September 30,	
	2001	2002
	(in thousands)	
Cash flows from financing activities:		
Payments of deferred debt issuance costs	$ (2,000)	$ -
Reorganization items:		
Principal payments on capital lease obligations subject to compromise	(16,293)	(8,647)
Settlement of preferred dividends	(1,312)	163
Net cash used by financing activities	(19,605)	(8,484)
Net decrease in cash and cash equivalents	(57,533)	(36,834)
Cash and cash equivalents, beginning of period	196,980	146,587
Cash and cash equivalents, end of period	$ 139,447	$ 109,753
Supplemental disclosure of cash flows information:		
Cash paid for interest	$ 17,089	$ 10,542
Cash paid for income taxes	$ -	$ -
Supplemental schedule of non-cash investing activities:		
Assets acquired under capital leases	$ 50,547	$ -

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

(1) Business and Summary of Significant Accounting Policies

(a) Organization and Description of Business

ICG Communications, Inc., a Delaware corporation, and its subsidiaries are collectively referred to as "ICG" or the "Company". The Company provides voice, data and Internet communication services. Headquartered in Englewood, Colorado, the Company operates an integrated metropolitan and nationwide fiber optic infrastructure to offer:

- Dial-Up Services, including primary rate interface and remote access services, on a wholesale basis to national and regional Internet Service Providers ("ISP"s).
- Point-to-Point Broadband Service, providing traditional special access service to long-distance and long-haul carriers and medium to large sized corporate customers, as well as switched access and SS7 services.
- Corporate Services, primarily retail voice and data services to businesses.

(b) Basis of Presentation

On November 14, 2000 (the "Petition Date"), ICG and its operating subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States District Court for the District of Delaware (the "Bankruptcy Court"). On October 10, 2002 (the "Effective Date"), ICG emerged from the Bankruptcy Court proceedings pursuant to the terms of its modified plan of reorganization (the "Modified Plan" as defined in note 2). The Modified Plan was filed with the Bankruptcy Court on July 25, 2002 and was confirmed on October 9, 2002.

As used in this Quarterly Report, the term "Predecessor Company" refers to the Company and its operations for periods prior to emerging from bankruptcy on October 10, 2002, while the term "Reorganized Company" is used to describe the Company after October 10, 2002, concurrent with its emergence from bankruptcy protection.

Between November 14, 2000 and October 10, 2002, ICG operated as a debtor-in-possession under the supervision of the Bankruptcy Court. ICG's financial statements for reporting periods within that period, including these financial statements, have been prepared in accordance with the provisions of Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." See note 2 for further discussion of the emergence from bankruptcy. Effective with its emergence from bankruptcy on October 10, 2002, ICG will implement fresh start reporting ("Fresh Start"), as further described in note 5.

The accompanying interim unaudited financial statements should be read in conjunction with ICG's Annual Report on Form 10-K for the year ended December 31, 2001, 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. In the opinion of management, the Company's interim financial statements reflect all necessary adjustments, which are of a normal recurring nature, for a fair presentation. Operating results for the three and nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2002. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain 2001 amounts have been reclassified to conform to the 2002 presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(2) Bankruptcy Proceedings

On November 14, 2000, ICG and its operating subsidiaries filed voluntary petitions for protection under Chapter 11 of the Bankruptcy Code in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations.

On December 19, 2001, the Company filed a proposed Plan of Reorganization and a Disclosure Statement in the Bankruptcy Court. The Company subsequently filed a First Amended Disclosure Statement on March 1, 2002 and a Second Amended Disclosure Statement on March 26, 2002, which was amended on April 3, 2002. The original Plan of Reorganization, the Disclosure Statement, the First Amended Disclosure Statement and the Second Amended Disclosure Statement are collectively referred to herein as the "Original Plan". On April 3, 2002, the Company submitted the Original Plan to the Company's creditors for approval. On May 16, 2002, the Company's balloting agent filed an affidavit indicating that all classes of creditors entitled to vote had overwhelmingly accepted the Original Plan. On May 21, 2002, the Bankruptcy Court entered an order (the "Original Confirmation Order") confirming the Original Plan.

The Original Plan was formulated on the basis of extensive negotiations conducted among the Company and its primary constituencies. As part of the Original Plan, the Company received commitment letters for new financing totaling $65 million (the "Original Exit Financing"). The Original Exit Financing was to be funded predominantly by Cerberus Capital Management, L.P. ("CCM"). Although the Bankruptcy Court confirmed the Original Plan, the closing of the Original Exit Financing transactions did not occur and the Original Plan did not become effective as a result of disagreements between the Company and CCM.

After consulting with the Company's official committee of unsecured creditors and the Company's senior secured lenders, the Company engaged in settlement discussions with CCM. As a result of those negotiations, on July 25, 2002 the Company entered into an agreement with CCM that was embodied in a proposed modification to the Original Plan. The Original Plan, as modified, is referred to herein as the "Modified Plan".

The Company determined that the changes to the Original Plan, as reflected in the Modified Plan, required a re-solicitation of votes from certain classes of creditors. Thus, on July 26, 2002, the Company filed the proposed Modified Plan and a Supplement to the Disclosure Statement in the Bankruptcy Court. On August 23, 2002, the Company submitted the Modified Plan to the Company's creditors for approval. On October 7, 2002, the Company's balloting agent filed an affidavit indicating that all classes of creditors entitled to vote had again overwhelmingly accepted the Modified Plan. On October 9, 2002, the Bankruptcy Court entered an order confirming the Modified Plan. On October 10, 2002, the Company's Modified Plan became effective and the Company emerged from Chapter 11 bankruptcy protection. See note 4 for further discussion of the Company's emergence from Chapter 11 proceedings.

(3) Accounting During Bankruptcy Proceedings

(a) Reorganization Expense, Net

In accordance with SOP 90-7, the Company has segregated and classified certain income and expenses as reorganization items. The following reorganization items were incurred during the three and nine months ended September 30, 2001 and 2002, respectively:

	Three months ended September 30,		Nine months ended September 30,	
	2001	2002	2001	2002
	(in thousands)			
Severance and employee retention costs	$ 673	$ 16	$ 12,492	$ 3,910
Legal and professional fees	401	2,767	13,091	9,724
Switch site closure costs	939	332	4,121	1,668
Contract termination expenses	2,507	66	5,226	23,374
Net loss (gain) on settlements with vendors and disposal of long-lived assets	(36,421)	3,412	(36,421)	(3,637)
Interest income	(1,503)	(383)	(5,709)	(1,371)
Other	2,707	(537)	4,008	737
	$ (30,697)	$ 5,673	$ (3,192)	$ 34,405

The Company is required to reconcile recorded pre-petition liabilities with claims filed by its creditors with the Bankruptcy Court. Differences resulting from that reconciliation process have been recorded as adjustments to pre-petition liabilities with an offset for significant items not relating to ongoing operations included in reorganization expense, net.

In the first quarter of 2002, in connection with its ongoing reconciliation of outstanding claims, the Company determined that $19 million related to a pre-petition contract for system design and implementation should be recognized as contract termination expense with a corresponding increase to pre-petition liabilities subject to compromise. This item represents the single largest component of the total $23 million in contract termination expenses for the nine months ended September 30, 2002.

(b) Liabilities Subject to Compromise

Pursuant to SOP 90-7, the Company has segregated and classified certain pre-petition obligations as liabilities subject to compromise. Liabilities subject to compromise have been recorded at the allowed claim amount. The following table sets forth the liabilities of the Company subject to compromise as of December 31, 2001 and September 30, 2002, respectively:

	December 31, 2001	September 30, 2002
	(in thousands)	
Unsecured long-term debt	$ 1,968,781	$ 1,968,781
Unsecured creditors	476,243	481,152
Capital lease obligations, secured	166,637	156,672
Capital lease obligations, unsecured	18,881	18,251
Secured long-term debt	85,503	85,503
Priority creditors	13,545	13,090
	$ 2,729,590	$ 2,723,449

As a result of the Company's bankruptcy proceedings, all pre-petition contractual debt payments were suspended and subject to revised payment terms during the bankruptcy process on a case-by-case basis. As of September 30, 2002, the Company was in default with respect to all of its pre-petition debt. All deferred financing costs were written off, except the $2.5 million at September 30, 2002 that relates to the Company's senior secured credit facility ("Senior Facility") of $85 million.

In connection with its bankruptcy filing, the Company stopped accruing or paying interest on the unsecured long-term debt and the rejected pre-petition capital lease obligations. Contractual interest not recorded amounted to $60 million and $64 million for the three months ended September 30, 2001 and 2002, respectively, and $180 million and $190 million for the nine months ended September 30, 2001 and 2002, respectively.

During the pendency of the Bankruptcy Court cases, the Company did not pay any principal due under the Senior Facility. However, the Company continued to make interest-only payments on the Senior Facility balance through the Effective Date. Pursuant to the Modified Plan, on the Effective Date, the Senior Facility was cancelled and replaced with new terms and new notes (the "Secured Notes"), as described in more detail in note 4.

In connection with the Company's emergence from bankruptcy on October 10, 2002, liabilities subject to compromise were restructured in accordance with the Modified Plan.

(4) Emergence from Chapter 11 Bankruptcy Proceedings

As described previously in notes 1 and 2, on October 10, 2002, the Company's Modified Plan became effective and the Company emerged from Chapter 11 bankruptcy protection.

Pursuant to the Modified Plan, all outstanding shares of the Predecessor Company's common and preferred stock were cancelled on October 10, 2002. Holders of allowed general unsecured claims against the Company will receive one hundred percent (100%) of the 8,000,000 initially issued shares of common stock of the Reorganized Company (the "New Common Shares") based on an allocation method described in the Modified Plan. The Bankruptcy Court set October 9, 2002 as the record date for purposes of making distributions under the Modified Plan. According to the Modified Plan, distribution of the New Common Shares is to take place on a date (the "Distribution Date") occurring as soon as practicable after the Effective Date. The Distribution Date has not yet been determined, but is expected to occur no later than December 31, 2002.

Holders of general unsecured claims against ICG Communications, Inc. and ICG Holdings, Inc. and its subsidiaries will also be issued warrants to purchase up to 800,000 New Common Shares at a strike price equal to the Reorganized Company's equity value per share on the Effective Date.

Options to purchase 768,137 New Common Shares at a strike price equal to the Reorganized Company's equity value per share on the Effective Date will be granted to employees designated in the management option plan as set forth in the Modified Plan. In addition, to the extent that more than 10,241,821 New Common Shares are issued in connection with the Modified Plan, the management option plan will reserve additional options on a pro rata basis so that the number of options available for the management option plan will represent 7.5% of the New Common Shares, after giving effect to all warrants and other securities convertible into the New Common Shares.

Pursuant to the Modified Plan, on October 10, 2002, the Company received new financing consisting of a $25 million senior subordinated term loan (the "Senior Subordinated Term Loan"), which was used to pay down a portion of the Senior Facility to a balance of approximately $59 million. The Senior Facility balance was then cancelled and replaced with the Secured Notes. The Secured Notes are secured by substantially all assets of the Company. The principal balance of the Secured Notes is projected to begin amortizing in August 2003 and will mature in May 2005.

Interest on the Secured Notes accrues at a premium of 3.5% to 6.0% over LIBOR or, at the Company's option, at a premium of 2.25% to 4.75% over the bank's prime rate. The interest rate premium at any given time is determined based on the cumulative amount of the principal prepayments made by the Company. Interest is payable quarterly in arrears. The weighted average interest rate on October 10, 2002 was 9.5%; the rate was reduced to 7.9% on November 6, 2002.

The Senior Subordinated Term Loan is subordinate to the Secured Notes and is secured by liens on

substantially all assets of the Company. The loan accrues interest at 14% per annum, which is payable monthly in arrears, and matures on July 25, 2006. In addition, two separate issuances of warrants to purchase a total of 673,684 New Common Shares of the Reorganized Company will be issued in connection with the Senior Subordinated Term Loan. Warrants to purchase 200,000 New Common Shares have an exercise price equal to the Reorganized Company's equity value per share on the Effective Date. Warrants to purchase 473,684 New Common Shares have an exercise price of $0.01. Both warrant issuances expire, if unexercised, on July 25, 2007. The warrants have an estimated fair market value of approximately $5 million, which will be established as a debt discount with a corresponding increase to additional paid-in capital of stockholders' equity in the Reorganized Company balance sheet.

The Secured Notes and the Senior Subordinated Term Loan require the Company to meet certain financial covenants, including minimum EBITDA requirements, minimum cash balance requirements and capital expenditure limitations.

(5) Fresh Start Accounting

Effective with its emergence from bankruptcy on October 10, 2002, ICG will implement Fresh Start in accordance with generally accepted accounting principles, which require an allocation of the reorganization value in conformity with procedures specified by Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations".

The reorganization value of ICG has been estimated at approximately $287.5 million and represents the total value of equity and debt. The valuation is based on numerous assumptions, including, among other things, the achievement of certain operating results, market values of publicly traded securities of other similar companies, and general economic and industry conditions. The assumptions underlying the valuation are described in more detail in the disclosure statement sent to security holders entitled to vote on the Modified Plan and were attached as an exhibit to the ICG Current Report on Form 8-K filed on August 9, 2002.

Based on ICG's $287.5 million estimated reorganization value as of October 10, 2002, ICG expects to record approximately $500 million of reorganization charges in the Predecessor Company's final statement of operations for 2002 to adjust the historical carrying value of its assets and liabilities to fair market value. ICG also expects to record approximately $5 billion of gain on the cancellation of certain pre-petition debt in the Predecessor Company's final statement of operations for 2002.

Certain post-confirmation proceedings continue in the Bankruptcy Court relating to pre-petition claims filed by creditors, administrative claims and claims for damages on rejected executory contracts. As of the Effective Date, the Reorganized Company's pro forma balance sheet includes approximately $20 million in estimated accrued liabilities for the settlement of such claims.

(6) Property and Equipment

Property and equipment, including assets held under capital leases, is comprised of the following:

	December 31, 2001	September 30, 2002
	(in thousands)	
Land	$ 1,214	$ -
Buildings and Improvements	50,358	50,356
Furniture, fixtures and office equipment	33,593	30,194
Machinery and equipment	14,548	14,857
Fiber optic equipment	150,982	146,728
Switch equipment	136,133	134,433
Fiber optic network	90,137	105,502
Site improvements	11,245	7,108
Construction in progress	95,415	126,703
Assets held for sale	8,570	3,945
	592,195	619,826
Less accumulated depreciation	(61,008)	(123,103)
	$ 531,187	$ 496,723

At September 30, 2002, property and equipment included $127 million of assets not yet placed in service and $4 million of equipment held for sale that was not subject to depreciation. For the nine months ended September 30, 2002, the Company recorded a provision for impairment of long-lived assets of $0.7 million related to the value of assets held for sale.

The Company performed an analysis pursuant to the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", as of September 30, 2002 to determine if a further provision for impairment of its long-lived assets was required. The analysis compared the Company's estimate of future undiscounted cash flows that will be generated by the existing long-lived assets to their net book value of $498 million. The financial projections included in the Modified Plan provided the basis for the estimate of future cash flows. The analysis indicated that no additional provision for impairment was required.

Pursuant to the adoption of Fresh Start, as described in note 5, on October 10, 2002 the Company expects to write down the value of its long-lived assets by approximately $240 million. The new property and equipment values in the Reorganized Company balance sheet will be depreciated over the remaining useful lives of the assets.

(7) Major Customers

A significant amount of the Company's revenue is derived from long-term contracts with certain large customers, including one major customer, Qwest Communications Corporation (together with its affiliated entities, "Qwest"). Revenue from Qwest accounted for 21% and 31% of total revenue in the three months ended September 30, 2001 and 2002, respectively. Revenue from Qwest accounted for 15% and 29% of total revenue in the nine months ended September 30, 2001 and 2002, respectively. As of September 30, 2002, the Company had $3.9 million in net trade receivables due from Qwest.

At September 30, 2002, the Company had $140 million of deferred revenue related to an agreement, which was not part of the Qwest Settlement Agreement, to provide exclusive service to Qwest over designated portions of the Company's local fiber optic networks. In connection with Fresh Start, the Company expects to write down the deferred revenue balance by approximately $100 million to reflect the estimated fair value of future services to be provided.

(8) Settlement with SBC Communications, Inc.

In January 2002, SBC Communications, Inc., on behalf of various subsidiaries (collectively "SBC"), filed a motion in the Company's bankruptcy case seeking permission to terminate the services it provides the Company pursuant to its interconnection agreements. SBC contended that the Company owed SBC in excess of $24 million related to past billing and, as a result, should be entitled to terminate services and pursue an administrative claim for the alleged past due receivable. The Company filed a response to SBC's motions contending that it did not owe a significant portion of the alleged past due amount. Additionally, the Company's response provided that SBC owed the Company more than the Company owed SBC. On March 29, 2002, the Company and SBC entered into a settlement agreement regarding wholesale services. On April 30, 2002 the Bankruptcy Court issued an order approving the terms of the settlement. Under the terms of the settlement, the Company recorded a net $5 million of non-recurring Reciprocal Compensation revenue in the three months ended March 31, 2002. As no expenses were directly attributable to the revenue, none were recorded in the three months ended March 31, 2002.

On May 10, 2002, the order became final and non-appealable. Amounts allegedly owed for retail services have yet to be resolved. The Company believes that the ultimate resolution of the remaining items relating to retail services will be immaterial to the Company's operating results.

As of the date of this quarterly report, the Company has not received the full amount of the settlement contemplated in the settlement agreement and is in negotiations with SBC regarding the interpretation of certain provisions of the settlement agreement. The Company has fully reserved for the settlement amount not yet collected from SBC.

(9) Commitments and Contingencies

As a result of the Company's bankruptcy filing, all commitments and contingencies have been substantially altered as set forth in the Modified Plan.

(a) Impact of WorldCom, Inc. Bankruptcy

On July 21, 2002, WorldCom, Inc. and substantially all of its active U.S. subsidiaries (collectively referred to as "WorldCom") filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code. As of September 30, 2002, ICG had $1.6 million on deposit with WorldCom, pursuant to an order issued in ICG's bankruptcy proceedings. Under such order, ICG was required to post a deposit to provide WorldCom with adequate assurance of future payment for services rendered by WorldCom to the Company. The Company believes that this deposit is being or should be held by WorldCom in trust for the Company's benefit. As such, at this time the Company is not reserving for the deposit. Further, as of September 30, 2002, the Company had $0.7 million in pre-petition trade receivables from WorldCom, all of which has been reserved for in the allowance for doubtful accounts.

ICG did not record any revenue for the approximately $2 million of services provided to WorldCom between July 1, 2002 and July 21, 2002, since the collectibility of this amount is questionable due to WorldCom's bankruptcy filing. In the event WorldCom elects to affirm one or more of its contracts with the Company through its bankruptcy proceedings, and is therefore required to cure pre-petition defaults as provided by the Bankruptcy Code, the Company will record the revenue accordingly.

WorldCom represented 8% and 10% of the Company's total revenue in the three months ended September 30, 2001 and 2002, respectively. WorldCom represented 9% and 11% of total revenue in the nine months ended September 30, 2001 and 2002, respectively.

Since WorldCom's bankruptcy filing, ICG has continued to provide service to WorldCom. Under the Bankruptcy Code, WorldCom can elect to affirm or reject its pre-petition contracts with ICG.

If WorldCom rejects one or more of its pre-petition contracts with ICG, ICG's results of operations and financial condition could be materially negatively impacted.

(b) Other Commitments and Contingencies

Several of ICG's customers have approached ICG about the possibility of settling or restructuring their service contracts. If the Company agrees to settle or restructure any significant customer contracts, ICG's results of operations and financial condition could be materially impacted. At this time, the Company cannot predict the possible outcome of such negotiations.

The Company emerged from bankruptcy on October 10, 2002. However, certain post-confirmation proceedings continue in the Bankruptcy Court relating to pre-petition claims filed by creditors, administrative claims and claims for damages on rejected executory contracts. As of the Effective Date, the Reorganized Company's pro forma balance sheet includes approximately $20 million in estimated accrued liabilities for the settlement of such claims.

(10) New Accounting Standard

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity's commitment to an exit plan, as was required under Issue 94-3. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. This Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section and other parts of this quarterly report contain "forward-looking statements" intended to qualify as safe harbors from liability as established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statements include words such as "intends," "anticipates," "expects," "estimates," "plans," "believes" and other similar words. Additionally, statements that describe the Company's future plans, objectives or goals also are forward-looking statements. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results or outcomes to differ materially from those currently anticipated. Factors that could affect actual results include, but are not limited to, the following:

- The Company's ability to sustain a level of operating profitability sufficient to fund its business;
- The Company's ability to retain its major customers on profitable terms;
- The extensive competition the Company faces;
- The Company's ability to access capital markets in a timely manner, at reasonable costs and on satisfactory terms and conditions;
- Changes in, or the Company's inability to comply with, existing government regulations; and,
- General economic conditions and the related impact on demand for the Company's services.

These forward-looking statements speak only as of the date of this Quarterly Report. The Company does not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Although the Company believes that its plans, intentions and expectations reflected in or suggested by the forward-looking statements made in this Quarterly Report are reasonable, there is no assurance that such plans, intentions or expectations will be achieved.

The results of operations for the three and nine months ended September 30, 2001 and 2002 represent the consolidated operating results of the Company. (See the unaudited consolidated financial statements of the Company for the three and nine months ended September 30, 2002 included herein.) All dollar amounts are in U.S. dollars.

COMPANY OVERVIEW

ICG is a facilities-based, nationwide communications provider focused on providing data and voice services to Internet Service Providers ("ISP"s), telecommunication carriers and corporate customers. ICG is a competitive local exchange carrier ("CLEC") certified in most of the United States, having interconnection agreements with every major local exchange carrier. ICG's facilities support three product offerings: (i) Dial-Up Services, providing wholesale managed modem connection to ISPs and other carriers; (ii) Point-to-Point Broadband, or special access service, providing dedicated broadband connections to other carriers, as well as SS7 and switched access services; and (iii) Corporate Services, providing voice and data services to corporate customers with an emphasis on Dedicated Internet Access ("DIA") services.

- Dial-Up Services: The Company provides primary rate interface ("PRI") ports (one and two way) and managed modem services ("IRAS") to many of the largest national ISPs and other telecommunications carriers, as well as to numerous regional ISPs and other communication service companies. Most of these services are on-switch through the Company's owned facilities. Before the related Reciprocal Compensation, revenue from these services accounted for 43% of the Company's total third quarter 2002 revenue. Associated Reciprocal Compensation revenue accounted for 18% of the Company's revenue.

- Point-to-Point Broadband Service: The Company provides dedicated bandwidth to connect (i) long-haul carriers to local markets, large corporations and other long-haul carrier facilities and (ii) large corporations to their long-distance carrier sites and other corporate locations. Such dedicated bandwidth sales are focused in areas where ICG maintains local fiber and buildings on-net or in close proximity. Point-to-Point Broadband service also includes switched access and SS7 services. Point-to-Point Broadband service accounted for 22% of the Company's total third quarter 2002 revenue.

- Corporate Services: The Company offers Internet access, data and voice service to corporate customers. ICG is well positioned to expand this service with its metropolitan asset base, data network infrastructure, and Internet experience. Corporate Services accounted for 17% of total third quarter 2002 revenue.

To provide its service offerings, ICG combines its 5,704 route miles of metropolitan and regional fiber network infrastructure and its 46 voice and data switches with its nationwide fiber optic backbone, data points of presence, 26 asynchronous transfer mode switches, and numerous private and public Internet peering arrangements. The design of the physical network permits the Company to offer flexible, high-speed telecommunications services to its customers.

The metropolitan and regional network infrastructure consists of fiber optic cables and associated advanced electronics and transmission equipment. The Company's network is generally configured in redundant synchronous optical network rings to make the network accessible to the largest concentration of telecommunications intensive business customers within a given market. This network architecture also offers the advantage of uninterrupted service in the event of a fiber cut or equipment failure, thereby resulting in limited outages and increased network reliability in a cost efficient manner.

REORGANIZATION AND EMERGENCE FROM BANKRUPTCY

On November 14, 2000 (the "Petition Date"), ICG and its operating subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States District Court for the District of Delaware (the "Bankruptcy Court") in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations.

On December 19, 2001, the Company filed a proposed Plan of Reorganization and a Disclosure Statement in the Bankruptcy Court. The Company subsequently filed a First Amended Disclosure Statement on March 1, 2002 and a Second Amended Disclosure Statement on March 26, 2002, which was amended on April 3, 2002. The original Plan of Reorganization, the Disclosure Statement, the First Amended Disclosure Statement and the Second Amended Disclosure Statement are collectively referred to herein as the "Original Plan". On April 3, 2002, the Company submitted the Original Plan to the Company's creditors for approval. On May 16, 2002, the Company's balloting agent filed an affidavit indicating that all classes of creditors entitled to vote had overwhelmingly accepted the Original Plan. On May 21, 2002, the Bankruptcy Court entered an order (the "Original Confirmation Order") confirming the Original Plan.

The Original Plan was formulated on the basis of extensive negotiations conducted among the Company and its primary constituencies. As part of the Original Plan, the Company received commitment letters for new financing totaling $65 million (the "Original Exit Financing"). The Original Exit Financing was to be funded predominantly by Cerberus Capital Management, L.P. ("CCM"). Although the Bankruptcy Court confirmed the Original Plan, the closing of the Original Exit Financing transactions did not occur and the Original Plan did not become effective as a result of disagreements between the Company and CCM.

After consulting with the Company's official committee of unsecured creditors and the Company's senior secured lenders, the Company engaged in settlement discussions with CCM. As a result of those negotiations, on July 25, 2002 the Company entered into an agreement with CCM that was embodied in a proposed modification to the Original Plan. The Original Plan, as modified, is referred to herein as the "Modified Plan".

The Company determined that the changes to the Original Plan, as reflected in the Modified Plan, required a re-solicitation of votes from certain classes of creditors. Thus, on July 26, 2002, the Company filed the proposed Modified Plan and a Supplement to the Disclosure Statement in the Bankruptcy Court. On August 23, 2002, the

Company submitted the Modified Plan to the Company's creditors for approval. On October 7, 2002, the Company's balloting agent filed an affidavit indicating that all classes of creditors entitled to vote had again overwhelmingly accepted the Modified Plan. On October 9, 2002, the Bankruptcy Court entered an order confirming the Modified Plan. On October 10, 2002 (the "Effective Date"), the Company's Modified Plan became effective and the Company emerged from Chapter 11 bankruptcy protection. See "Liquidity and Capital Resources" for a discussion of the Company's reorganized capital structure.

As used in this Quarterly Report, the term "Predecessor Company" refers to the Company and its operations for periods prior to emerging from bankruptcy on October 10, 2002, while the term "Reorganized Company" is used to describe the Company after October 10, 2002, concurrent with its emergence from bankruptcy protection.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, uncollectible accounts receivable, long-lived assets, operating costs and accruals, reorganization costs, litigation and contingencies. Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Financial Reporting by Entities in Reorganization under the Bankruptcy Code and Fresh Start Accounting

Between November 14, 2000 and October 10, 2002, ICG operated as a debtor-in-possession under the supervision of the Bankruptcy Court. ICG's financial statements for reporting periods within that period, including these financial statements, have been prepared in accordance with the provisions of Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code."

Effective with its emergence from bankruptcy on October 10, 2002, ICG will implement Fresh Start in accordance with generally accepted accounting principles and the requirements of SOP 90-7, which requires an allocation of the reorganization value in conformity with procedures specified by Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations".

The reorganization value of ICG has been estimated at approximately $287.5 million and represents the total value of equity and debt. The valuation is based on numerous assumptions, including, among other things, the achievement of certain operating results, market values of publicly traded securities of other similar companies, and general economic and industry conditions. The assumptions, although made in good faith, are inherently uncertain; therefore, actual results could differ materially from the Modified Plan. The assumptions underlying the valuation are described in more detail in the disclosure statement sent to security holders entitled to vote on the Modified Plan and were attached as an exhibit to the ICG Current Report on Form 8-K filed on August 9, 2002.

Based on ICG's $287.5 million estimated reorganization value as of October 10, 2002, ICG expects to record approximately $500 million of reorganization charges in the Predecessor Company's final statement of operations for 2002 to adjust the historical carrying value of its assets and liabilities to fair market value. ICG also expects to record approximately $5 billion of gain on the cancellation of certain pre-petition debt in the Predecessor Company's final statement of operations for 2002.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

Reorganized Capital Structure

Pursuant to the Modified Plan, all outstanding shares of the Predecessor Company's common and preferred stock were cancelled on October 10, 2002. Holders of allowed general unsecured claims against the Company will receive one hundred percent (100%) of the 8,000,000 initially issued shares of common stock of the Reorganized Company (the "New Common Shares") based on an allocation method described in the Modified Plan. The Bankruptcy Court set October 9, 2002 as the record date for purposes of making distributions under the Modified Plan. According to the Modified Plan, distribution of the New Common Shares is to take place on a date (the "Distribution Date") occurring as soon as practicable after the Effective Date. The Distribution Date has not yet been determined, but is expected to occur no later than December 31, 2002.

Holders of general unsecured claims against ICG Communications, Inc. and ICG Holdings, Inc. and its subsidiaries will also be issued warrants to purchase up to 800,000 New Common Shares at a strike price equal to the Reorganized Company's equity value per share on the Effective Date.

Options to purchase 768,137 New Common Shares at a strike price equal to the Reorganized Company's equity value per share on the Effective Date will be granted to employees designated in the management option plan as set forth in the Modified Plan. In addition, to the extent that more than 10,241,821 New Common Shares are issued in connection with the Modified Plan, the management option plan will reserve additional options on a pro rata basis so that the number of options available for the management option plan will represent 7.5% of the New Common Shares, after giving effect to all warrants and other securities convertible into the New Common Shares.

Pursuant to the Modified Plan, on October 10, 2002, the Company received new financing consisting of a $25 million senior subordinated term loan (the "Senior Subordinated Term Loan"), which was used to pay down a portion of the Company's existing senior secured credit facility (the "Senior Facility") to a balance of approximately $59 million. The Senior Facility balance was then cancelled and replaced with new terms and new notes (the "Secured Notes"). The Secured Notes are secured by substantially all assets of the Company. The principal balance of the Secured Notes is projected to begin amortizing in August 2003 and will mature in May 2005.

Interest on the Secured Notes accrues at a premium of 3.5% to 6.0% over LIBOR or, at the Company's option, at a premium of 2.25% to 4.75% over the bank's prime rate. The interest rate premium at any given time is determined based on the cumulative amount of the principal prepayments made by the Company. Interest is payable quarterly in arrears. The weighted average interest rate on October 10, 2002 was 9.5%; the rate was reduced to 7.9% on November 6, 2002.

The Senior Subordinated Term Loan is subordinate to the Secured Notes and is secured by liens on substantially all assets of the Company. The loan accrues interest at 14% per annum, which is payable monthly in arrears, and matures on July 25, 2006. In addition, two separate issuances of warrants to purchase a total of 673,684 New Common Shares of the Reorganized Company will be issued in connection with the Senior Subordinated Term Loan. Warrants to purchase 200,000 New Common Shares have an exercise price equal to the new equity value per share on the Effective Date. Warrants to purchase 473,684 New Common Shares have an exercise price of $0.01. Both warrant issuances expire, if unexercised, on July 25, 2007. The warrants have an estimated fair market value of approximately $5 million, which has been established as a debt discount with a corresponding increase to additional paid-in capital of stockholders' equity in the Reorganized Company pro forma balance sheet.

The Secured Notes and the Senior Subordinated Term Loan require the Company to meet certain financial covenants, including minimum EBITDA requirements and capital expenditure limitations. The Secured Notes and the Senior Subordinated Term Loan covenants also require that the Company maintain a minimum cash balance equal to 75% of the outstanding principal amount of the Secured Notes until July 25, 2003, and 50% of the outstanding principal balance thereafter.

Fresh Start Accounting

Certain post-confirmation proceedings continue in the Bankruptcy Court relating to pre-petition claims filed by creditors, administrative claims and claims for damages on rejected executory contracts. As of the Effective Date, the Reorganized Company's pro forma balance sheet includes approximately $20 million in estimated accrued liabilities for the settlement of such claims. In addition, approximately $25 million of other debt consists primarily of notes issued to vendors, taxing authorities and professional services providers.

The pro forma balance sheets of the Predecessor and the Reorganized Company on the Effective Date reflecting the adoption of Fresh Start are presented below (amounts in thousands). Fresh Start adjustments are based on a preliminary allocation of the reorganization value to assets and liabilities. The final allocation of the reorganization value could vary materially from the preliminary allocation pending the outcome of the aforementioned post-confirmation Bankruptcy Court proceedings, fair value appraisals and other factors.

	Pro Forma Pre-Confirmation Balance Sheet October 10, 2002	Pro Forma Reorganized Balance Sheet October 10, 2002
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 109,720	$ 55,075
Restricted cash, current	-	15,778
Receivables, net	28,750	28,750
Prepaid expenses and deposits	10,740	7,539
Total current assets	149,210	107,142
Property and equipment, net	497,109	244,793
Restricted cash, non-current	7,019	35,921
Other assets	12,454	12,133
Total Assets	665,792	399,989
Liabilities		
Current liabilities:		
Accounts payable	10,294	10,294
Accrued liabilities – bankruptcy claims	2,371	19,510
Accrued liabilities – other	46,043	45,970
Deferred revenue	7,272	15,522
Current portion of debt and capital leases	-	17,102
Total current liabilities	65,980	108,398
Long-term liabilities:		
Bank debt	-	51,400
Capital lease obligations	51,154	86,476
Senior subordinated term loan, net of $5 million of debt discount	-	19,711
Other debt	348	25,379
Deferred revenue	-	26,036
Total long-term liabilities	51,502	209,002
Liabilities subject to compromise	2,722,778	-
Total liabilities	2,840,260	317,400
Redeemable preferred stock	1,289,789	-
Stockholders' deficit – Predecessor Company	(3,464,257)	-
Stockholders' equity – Reorganized Company	-	82,589
Total Liabilities and Stockholders' Equity (Deficit)	$ 665,792	$ 399,989

Funding Requirements

The Company had cash and cash equivalents of $110 million at September 30, 2002. On October 10, 2002, immediately after the Company restructured its existing indebtedness and emerged from bankruptcy, it had cash and cash equivalents and restricted cash totaling $107 million, which is comprised of the following: (i) cash and cash equivalents of $55 million; (ii) restricted cash – current of $16 million, which represents the amount the Company expects will be available for current operations within one year; and (iii) restricted cash – non-current of $36 million. The Company expects to pay approximately $20 million in the next year to certain holders of pre-petition claims, professional services providers, and other parties for matters relating to the Company's bankruptcy proceedings. The Company anticipates that it will need additional financing by 2005 in order to refinance the Secured Notes that are due in 2005.

The Company expects that the demand for telecommunication services will grow and, notwithstanding the current downturn in the general economy and the telecommunications industry in particular, that it will be able to increase its relatively small share of the markets it serves. The Company also believes that as revenues grow, cash provided by operating activities will increase. The Company anticipates that it will be able to refinance all or a portion of the amounts due at the term of the respective debt facilities, although such refinancing is contingent upon market conditions and the Company's results of operations and is therefore not assured.

Capital Commitments

Contractual Cash Commitments

The following table summarizes the Company's contractual cash commitments at September 30, 2002:

	Three Months Ended December 31, 2002	2003	2004	2005	2006 – 2022
			(in thousands)		
Principal payments on debt and capital lease obligations (1)					
Capital lease obligations (2)	$ 238	$ 9,146	$ 9,263	$ 9,337	$ 98,910
Secured Notes	-	3,728	8,196	47,462	-
Senior Subordinated Term Loan (3)	-	-	-	-	25,000
Other debt	2,084	7,275	7,290	4,106	4,623
	2,322	20,149	24,749	60,905	128,533
Other obligations					
Interest payments, net	4,197	18,551	16,297	14,824	98,350
Restructuring fees and commitments (4)	7,217	20,188	-	-	-
Operating leases, rents and other contracts (5)	7,298	20,230	14,005	12,939	58,512
	18,712	58,969	30,302	27,763	156,862
Total Contractual Cash Obligations	$ 21,034	$ 79,118	$ 55,051	$ 88,668	$ 285,395

(1) Excludes the interest component included in "Interest payments".

(2) Includes amounts for interest accreted into the principal balance of certain capital lease obligations.

(3) The proceeds from the Senior Subordinated Term Loan were used to pay down the Senior Facility balance by $25 million on October 10, 2002. The Senior Facility was then cancelled and replaced with the Secured Notes on the Effective Date in accordance with the Modified Plan.

(4) Includes the estimated settlement of Administrative (Professional fees), Convenience and Priority Claims and cash disbursed with the affirmation of certain executory contracts (as these terms are defined in the Modified Plan).

(5) The Company accounts for such expenses primarily under Operating Costs and Selling, General and Administrative expenses in the Statement of Operations.

Capital Expenditures

Capital expenditures, exclusive of amounts required to maintain the current network functionality, will be driven by customer demand for the Company's services. If customer demand for new services does not meet management's expectations, capital expenditures will be proportionally reduced. The Company also has available capacity on its data backbone, metropolitan and regional fiber networks and in its modem banks. It is the Company's objective to use this capacity to generate future revenue streams. Also, the Secured Notes and the Senior Subordinated Term Loan contain financial covenants that prohibit the Company from exceeding capital expenditure limitations, as detailed herein.

Assessment of Risks and Uncertainty

Availability of Financing

Based on the Company's EBITDA projections included in the Modified Plan, and assuming the Company does not raise additional funds or cut its projected capital spending, the Company would need to request a modification or waiver with respect to the minimum cash balance covenant by the first quarter of 2004. The Company's EBITDA projections included in the Modified Plan, however, are based on the good faith assumptions of management, which are inherently uncertain. Actual results could differ materially from the Modified Plan, which in turn could impact the Company's compliance with the financial covenants. Management anticipates that the Company's business plan provides sufficient flexibility to reduce spending as appropriate to remain in compliance with this covenant. New sources of capital may also be available beyond that which is currently projected by management.

In addition, the Company anticipates that it will need additional financing by 2005 in order to refinance the Secured Notes that are due in 2005. There is no assurance that the Company will be able to secure additional capital or alternative financing on acceptable terms, or at all.

Business Environment

The general economic downturn and the severe downturn in the telecommunications industry have resulted in increased exposure to several risks, including customer credit risk, increased customer disconnections, pricing pressure created by an oversupply of backbone and other services, and possible financial difficulties that may be experienced by the Company's suppliers.

The slowing economy has caused various customers to cease operations, file for bankruptcy protection or look for opportunities to cut costs. As a result, the Company continues to experience customers disconnecting services, which results in downward pressure on revenue. During the third quarter of 2002, $2 million of recurring revenue was eliminated due to customer disconnections. Management is unable to predict when such economic trends will improve.

While bankruptcies and financial difficulties in the telecommunications industry present a threat to revenue growth, the contraction in the number of service providers may benefit the Company. As some emerging providers cease operations, their customers may seek to purchase services from the Company.

There is no assurance, however, that the Company will realize any benefits from the downturn in the telecommunications industry or that the Company will not be materially adversely affected by conditions in the industry or the economy in general.

The immense capital investments made in the telecommunications industry have created an oversupply of network infrastructure. Combined with this oversupply, rapid technological advancements and intense competition have resulted in significant pricing pressure in each of the Company's main service areas. While the Company believes it is price-competitive overall, it cannot predict the impact that the oversupply of network infrastructure will have on future operating results.

The Company's suppliers may also become adversely affected by overall industry trends and may experience financial difficulties. There is no assurance that the Company will be able to replace lost vendor contracts under similar terms.

Reciprocal Compensation

Reciprocal compensation rates are established by interconnection agreements between the parties. The Company has executed interconnection agreements with every ILEC and while the initial terms of some of those agreements have expired or are soon expiring, the Company is in the process of renegotiating and extending the terms of the interconnection agreements. The interconnection agreements currently in effect with three major ILECs expire in June 2004, June 2003 and October 2003, respectively.

In most states in which the Company provides services, regulatory bodies have established lower traffic termination rates than the rates provided under the Company's interconnection agreements. As a result, future rates will likely be lower than the rates under the expiring interconnection agreements.

Reciprocal Compensation revenue is discussed in more detail under "Results of Operations".

Federal Regulation

The Company utilizes certain ILEC network elements in order to reach the Company's customers. These network elements include transport facilities that interconnect the Company's network with the ILEC's network, as well as "last mile facilities", which connect the end user premises with the telecommunications services provider. Of concern to the Company is whether Congress and/or the Federal Communications Commission will seek to modify various rules and regulations regarding access to the ILEC network elements. Any significant change in policy that either limits or eliminates the Company's ability to purchase such network elements could impair the Company's ability to implement its network deployment strategies.

Customer Concentration

The Company has substantial business relationships with a few large customers. For the three months ended September 30, 2001, and 2002, the top ten customers accounted for 54% and 68%, respectively, of total revenue. For the nine months ended September 30, 2001, and 2002, the top ten customers accounted for 50% and 64%, respectively, of total revenue.

The Company's largest customer, Qwest Communications Corporation (together with its affiliated entities, "Qwest"), accounted for 21% and 31% of total revenue in the three months ended September 30, 2001, and 2002, respectively. Qwest accounted for 15% and 29% of total revenue in the nine months ended September 30, 2001, and 2002, respectively.

In the three and nine months ended September 30, 2002, the companies that individually represented more than 5% of total revenue were Qwest, UUNet (a division of WorldCom, Inc.) and a large national ISP. MCI, also a subsidiary of WorldCom, was one of the top ten customers, although it individually represented less than 5% of total revenue in the three and nine months ended September 30, 2002. WorldCom represented 8% and 10% of the Company's total revenue in the three months ended September 30, 2001 and 2002, respectively. WorldCom represented 9% and 11% of total revenue in the nine months ended September 30, 2001 and 2002, respectively.

Since WorldCom's bankruptcy filing, ICG has continued to provide service to WorldCom. Under the Bankruptcy Code, WorldCom can elect to affirm or reject its pre-petition contracts with ICG. If WorldCom rejects one or more

of its pre-petition contracts with ICG, ICG's results of operations and financial condition could be materially negatively impacted.

Several of ICG's customers have approached ICG about possibly settling or restructuring their service contracts. If the Company agrees to settle or restructure any significant customer contracts, ICG's results of operations and financial condition could be materially impacted. At this time, the Company cannot predict the possible outcome of such negotiations.

Off Balance Sheet Financing

The Company has no off balance sheet financing other than long term commitments for operating leases and rents.

Historical Cash Activities

Net Cash Provided (Used) By Operating Activities

The Company's operating activities before reorganization items provided $32 million in 2001 and 2002. For the nine months ended September 30, 2002 working capital items used cash of $22 million, primarily due to a $28 million decrease in accounts payable and accrued liabilities. For the nine months ended September 30, 2001, working capital items provided cash of $18 million, primarily due to $20 million decrease in receivables.

The Company's operating activities used $33 million and provided $6 million in the nine months ended September 30, 2001 and 2002, respectively. Net cash from operating activities is comprised primarily of net losses, reorganization items and fluctuations in operating assets and liabilities (working capital), offset by non-cash items included in the net losses, such as depreciation and amortization, provision for uncollectible accounts and deferred interest expense.

Reorganization items included in cash flows from operating activities used $65 million and $26 million in 2001 and 2002, respectively. Reorganization items represent primarily reorganization expense, net, adjusted for non-cash items recognized during the bankruptcy process, and are comprised primarily of changes in liabilities subject to compromise, gains and losses related to contract settlements and disposals of long-lived assets, and post-petition accruals directly related to reorganization activities.

Net Cash Used By Investing Activities

Investing activities used $5 million and $34 million in the nine months ended September 30, 2001 and 2002, respectively. Net cash used by investing activities is primarily comprised of cash purchases of property and equipment, proceeds from disposition of property, equipment and other assets, purchases and sales of short-term investments, and fluctuations in long-term deposit balances.

Net Cash Used By Financing Activities

Financing activities used $20 million and $8 million in the nine months ended September 30, 2001 and 2002, respectively. Cash used by financing activities in 2001 and 2002 represents primarily principal payments on capital lease obligations.

During the pendency of the Bankruptcy Court cases, the Company did not pay any principal due under the Senior Facility. However, the Company continued to make interest-only payments on the Senior Facility balance through the Effective Date. Pursuant to the Modified Plan, on October 10, 2002, the Company received the $25 million Senior Subordinated Term Loan, which was used to pay down the Senior Facility to a balance of approximately $59 million. The Senior Facility balance was then replaced with the Secured Notes.

As of September 30, 2002, the Company had an aggregate accreted value of approximately $2 billion outstanding under the 13 1/2% Senior Discount Notes due 2005, the 12 1/2% Senior Discount Notes due 2006, the 11 5/8% Senior Discount Notes due 2007, the 10% Notes and the 9 7/8% Notes. Effective October 10, 2002, this debt was

discharged pursuant to the confirmation of the Modified Plan and ICG's emergence from bankruptcy protection, and a corresponding extraordinary gain will be recorded.

As of September 30, 2002, an aggregate amount of approximately $1.3 billion was outstanding under the 6 3/4% Preferred Securities, the 14% Preferred Stock, the 14 1/4% Preferred Stock and the 8% Series A Convertible Preferred Stock. Effective October 10, 2002, all Preferred Stock was discharged pursuant to the confirmation of the Modified Plan and ICG's emergence from bankruptcy protection, and a corresponding extraordinary gain will be recorded.

Capital Expenditures

The Company's capital expenditures, which represent assets acquired with cash and capital leases, were $74 million and $41 million for the nine months ended September 30, 2001 and 2002, respectively.

RESULTS OF OPERATIONS

The following table provides a breakdown of revenue, operating costs and selling, general and administrative expenses 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.

	Financial Data (unaudited)							
	Three months ended September 30,				Nine months ended September 30,			
	2001		2002		2001		2002	
	$	%	$	%	$	%	$	%
	($ values in thousands)							
Statement of Operations Data:								
Revenue	124,071	100	105,914	100	381,720	100	320,865	100
Operating costs	84,954	68	63,053	60	282,329	74	191,343	59
Selling, general and administrative	23,469	19	16,128	15	80,635	21	67,690	21
Depreciation and amortization	18,301	15	21,442	20	50,484	13	66,379	21
Loss (gain) on disposal of asset	1,908	2	(570)	(1)	9,541	3	(684)	-
Provision for impairment of long-lived assets	-	-	30	-	-	-	673	-
Operating loss	(4,561)	(4)	5,831	6	(41,269)	(11)	(4,536)	(1)
Other Data:								
EBITDA (1)	15,648	13	26,733	25	18,756	5	61,832	19
Net cash provided (used) by operating activities	3,940		21,854		(33,414)		5,988	
Net cash provided (used) by investing activities	2,033		(13,119)		(4,514)		(34,338)	
Net cash (used) by financing activities	(1,822)		(514)		(19,605)		(8,484)	
Capital expenditures (2)	6,744		17,062		74,018		41,285	

Statistical Data (unaudited) (3)

	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002	September 30, 2002
Full time employees	1,389	1,368	1,342	1,138	1,147
Telecom services:					
Access lines in service, in thousands (4)	789	742	807	834	870
Buildings connected:					
On-net	902	901	911	912	909
Hybrid (5)	6,315	5,727	5,189	4,748	4,413
Total buildings connected	7,217	6,628	6,100	5,660	5,322
Operational switches:					
Circuit	43	43	47	46	46
ATM	26	27	25	26	26
Total operational switches	69	70	72	72	72
Operational regional fiber route miles (6):	5,542	5,542	5,542	5,542	5,704
Operational regional fiber strand miles (7):	165,847	165,847	165,847	165,927	166,228
Collocations with ILECs	148	161	160	158	158

(1) EBITDA consists of net income (loss) from continuing operations before interest, income taxes, reorganization expense, net, depreciation and amortization, other expenses, net. EBITDA 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 for the periods indicated. EBITDA is not a measurement under generally accepted accounting principles and is 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 generally accepted accounting principles are also presented in Other Data. The following table is a reconciliation of the net loss reported by the Company to EBITDA:

	Three months ended September 30,		Nine months ended September 30,	
	2001	2002	2001	2002
	(in thousands, except per share data)			
Net income (loss)	$ 25,764	$ (5,016)	$ (60,914)	$ (54,335)
Depreciation and amortization	18,301	21,442	50,484	66,379
Interest expense	277	5,087	24,076	15,390
Reorganization expense (income), net	(30,697)	5,673	(3,192)	34,405
Loss (gain) on disposal of assets	1,908	(570)	9,541	(684)
Provision for impairment of long-lived assets	-	30	-	673
Other expense (income), net	95	87	(1,239)	4
EBITDA	$ 15,648	$ 26,733	$ 18,756	$ 61,832

(2) Capital expenditures include assets acquired with cash, payables, and pursuant to capital leases and indefeasible rights of use ("IRU") agreements.

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

(4) Access lines in service include only provisioned lines generating revenue.

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

(6) Regional fiber route miles refers to the number of miles of fiber optic cable, including leased fiber. As of September 30, 2002, the Company had 5,704 regional fiber route miles, 3,723 of which were leased.

(7) 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, 2002, the Company had 166,228 regional fiber strand miles, 44,148 of which were leased.

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001

Revenue

	Three months ended September 30,			
	2001		2002	
	$	%	$	%
Dial-Up	45,380	37	45,959	43
Point-to-Point Broadband	34,889	28	23,291	22
Corporate Services	25,210	20	17,902	17
Reciprocal Compensation	18,592	15	18,762	18
Total Revenue	124,071	100	105,914	100

Total revenue decreased $18 million, or 15%, for the three months ended September 30, 2002, as compared to the three months ended September 30, 2001. The decrease was primarily due to an $11 million decrease in Point-to-Point Broadband revenue and a $7 million decrease in Corporate Services revenue. In the three months ended September 30, 2002, $2 million of revenue earned between July 1, 2002 and July 21, 2002 was not recorded due to WorldCom's bankruptcy filing on July 21, 2002.

The general economic downturn and the severe downturn in the telecommunications industry have resulted in an oversupply of network infrastructure. In addition, the slowing economy has resulted in many of the Company's customers ceasing operations, filing for bankruptcy protection, or looking for opportunities to cut costs. The effects on the Company include higher levels of customer disconnections and increased pricing pressure on new and existing customer contracts. In addition, customers are taking longer to make buying decisions, thus lengthening the sales cycle.

Dial-Up

Dial-Up revenue is earned by providing PRI ports (one- and two- way) and managed modem (IRAS) services to ISPs and other communication service companies. Dial-Up revenue is comprised of (i) monthly recurring revenue, which includes fixed monthly service revenue and service revenue directly attributable to usage and (ii) non-recurring revenue, which includes installation revenue, billing adjustments and credits, and other non-recurring items.

Dial-Up revenue did not fluctuate significantly from 2001 to 2002. For the three months ended September 30, 2002 as compared to the three months ended September 30, 2001, monthly recurring revenue increased 2% due to a 20% increase in the average line count, which was offset by a 14% decrease in the average monthly revenue per line, excluding the effect of the unrecognized WorldCom revenue. The average monthly revenue per line decreased due to customer disconnections, and their replacement at lower contractual rates. Dial-Up revenue's contribution to total revenue rose from 37% in the third quarter of 2001 to 43% in the third quarter of 2002.

Point-to-Point Broadband

Point-to-Point Broadband revenue is generated from service provided to inter-exchange carriers ("IXCs") and end-user business customers. This service provides dedicated bandwidth and offers DS1 to OC-192 capacity to connect: (i) long-haul carriers to local markets, large companies and other long-haul carrier facilities; and (ii) large companies to their long distance carrier facilities and other facilities.

Point-to-Point Broadband revenue decreased 32% from $35 million in 2001 to $23 million in 2002. The decrease in Point-to-Point Broadband revenue was comprised of decreases in special access, switched access and SS7 revenues of 26%, 64% and 63%, respectively, which occurred primarily due to IXC customer churn as a result of the downturn in the telecommunications industry. Point-to-Point Broadband revenue's contribution to total revenue declined from 28% in the third quarter of 2001 to 22% in the third quarter of 2002.

Corporate Services

Corporate Services revenue includes: (i) local enhanced telephony ("Voice"); (ii) dedicated internet access ("DIA") provided to businesses over ICG's major metropolitan fiber optic networks or lines leased from the ILECs; and (iii) other business services. Other business services include carrier access billing service ("CABS"), which is generated from the origination & termination of switched access traffic, as well as long distance revenue in 2001.

Corporate Services revenue decreased 29% from $25 million in 2001 to $18 million in 2002. Voice revenue decreased $7 million primarily due to a 39% decrease in the average line count and a 2% decrease in the average monthly revenue per line, excluding the effect of the unrecognized WorldCom revenue. The decrease in the average line count is primarily the result of customer churn, as well as planned transition of customers in certain service areas. Corporate Services line count decreased approximately 4% during the three months commencing on June 30, 2002 and ending on September 30, 2002. During that period lines installed represented approximately 9% of the installed base as of June 30, 2002 and disconnects represented approximately 13% of that base.

Corporate Services revenue was also impacted by an increase in CABS revenue as a result of a settlement with an IXC, offset by the Company's transition out of the long-distance business in the fourth quarter of 2001. Corporate Services' contribution to total revenue declined from 20% in the third quarter of 2001 to 17% in the third quarter of 2002.

Reciprocal Compensation

Reciprocal Compensation revenue is primarily earned pursuant to interconnection agreements with ILECs for the transport and termination of calls originated by ILEC customers, including Internet bound calls. Reciprocal Compensation revenue includes $3 million and $7 million from customer settlements in the three months ended September 30, 2001 and 2002, respectively. Excluding these settlements, Reciprocal Compensation revenue would have decreased 27% primarily due to contractual and regulated rate reductions. Reciprocal Compensation's contribution to total revenue increased from 15% in 2001 to 18% in 2002. The Company anticipates that Reciprocal Compensation revenue will decline in the future based on future negotiated and regulated rate reductions and the expiration of agreements beginning in the first quarter of 2003.

Operating costs

Total operating costs decreased 26% from $85 million for the three months ended September 30, 2001 to $63 million for the same period in 2002. As a percentage of revenue, operating costs also decreased from 68% in the third quarter of 2001 to 60% in the third quarter of 2002. Operating costs consist primarily of payments to ILECs, other CLECs, and long distance carriers for the use of network facilities to support local, special, switched access services, and long distance services as well as internal network operating costs, right of way fees and other operating costs. Internal network operating costs include the cost of engineering and operations personnel dedicated to the operations and maintenance of the network. Since filing for bankruptcy, the Company has significantly reduced excess network capacity, eliminated services in unprofitable markets, and reconfigured its network for better performance. This has resulted in lower operating costs for both internal and leased network facilities.

Selling, general and administrative ("SG&A") expenses

Total SG&A expenses decreased 31% from $23 million for the three months ended September 30, 2001 to $16 million for the same period in 2002. As a percentage of revenue, SG&A expenses decreased from 19% for 2001 to 15% for 2002.

In November 2002 the Company determined that its 2002 annual operating performance would not meet the established threshold for paying out employee bonuses. Therefore, the Company fully reversed the employee bonus accrual as of September 30, 2002. SG&A expenses for the three months ended September 30, 2002 are shown net of approximately $6 million of adjustments to reverse employee bonus-related expenses originally recorded in the first half of 2002.

Depreciation and amortization

Depreciation and amortization increased 17% from $18 million for the three months ended September 30, 2001 to $21 million for the same period in 2002, primarily due to higher levels of property and equipment placed in service and subject to depreciation.

Interest expense

Interest expense increased from $0.3 million for the three months ended September 30, 2001 to $5 million for the same period in 2002, primarily due a third quarter 2001 adjustment to previously recorded interest expense in connection with the Company's rejection of certain capital leases during the bankruptcy process. This was offset by the elimination of interest expense on capital leases rejected by the Company in connection with the bankruptcy process, as well as the elimination of the Debtor-In-Possession Revolving Credit Agreement deferred financing cost amortization included in interest expense in 2001. The Company terminated the Revolving Credit Agreement on November 7, 2001 and wrote off the remaining unamortized deferred financing costs to interest expense at that time.

Reorganization income (expense), net

Reorganization expense, net was $6 million in the three months ended September 30, 2002, compared to reorganization income, net of $31 million in the three months ended September 30, 2001. Reorganization income (expense), net consists of items associated with the bankruptcy proceedings that are not directly attributable to the ongoing operations of the Company. The change is due primarily to a $40 million decrease in the gain recorded for settlements and disposals of long-lived assets.

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

Revenue

	Nine months ended September 30,			
	2001		2002	
	$	%	$	%
Dial-Up	132,631	35	135,237	42
Point-to-Point Broadband	113,406	30	80,261	25
Corporate Services	84,307	22	55,588	17
Reciprocal Compensation	51,376	13	49,779	16
Total Revenue	381,720	100	320,865	100

Total revenue decreased $61 million, or 16%, for the nine months ended September 30, 2002, as compared to the nine months ended September 30, 2001. The decrease was due primarily to a $33 million decrease in Point-to-Point Broadband revenue, a $29 million decrease in Corporate Services revenue, and a $2 million decrease in Reciprocal Compensation revenue, offset by a $3 million increase in Dial-Up revenue. In the nine months ended September 30,

2002, $2 million of revenue earned between July 1, 2002 and July 21, 2002 was not recorded due to WorldCom's bankruptcy filing on July 21, 2002.

Dial-Up

Dial-Up revenue increased 2% from $133 million in 2001 to $135 million in 2002. For the nine months ended September 30, 2002, Dial-Up revenue includes $4 million of contractually obligated revenue with no corresponding lines in service relating to a take-or-pay contract. For the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001, monthly recurring revenue decreased 7% due to a 19% decrease in the average monthly revenue per line, excluding the effect of the unrecognized WorldCom revenue and the revenue from the take-or-pay contract, offset by a 16% increase in the average line count. The average monthly revenue per line decreased due to customer disconnections, and their replacement at lower contractual rates. Dial-Up revenue's contribution to total revenue rose from 35% in the first nine months of 2001 to 42% in the first nine months of 2002.

Point-to-Point Broadband

Point-to-Point Broadband revenue decreased 29% from $113 million in 2001 to $80 million in 2002. The decrease in Point-to-Point Broadband revenue was comprised of decreases in special access, switched access and SS7 revenues of 23%, 58% and 54%, respectively, which occurred primarily due to IXC customer churn as a result of the downturn in the telecommunications industry. Point-to-Point Broadband revenue's contribution to total revenue declined from 30% in the first nine months of 2001 to 25% in the first nine months of 2002.

Corporate Services

Corporate Services revenue decreased 34% from $84 million in 2001 to $56 million in 2002. Voice revenue decreased $28 million primarily due to a 43% decrease in the average line count and a 2% decrease in the average monthly revenue per line, excluding the effect of the unrecognized WorldCom revenue. The decrease in the average line count is primarily the result of customer churn, as well as planned transition of customers in certain service areas. Corporate Services revenue was also impacted by an increase in CABS revenue, offset by the Company's transition out of the long-distance business in the fourth quarter of 2001. Corporate Services revenue's contribution to total revenue declined from 22% in the first nine months of 2001 to 17% in the first nine months of 2002.

Reciprocal Compensation

Reciprocal Compensation revenue decreased 3% from $51 million in 2001 to $50 million in 2002. Reciprocal Compensation's contribution to total revenue increased from 13% in 2001 to 16% in 2002. Reciprocal Compensation revenue includes $4 million and $12 million from customer settlements in the nine months ended September 30, 2001 and 2002, respectively. Excluding these settlements, Reciprocal Compensation revenue would have decreased 21% primarily due to contractual and regulated rate reductions. The Company anticipates that Reciprocal Compensation revenue will decline in the future based on future negotiated and regulated rate reductions and the expiration of agreements beginning in the first quarter of 2003.

Operating costs

Total operating costs decreased 32% from $282 million for the nine months ended September 30, 2001 to $191 million for the same period in 2002. As a percentage of revenue, operating costs also decreased from 74% in the first nine months of 2001 to 59% in the first nine months of 2002. Since filing for bankruptcy, the Company has significantly reduced excess network capacity, eliminated services in unprofitable markets, and reconfigured its network for better performance. This has resulted in lower operating costs for both internal and leased network facilities.

Selling, general and administrative ("SG&A") expenses

Total SG&A expenses decreased 16% from $81 million for the nine months ended September 30, 2001 to $68 million for the same period in 2002. SG&A expenses represented 21% of revenue for the nine months ended September 30, 2001 and 2002. SG&A expenses decreased primarily due to (i) reduced costs associated with lower

headcount; (ii) lower bad debt expense due to improved collections and customer settlements; (iii) lower facilities costs achieved in connection with the Company's consolidation of its locations during the bankruptcy reorganization; and (iv) lower software maintenance costs. In addition, real estate and personal property taxes decreased as a result of write downs in the value of the Company's property and equipment.

Depreciation and amortization

Depreciation and amortization increased 31% from $50 million for the nine months ended September 30, 2001 to $66 million for the same period in 2002, primarily due to higher levels of property and equipment placed in service and subject to depreciation.

Interest expense

Interest expense decreased 36% from $24 million for the nine months ended September 30, 2001 to $15 million for the same period in 2002, primarily due to the elimination of interest expense on capital leases rejected by the Company in connection with the bankruptcy process, as well as the elimination of the Debtor-In-Possession Revolving Credit Agreement deferred financing cost amortization included in interest expense in 2001, which amounted to $6 million for the 9 months ended September 30, 2001. The Company terminated the Revolving Credit Agreement on November 7, 2001 and wrote off the remaining unamortized deferred financing costs to interest expense at that time.

Reorganization income (expense), net

Reorganization expense, net was $34 million in the nine months ended September 30, 2002, compared to reorganization income, net of $3 million in the nine months ended September 30, 2001. The change was due primarily to a $33 million reduction in the gain recorded for settlements and disposals of long-lived assets, an $18 million increase in contract termination expenses and a $4 million decrease in interest income, offset by decreases in severance and employee retention costs of $9 million, legal and professional fees of $3 million, switch site closure costs of $2 million and other expenses of $3 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risks arising from changes in interest rates. As of the Effective Date, the Company's primary interest rate exposure results from changes in LIBOR or the prime rate, which are used to determine the interest rate applicable to the Senior Notes outstanding principal balance. The weighted average interest rate applicable to the Senior Notes outstanding principal balance on October 10, 2002 was 9.5%; the rate was reduced to 7.9% on November 6, 2002. A hypothetical change in annual interest rate of 1% per annum applied to the Senior Notes outstanding principal balance on October 10, 2002 would result in additional interest expense of approximately $0.6 million.

The Company does not, in the normal course of business, use derivative financial instruments for trading or speculative purposes.

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures within 90 days of the filing date of this quarterly report. Based on this evaluation, the officers have concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing on a timely basis material information required to be included in the Company's periodic filings under the Securities Exchange Act of 1934. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of this evaluation.

PART II

ITEM 1. **LEGAL PROCEEDINGS**

On November 14, 2000, the Company and most of its subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code in the Federal District of Delaware (Joint Case Number 00-4238 (PJW)). On October 10, 2002 ICG emerged from the Bankruptcy Court proceedings pursuant to the terms of its Modified Plan. The Modified Plan was filed with the Bankruptcy Court on July 25, 2002 and was confirmed on October 9, 2002. Pursuant to the Bankruptcy Code, all pre-petition securities claims against ICG were discharged upon the confirmation of the Modified Plan.

The legal actions against certain of the Company's former officers and directors are proceeding and these defendants have retained separate legal counsel to prepare a defense. Effective October 10, 2002, the Company's former Chief Executive Officer, J. Shelby Bryan, and the Company's former President, William S. Beans, Jr., resigned from the Company's Board of Directors.

In January 2002, SBC Communications, Inc., on behalf of various subsidiaries (collectively "SBC"), filed a motion in the Company's Bankruptcy case seeking permission to terminate the services it provides the Company pursuant to its interconnection agreements. SBC contended that the Company owed SBC in excess of $24 million related to past billing, and, as a result, was entitled to terminate services and pursue an administrative claim for the alleged past due receivable. The Company filed a response to SBC's motions stating that it did not owe a significant portion of the alleged past due amount. Additionally, the Company's response contended that SBC owed the Company considerably more than the Company owed SBC.

On March 29, 2002 the Company and SBC entered into a settlement agreement regarding wholesale services provided by SBC and the Company to each other pursuant to the interconnection agreements. On April 30, the Bankruptcy Court issued an order approving the terms of the settlement. On May 10, 2002, the order became final and non-appealable. Amounts allegedly owed for the retail services, which are not governed by the interconnection agreements, have yet to be resolved. The Company believes that the ultimate resolution of the remaining items relating to retail services will be immaterial to the Company's operating results. As of the date of this quarterly report, the Company has not received the full amount of the settlement contemplated in the settlement agreement and is in negotiations with SBC regarding the interpretation of certain provisions of the settlement agreement.

The Company is a party to certain other litigation that 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. The Company is not involved in any administrative or judicial proceedings relative to an environmental matter.

ITEM 2. **CHANGES IN SECURITIES**

As of September 30, 2002, there were 55,244,915 shares of the Company's old common stock outstanding (the "Old Common Stock"), all of which were cancelled on October 10, 2002, the Effective Date. Prior to the Petition Date, the Company had also issued the following preferred securities (the "Old Preferred Shares"): (i) 50,000 shares of ICG Communications, Inc. 8% Series A-1 Convertible Preferred Securities due 2015; (ii) 23,000 shares of ICG Communications, Inc. 8% Series A-2 Convertible Preferred Securities due 2015; (iii) 2,000 shares of ICG Communications, Inc. 8% Series A-3 Convertible Preferred Securities due 2015; (iv) 1,107,585 shares of ICG Funding, LLC Exchangeable Preferred Securities Mandatorily Redeemable 2009; (v) 13,029.25 shares of ICG Communications, Inc. 6 3/4% Preferred Stock Mandatorily Redeemable 2009; (vi) 162,071 shares of ICG Holdings, Inc. 14% Preferred Stock Mandatorily Redeemable 2008; (vii) and 272,510 shares of ICG Holdings, Inc. 14 1/4% Preferred Stock

Mandatorily Redeemable 2007. Under the provisions of the Modified Plan, the Old Preferred Shares have also been cancelled.

Holders of allowed general unsecured claims against the Company will receive one hundred percent (100%) of the 8,000,000 of the New Common Shares of the Reorganized Company. The allocation of New Common Shares is based upon the ultimate aggregate amount of allowed general unsecured claims against (i) the operating companies owned directly or indirectly by ICG Holdings, Inc. ("ICG Holdings"), including ICG Telecom Group, Inc. ("ICG Telecom" and, together with ICG Communications, Inc., ICG Holdings and ICG Telecom's subsidiaries, the "Holdings Debtors") and (ii) ICG Services, Inc., ICG Equipment, Inc., ICG NetAhead and ICG Mountainview, Inc., (the "Services Debtors"), respectively, and adjusted in settlement of certain intercompany claim issues. Based upon claim estimates contained in the Modified Plan, approximately fifty-nine and one-half percent (59.5%) of the New Common Shares will be distributed pro rata to holders of general unsecured claims against the Holdings Debtors and approximately forty and one-half percent (40.5%) of the New Common Shares will be distributed pro rata to holders of general unsecured claims against the Services Debtors.

The Amended and Restated Certificate of Incorporation of ICG Communications, Inc., effective as of October 10, 2002, was filed with the office of the Secretary of State of the State of Delaware on October 10, 2002. The Company also adopted Amended and Restated Bylaws on the same date. These documents were filed as exhibits 3.1 and 3.2 to ICG Communications, Inc.'s Current Report on Form 8-K dated October 9, 2002, and are incorporated herein by reference.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Due to the bankruptcy proceedings discussed in note 1 to the Company's unaudited consolidated financial statements for the three months ended September 30, 2002, the Company was in default under the 13 1/2 % Notes, 12 1/2% Notes, 11 5/8% Notes, 10% Notes, 9 7/8% Notes and the Senior Facility as of September 30, 2002. In addition, the Company was in default under the 14 1/4% Preferred Stock, 14% Preferred Stock, 6 3/4% Preferred Securities and 8% Series A Convertible Preferred Stock as of September 30, 2002. The Notes and Preferred Stock were cancelled in connection with the confirmation of the Company's Modified Plan and emergence from bankruptcy protection on October 10, 2002.

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.

2.4 Findings of Fact, Conclusions of Law, and Order Confirming Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated May 21, 2002. [Incorporated by reference to Exhibit 2.1 to ICG Communications, Inc.'s Current Report on Form 8-K dated May 21, 2002.]

2.5 Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated April 3, 2002. [Incorporated by reference to Exhibit 2.2 to ICG Communications, Inc.'s Current Report on Form 8-K dated May 21, 2002.]

2.6 Disclosure Statement with Respect to Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated April 3, 2002. [Incorporated by reference to Exhibit 2.3 to ICG Communications, Inc.'s Current Report on Form 8-K dated May 21, 2002.]

2.7 Modification to the Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated July 26, 2002. [Incorporated by reference to Exhibit 2.7 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002.]

2.8 Supplemental Disclosure With Respect to Second Amended Joint Plan of Reorganization of ICG Communications, Inc. Regarding Modification of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated July 26, 2002. [Incorporated by reference to Exhibit 2.8 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002.]

2.9 Senior Financing Agreement by and among ICG Communications, Inc. and its affiliated debtor subsidiaries identified herein, Royal Bank of Canada, as Administrative Agent and as collateral agent, and Wachovia Bank, National Association, as documentation agent, dated as of July 25, 2002. [Incorporated by reference to Exhibit 2.9 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002.]

2.10 Supplemental Disclosure with Respect to Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession dated August 23, 2002. [Incorporated by reference to Exhibit 2.8 to ICG Communications, Inc.'s Current Report on Form 8-K dated October 9, 2002].

2.11 Findings of Fact, Conclusions of Law, and Order Confirming Second Amended Joint Plan of Reorganization of ICG Communications, Inc. and its Affiliated Debtors and Debtors in Possession, as Modified, dated October 9, 2002. [Incorporated by reference to Exhibit 2.9 to ICG Communications, Inc.'s Current Report on Form 8-K dated October 9, 2002].

3.1 Amended and Restated Certificate of Incorporation of ICG Communications, Inc. filed with the office of the Secretary of State of the State of Delaware on October 10, 2002. [Incorporated by reference to Exhibit 3.1 to ICG Communications, Inc.'s Current Report on Form 8-K dated October 9, 2002].

3.2 Amended and Restated Bylaws of ICG Communications, Inc., effective as of October 10, 2002. [Incorporated by reference to Exhibit 3.2 to ICG Communications, Inc.'s Current Report on Form 8-K dated October 9, 2002].

10.85 Note and Warrant Purchase Agreement by and among ICG Communications, Inc., Madeleine L.L.C. and Morgan Stanley & Co., Incorporated, dated as of July 25, 2002. [Incorporated by reference to Exhibit 10.85 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002.]

10.86 Escrow Agreement by and among ICG Communications, Inc., Madeleine L.L.C. and Morgan Stanley & Co., Incorporated, dated as of July 25, 2002. [Incorporated by reference to Exhibit 10.86 to ICG Communications, Inc.'s Current Report on Form 8-K dated August 9, 2002.]

99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(B) Report on Form 8-K.

The following reports on Form 8-K were filed by the registrant during the three months ended September 30, 2002:

(i) Current Report on Form 8-K dated August 9, 2002, announcing that:

a. On July 25, 2002, the Debtors entered into the Senior Facility, the Note and Warrant Purchase Agreement and Escrow Agreement, pursuant to which $25 million was deposited into an escrow account.

b. On July 26, 2002, the Company filed a modification to ICG's Second Amended Joint Plan of Reorganization with the Bankruptcy Court.

(ii) Current Report on Form 8-K dated October 9, 2002, announcing that the Bankruptcy Court confirmed the Company's Modified Plan on October 9, 2002 and that the Modified Plan became effective and the Company emerged from bankruptcy protection on October 10, 2002.

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 December 20, 2002.

ICG COMMUNICATIONS, INC.

Date: December 20, 2002

/s/ RICHARD E. FISH, JR.
Richard E. Fish, Jr.
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: December 20, 2002

/s/ JOHN V. COLGAN
John V. Colgan
Senior Vice President and Controller
(Principal Accounting Officer)

CERTIFICATIONS

I, Randall E. Curran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ICG Communications, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 20, 2002

/s/ RANDALL E. CURRAN
Randall E. Curran
Chief Executive Officer

CERTIFICATIONS (continued)

I, Richard E. Fish, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ICG Communications, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls;

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 20, 2002

/s/ RICHARD E. FISH, JR.
Richard E. Fish, Jr.
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ICG Communications, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randall Curran, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) Notwithstanding the filing of the Report after the due date set forth in Securities Exchange Act Rule 13a-13 and after the extension period permitted by Rule 12b-25, the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 20, 2002

/s/ RANDALL E. CURRAN
Randall E. Curran
Chief Executive Officer

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ICG Communications, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard E. Fish, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

1) Notwithstanding the filing of the Report after the due date set forth in Securities Exchange Act Rule 13a-13 and after the extension period permitted by Rule 12b-25, the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 20, 2002

/s/ RICHARD E. FISH, JR.
Richard E. Fish, Jr.
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT
A-6
damitted

UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

In re:	:	
	:	Chapter 11
ICG COMMUNICATIONS, INC., et al.,	:	Case No. 00-4238 (PJW)
	:	
	:	Jointly Administered
Debtors.	:	

NOTICE OF ENTRY OF ORDER CONFIRMING THE SECOND AMENDED JOINT PLAN OF REORGANIZATION OF ICG COMMUNICATIONS, INC., AS MODIFIED

PLEASE TAKE NOTICE OF THE FOLLOWING:

1. **Confirmation of the Plan.** On October 9, 2002, the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") entered an order (the "Confirmation Order") confirming the Second Amended Joint Plan of Reorganization of ICG Communications, Inc., dated April 3, 2002, as modified by that certain modification dated July 26, 2002 (the "Modified Plan"), in the chapter 11 cases of the above-captioned debtors and debtors in possession (collectively, the "Debtors"). The Effective Date of the Modified Plan (as defined therein) occurred on October 10, 2002. Unless otherwise defined in this Notice, capitalized terms and phrases used herein have the meanings given to them in the Modified Plan and the Confirmation Order.

2. **Discharge of Claims and Termination of Interests.**

(a) Except as provided in the Modified Plan or in the Confirmation Order, all consideration distributed under the Modified Plan shall be in exchange for and in complete satisfaction, settlement, discharge and release of all Claims of any nature whatsoever against the Debtors or any of their assets or properties, and, regardless of whether any property shall have been distributed or retained pursuant to the Modified Plan on account of such Claims, upon the Effective Date, the Debtors, and each of them, shall (i) be discharged and released under section 1141(d)(1)(A) of the Bankruptcy Code from any and all Claims, including, but not limited to, demands and liabilities that arose before the Confirmation Date, and all debts of the kind specified in section 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not (A) a proof of Claim based upon such debt is filed or deemed filed under section 501 of the Bankruptcy Code, (B) a Claim based upon such debt is Allowed under section 502 of the Bankruptcy Code or (C) the holder of a Claim based on such debt accepted the Modified Plan; and (ii) terminate all ICG Interests.

(b) Except as provided in the Modified Plan or in the Confirmation Order, the Confirmation Order constitutes a judicial determination, as of the Effective Date, of a discharge of all Claims and other debts and liabilities against the Debtors and termination of all ICG Interests and other rights of equity security holders in ICG, pursuant to sections 524 and 1141 of the Bankruptcy Code, and such discharge shall void any judgment obtained against a Debtor at any time, to the extent that such judgment relates to a discharged Claim or terminated Interest.

3. **Injunctions.**

(a) Except as provided in the Modified Plan or the Confirmation Order, as of the Effective Date, all entities that have held, currently hold or may hold a Claim or other debt or liability that is discharged or an Interest or other right of an equity security holder that is terminated pursuant to the terms of the Modified Plan are permanently enjoined from taking any of the following actions against the Debtors, Reorganized Debtors or their property on account of any such discharged Claims, debts or liabilities or terminated Interests or rights: (i) commencing or continuing in any manner or in any place any action or other proceeding; (ii) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order; (iii) creating, perfecting or enforcing any lien or encumbrance; (iv) asserting a setoff, right of subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtors and (v) commencing or continuing any action, in any manner, in any place that does not comply with or is inconsistent with the provisions of the Modified Plan.

(b) As of the Effective Date, all entities that have held, currently hold or may hold a Claim, demand, debt, right, cause of action or liability that is released pursuant to the Modified Plan are permanently enjoined from taking any of the following actions against any released entity or its property on account of such released Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action or liabilities: (i) commencing or continuing in any manner any action or other proceeding; (ii) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order; (iii) creating, perfecting or enforcing any lien or encumbrance; (iv) asserting a setoff, right of subrogation or recoupment of any kind against any debt, liability or obligation due to any released entity and (v) commencing or continuing any action, in any manner, in any place that does not comply with or is inconsistent with the provisions of the Modified Plan.

(c) By accepting distribution pursuant to the Modified Plan, each holder of an Allowed Claim or Allowed Interest receiving distributions pursuant to the Modified Plan shall be deemed to have specifically consented to the injunctions set forth above.

4. **Releases and Satisfaction of Subordination Rights.** All Claims of the holders of the Secured Lender Claims and the Old Note Claims against the Debtors and all rights and claims between or among such holders relating in any manner whatsoever to any claimed subordination rights or rights to assert Claims that are owned by any of the Debtors or their Estates against any other Debtor or third party, shall be deemed satisfied by the distributions under, described in, contemplated by, and/or implemented in Section 3.3 of the Modified Plan. Distributions under, described in, contemplated by, and/or implemented by the Modified Plan to the various Classes of Claims under the Modified Plan shall not be subject to levy, garnishment, attachment or like legal process by any Claim holder, including but not limited to, holders of Secured Lender Claims and Old Note Claims by reason of any claimed subordination rights or otherwise, so that each Claim holder shall have and receive the benefit of the distributions in the manner set forth in the Modified Plan.

5. **Bar Dates.**

(a) Except as otherwise provided below and in Sections 3.1 and 12.1 of the Modified Plan, unless previously Filed, requests for payment of Administrative Claims must be Filed with the Bankruptcy Court and served on counsel to the Debtors and counsel for the Creditors' Committee so that they are *actually received* no later than forty-five (45) days after the Effective Date. Holders of Administrative Claims that are required to File and serve a request for payment of such Administrative Claims and that do not File and serve a request by the applicable bar date shall be forever barred from asserting such Administrative Claims against the Debtors, the Reorganized Debtors or their respective property, and such Administrative Claims shall be deemed discharged as of the Effective Date. Objections by the Debtors to such requests must be Filed not later than forty-five (45) days after the Filing of the applicable request for payment of Administrative Claims.

(b) No later than forty-five (45) days after the Effective Date, Professionals or other entities asserting a Professional Fee Claim for services rendered before the Effective Date, other than any Professional who may receive compensation or reimbursement of expenses pursuant to the Ordinary Course Professionals' Order, must File with the Bankruptcy Court and serve the Reorganized Debtors and their counsel an application for final allowance of such Professional Fees. Objections to any Professional Fee Claim must be filed with the Bankruptcy Court and served on the Reorganized Debtors and their counsel and the requesting Professional so that they are *actually received* not later than thirty (30) days after the Filing of the applicable application for compensation or reimbursement was served.

(c) Holders of Administrative Claims based on liabilities incurred by a Debtor in the ordinary course of its business are not required to File or serve any request for payment of such Administrative Claims. Such Administrative Claims shall be satisfied pursuant to Section 3.1 of the Modified Plan.

6. **Bankruptcy Court Address.** For purposes of Filing requests for payment of Administrative Claims and applications for allowance of Fee Claims, the address of the Bankruptcy Court is 824 Market Street, Marine Midland Plaza, 5th Floor, Wilmington, Delaware 19801.

7. **Effective Date.** A separate notice of the occurrence of the Effective Date has been posted on the Debtors' website at www.icgcomm.com and the Bankruptcy Court's website at www.deb.uscourts.gov.

8. **Copies of Confirmation Order.** Copies of the Confirmation Order are publicly available, free of charge, online in electronic format at www.icgcomm.com and www.deb.uscourts.gov. Copies of the Confirmation Order may also be obtained, at the requesting parties expense, by contacting IKON Office Solutions at (302) 777-4500.

Dated: Wilmington, Delaware
October 10, 2002

/s/ Timothy R. Pohl
Timothy R. Pohl
SKADDEN, ARPS, SLATE,
MEAGHER & FLOM (ILLINOIS)
333 West Wacker Drive
Chicago, Illinois 60606
(312) 407-0700

- and -

Gregg M. Galardi
SKADDEN, ARPS, SLATE,
MEAGHER & FLOM LLP
One Rodney Square
Wilmington, Delaware 19899
(302) 651-3000

ATTORNEYS FOR DEBTORS IN POSSESSION

EXHIBIT
S-1
Admitted

RECEIVED

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AZ CORP COMMISSION
DOCUMENT CONTROL

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: July 15, 2002

RE: IN THE MATTER OF THE APPLICATION OF ICG TELECOM GROUP, INC. FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE COMPETITIVE FACILITIES-BASED AND RESOLD INTRASTATE TELECOMMUNICATIONS SERVICES IN ARIZONA.

AMENDED STAFF REPORT

DOCKET NO. T-03566A-99-0743

Attached is the Staff Report for the above referenced application. The Applicant is applying for approval to provide the following services:

- Facilities-based local exchange services
- Resold local exchange services

Staff is recommending approval of the application following a hearing.

/AMG

Originator: Anthony Gatto

Attachment: Original and Ten Copies

STAFF REPORT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

ICG TELECOM GROUP, INC.

DOCKET NO. T-03566A-99-0743

IN THE MATTER OF THE APPLICATION OF ICG TELECOM GROUP, INC. FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE FACILITIES-BASED AND RESOLD INTRASTATE TELECOMMUNICATIONS SERVICES IN ARIZONA

July 15, 2002

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STAFF ACKNOWLEDGMENT

The Staff Report for ICG Telecom Group, Inc., Docket No. T-03566A-99-0743, was the responsibility of the Staff member listed below. Anthony Gatto was responsible for the review and analysis of the Applicant's application for a Certificate of Convenience and Necessity to provide facilities-based and resold local exchange services; and petition for a determination that its proposed services should be classified as competitive.

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Public Utility Analyst IV

1. INTRODUCTION

On December 23, 1999, ICG Telecom Group, Inc. ("ICG" or "Applicant") filed an application for a Certificate of Convenience and Necessity ("CC&N") to provide facilities-based and resold local exchange services within the State of Arizona. ICG petitioned the Arizona Corporation Commission ("Commission") for a determination that its proposed services should be classified as competitive.

Staff's review of this application addresses the overall fitness of the Applicant to receive a CC&N. Staff's analysis also considers whether the Applicant's services should be classified as competitive and if the Applicant's initial rates are just and reasonable.

2. THE APPLICANT'S APPLICATION FOR A CERTIFICATE OF CONVENIENCE & NECESSITY

This section of the Staff Report contains descriptions of the geographic market to be served by the Applicant, the requested services, and the Applicant's technical and financial capability to provide the requested services. In addition, this section contains the Staff evaluation of the Applicant's proposed rates and charges and Staff's recommendation thereon.

2.1 DESCRIPTION OF THE GEOGRAPHIC MARKET TO BE SERVED

ICG seeks authority to provide telecommunications services throughout the state of Arizona.

2.2 DESCRIPTION OF REQUESTED SERVICES

ICG proposes to provide facilities-based and resold local exchange telecommunications services. These services include, but are not limited to the following: directory listings, directory assistance, E911 service, CLASS services, and telephone relay service.

2.3 THE ORGANIZATION

ICG is incorporated under the laws of the State of Colorado and has authority to transact business in Arizona.

2.4 TECHNICAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

ICG is approved to offer interexchange service in 48 states, and is currently offering facilities-based local exchange service in 21 states and the District of Columbia.

2.5 FINANCIAL CAPABILITY TO PROVIDE THE REQUESTED SERVICES

The Applicant did provide unaudited financial statements for the period ended December 31, 2001. These financial statements list assets of $193,889,000; negative equity $2.6 million; and a net loss of ($173,134,000).

Staff noted that ICG has filed for bankruptcy. However, it appears that ICG will re-emerge from bankruptcy. Staff recommends that a CC&N not be granted until ICG files a copy of a final order from the bankruptcy court discharging it.

The Applicant stated in its Tariff, that it collects from its customers an advance, deposit, and/or prepayment. Staff believes that an advance, deposit, or prepayment received from the Applicant's customers should be protected by the procurement of a performance bond. Since the Applicant is requesting a CC&N for more than one kind of service, the amount of performance bond for multiple services is an aggregate of the minimum bond amount for each type of telecommunications services requested by the Applicant. Further, measures should be taken to ensure that the Applicant will not discontinue service to its local exchange customers without first complying with Arizona Administrative Code ("AAC") R14-2-1107.

To that end, Staff recommends that the Applicant procure a performance bond equal to $125,000. The minimum bond amount of $125,000 should be increased if at any time it would be insufficient to cover advances, deposits, and/or prepayments collected from the Applicant's customers. The bond amount should be increased in increments of $62,500. This increase should occur when the total amount of the advances, deposits, and prepayments is within $12,500 of the bond amount. If the Applicant desires to discontinue local exchange service, it must file an application with the Commission pursuant to AAC R14-2-1107. Additionally, the Applicant must notify each of its local exchange customers and the Commission 60 days prior to filing an application. Failure to meet this requirement should result in forfeiture of the Applicant's performance bond. Staff further recommends that proof of the above mentioned performance bond be docketed within 365 days of the effective date of an Order in this matter or 30 days prior to the provision of service, whichever comes first, and must remain in effect until further order of the Commission.

If this Applicant experiences financial difficulty, there should be minimal impact to its customers because there are many other companies that provide resold telecommunications service or the customers may choose a facilities-based provider. If the customer wants service from a different provider immediately, that customer is able to dial a 101XXXX access code. In the longer term, the customer may permanently switch to another company.

2.6 ESTABLISHING RATES AND CHARGES

The Applicant would initially be providing service in areas where an incumbent local exchange carrier ("ILEC"), along with various competitive local exchange carriers ("CLECs") and interexchange carriers are providing telephone service. Therefore, the Applicant would have to compete with those providers in order to obtain subscribers to its services. The Applicant

would be a new entrant and would face competition from both an incumbant provider and other competitive providers in offering service to its potential customers. Therefore, the Applicant would generally not be able to exert market power. Thus, the competitive process should result in rates that are just and reasonable.

Both an initial rate (the actual rate to be charged) and a maximum rate must be listed for each competitive service offered, provided that the rate for the service is not less than the Company's total service long-run incremental cost of providing the service pursuant to A.A.C. R14-2-1109.

The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the company and has determined that its fair value rate base is zero. Accordingly, the company's fair value rate base is too small to be useful in a fair value analysis. In addition, the rate to be ultimately charged by the company will be heavily influenced by the market. Therefore, while Staff considered the fair value rate base information submitted by the company, it did not accord that information substantial weight in its analysis.

3. LOCAL EXCHANGE CARRIER SPECIFIC ISSUES

Since the Applicant intends to provide local exchange service, the issues related to the provision of that service are discussed below.

3.1 DIRECTORY LISTINGS AND DIRECTORY ASSISTANCE

Callers should be able to determine the telephone numbers belonging to customers of alternative local exchange companies, such as the Applicant. Staff recommends that the Applicant file a plan, within 365 days of the effective date of the Order in this matter or 30 days prior to the provision of service whichever comes first, and must remain in effect until further order of the Commission, how it plans to have its customers' telephone numbers included in the incumbent's Directories and Directory Assistance databases before it begins providing local exchange service.

3.2 NUMBER PORTABILITY

Another issue associated with the Applicant's proposal to become a competitive local exchange company relates to how telephone numbers should be administered. Local exchange competition may not be vigorous if customers, especially business customers, must change their telephone numbers to take advantage of a competitive local exchange carrier's service offerings. Staff recommends that the Applicant pursue permanent number portability arrangements with

other local exchange carriers ("LECs") that are consistent with federal laws, federal rules and state rules.

3.3 PROVISION OF BASIC TELEPHONE SERVICE AND UNIVERSAL SERVICE

The Commission has adopted rules to address maintenance of universal telephone service during and after the transition to a competitive telecommunications services market. The rules contain the terms and conditions for contributions to and support received from telephone service subscribers to finance the Arizona Universal Service Fund ("AUSF"). Under the rules, the Applicant will be required to participate in the financing of the AUSF and it may be eligible for AUSF support. Therefore, Staff recommends that approval of the Applicant's application for a CC&N be conditioned upon the Applicant's agreement to abide by and participate in the AUSF mechanism established by Decision No. 59623, dated April 24, 1996 (Docket No. RT-00000E-95-0498).

3.4 QUALITY OF SERVICE

Staff believes that the Applicant should be ordered to abide by the quality of service standards that were approved by the Commission for USWC in Docket No. T-01051B-93-0183 (Decision No. 59421). Because the penalties that were developed in this docket were initiated only because USWC's level of service was not satisfactory, Staff does not recommend that those penalties apply to the Applicant. In the competitive market that the Applicant wishes to enter, the Applicant generally will have no market power and will be forced to provide a satisfactory level of service or risk losing its customers. Therefore, Staff believes that it is unnecessary to subject the Applicant to those penalties at this time.

3.5 ACCESS TO ALTERNATIVE LOCAL EXCHANGE SERVICE PROVIDERS

Staff expects that there will be new entrant providers of local exchange service who will install the plant necessary to provide telephone service to, for example, a residential subdivision or an industrial park much like existing local exchange companies do today. In those areas where the Applicant installs the only local exchange service facilities, the Applicant will be a monopoly service provider. In the interest of providing competitive alternatives to the Applicant's local exchange service customers, Staff recommends that the Applicant provide customers served in these areas with access to alternative local exchange service providers. In this way, a customer may be served by an alternative local exchange service provider if the customer so desires. With this requirement in place, the Applicant will not be able to exert monopoly power over customers who are located in areas where the Applicant is the only provider of facilities to serve the customer. Access to other providers should be provided pursuant to the provisions of the 1996 Telecommunications Act, the rules promulgated thereunder and Commission rules on interconnection and unbundling.

3.6 911 SERVICE

The Applicant has not indicated in its application whether it will provide all customers with 911 and E911 service, where available, or will coordinate with ILECs and emergency service providers to provide the service. Staff believes that the Applicant should be required to work cooperatively with local governments, public safety agencies, telephone companies, the National Emergency Number Association and all other concerned parties to establish a systematic process in the development of a universal emergency telephone number system. Staff recommends that the Applicant be required to certify, through the 911 service provider in the area in which it intends to provide service, that all issues associated with the provision of 911 service have been resolved with the emergency service providers before it begins to provide local exchange service, within 365 days of the effective date of the order in this matter or 30 days prior to the provision of service whichever comes first, and must remain in effect until further order of the Commission.

3.7 CUSTOM LOCAL AREA SIGNALING SERVICES

In its decisions related to USWC's proposal to offer Caller ID and other CLASS features in the State, the Commission addressed a number of issues regarding the appropriateness of offering these services and under what circumstances it would approve the proposals to offer them. The Commission concluded that Caller ID could be offered provided that per call and line blocking, with the capability to toggle between blocking and unblocking the transmission of the telephone number, should be provided as options to which customers could subscribe with no charge. The Commission also approved a Last Call Return service that will not return calls to telephone numbers that have the privacy indicator activated, which indicates that the number has been blocked. The Commission further required that USWC engage in education programs when introducing or providing the service(s).

Staff recommends that the Applicant be required to abide by all the Commission decisions and policies regarding Caller ID and other CLASS services. However, Staff does not believe that it is necessary for the Applicant to engage in the educational program that was ordered for USWC as long as customers in the areas where the Applicant intends to serve have already been provided with educational material and are aware that they can have their numbers blocked on each call or at all times with line blocking.

3.8 EQUAL ACCESS FOR INTEREXCHANGE CARRIERS

Although the Applicant did not indicate that its switch will be "fully equal access capable" (i.e. would provide equal access to interexchange companies), the Commission requires local exchange companies to provide 2-Primary Interexchange Carriers ("2-PIC") equal access. 2-PIC equal access allows customers to choose different carriers for interLATA and intraLATA toll service and would allow customers to originate intraLATA calls using the preferred carrier on a 1+ basis. Staff recommends that the Applicant be required to provide 2-PIC equal access.

4. COMPETITIVE SERVICES ANALYSIS

The Applicant has petitioned the Commission for a determination that the services it is seeking to provide should be classified as competitive. The Applicant has published legal notice of the application in all counties in which it requests authorization to provide service. The Applicant has not certified that all notification requirements have been completed. Staff's analysis and recommendations are discussed below.

4.1 COMPETITIVE SERVICES ANALYSIS FOR LOCAL EXCHANGE SERVICES

4.1.1 **A description of the general economic conditions that exist which make the relevant market for the service one that is competitive.**

The analysis of the market for local exchange service that the Applicant seeks to enter must take into account the fact that there are two local exchange service submarkets. The first is the local exchange service market that consists of locations where ILECs currently provide service. The second local exchange service market consists of locations within ILECs' service territories where ILECs are authorized to provide local exchange service, but where they do not actually provide service.

The local exchange market that the Applicant seeks to enter is one in which a number of new CLECs have been authorized to provide local exchange service. Nevertheless, ILECs hold a virtual monopoly in the local exchange service market. At locations where ILECs provide local exchange service, the Applicant will be entering the market as an alternative provider of local exchange service and, as such, the Applicant will have to compete with those companies in order to obtain customers. In areas where ILECs do not serve customers, the Applicant may have to convince developers to allow it to provide service to their developments. Staff recommends that, in those instances where the Applicant provides the only facilities used to provide telecommunications service, that the Applicant be required to allow other local exchange companies to use those facilities to serve customers who wish to obtain service from an alternative provider pursuant to federal laws, federal rules and state rules.

4.1.2 **The number of alternative providers of the service.**

Qwest and various independent LECs are the primary providers of local exchange service in the State. Several CLECs and local exchange resellers are also providing local exchange service.

4.1.3 **The estimated market share held by each alternative provider of the service.**

Since Qwest and the independent LECs are the primary providers of local exchange service in the State, they have a large share of the market. Since the CLECs and local

exchange resellers have only recently been authorized to offer service they have limited market share.

4.1.4 **The names and addresses of any alternative providers of the service that are also affiliates of the telecommunications Applicant, as defined in A.A.C. R14-2-801.**

None.

4.1.5 **The ability of alternative providers to make functionally equivalent or substitute services readily available at competitive rates, terms and conditions.**

ILECs have the ability to offer the same services that the Applicant has requested in their respective service territories. Similarly many of the CLECs and local exchange resellers also offer substantially similar services.

4.1.6 **Other indicators of market power, which may include growth and shifts in market share, ease of entry and exit, and any affiliation between and among alternative providers of the service(s).**

The local exchange service market is:

a. One in which ILECs own networks that reach nearly every residence and business in their service territories and which provide them with a virtual monopoly over local exchange service. New entrants are also beginning to enter this market.

b. One in which new entrants will be dependent upon ILECs:

   1. To terminate traffic to customers.
   2. To provide essential local exchange service elements until the entrant's own network has been built.
   3. For interconnection.

c. One in which ILECs have had an existing relationship with their customers that the new entrants will have to overcome if they want to compete in the market and one in which new entrants do not have a long history with any customers.

d. One in which Qwest provides a quality of service that has generated a significant number of complaints. These complaints led the Commission to adopt service quality rules that contain penalties if the service quality standards are not met. A provider of alternative service, such as the Applicant, should provide Qwest--as well as other incumbents--with the incentive to produce higher quality service including service installation and repair on a timely basis.

e. One in which most customers have few, if any choices since there is generally only one provider of local exchange service in each service territory.

f. One in which the Applicant will not have the capability to adversely affect prices or restrict output to the detriment of telephone service subscribers.

4.2 COMPETITIVE SERVICES ANALYSIS FOR INTEREXCHANGE SERVICES

4.2.1 **A description of the general economic conditions that exist which make the relevant market for the service one that is competitive.**

The interexchange market that the Applicant seeks to enter is one in which numerous facilities-based and resold interexchange carriers have been authorized to provide service throughout the State. The Applicant will be a new entrant in this market and, as such, will have to compete with those companies in order to obtain customers.

4.2.2 **The number of alternative providers of the service.**

There are a large number of facilities-based and resold interexchange carriers providing both interLATA and intraLATA interexchange service throughout the State. In addition, various ILECs provide intraLATA interexchange service in many areas of the State.

4.2.3 **The estimated market share held by each alternative provider of the service.**

The large facilities-based interexchange carriers (AT&T, Sprint, MCI WorldCom, etc.) hold a majority of the interLATA interexchange market, and the ILECs provide a large portion of the intraLATA interexchange market. Numerous other interexchange carriers have a smaller part of the market.

4.2.4 **The names and addresses of any alternative providers of the service that are also affiliates of the telecommunications Applicant, as defined in A.A.C. R14-2-801.**

None.

4.2.5 **The ability of alternative providers to make functionally equivalent or substitute services readily available at competitive rates, terms and conditions.**

Both facilities-based and resold interexchange carriers have the ability to offer the same services that the Applicant has requested in their respective service territories. Similarly many of the ILECs offer similar intraLATA toll services.

4.2.6 **Other indicators of market power, which may include growth and shifts in market share, ease of entry and exit, and any affiliation between and among alternative providers of the service(s).**

The interexchange service market is:

a. One with numerous competitors and limited barriers to entry.

b. One in which established interexchange carriers have had an existing relationship with their customers that the new entrants will have to overcome if they want to compete in the market and one in which new entrants do not have a long history with any customers.

c. One in which the Applicant will not have the capability to adversely affect prices or restrict output to the detriment of telephone service subscribers.

5. RECOMMENDATIONS

The following sections contain the Staff recommendations on the Applicant's Application for a CC&N and the Applicant's Petition for a Commission Determination that its Proposed Services should be Classified as Competitive.

5.1 RECOMMENDATIONS ON THE APPLICANT'S APPLICATION FOR A CC&N

ICG is incorporated under the laws of the State of Colorado. ICG has been granted authority to offer facilities-based and resold local exchange and interexchange service in 21 states and the District of Columbia. ICG is approved to offer resold interexchange in 48 states. The Applicant has demonstrated that it has the capability to provide its proposed services, as requested, and the provision of these would merely be an extension of its current activities elsewhere. Staff noted that ICG has filed for bankruptcy. However, it appears that ICG will reemerge from bankruptcy. Staff recommends that a CC&N not be granted until ICG files a copy of a final order from the bankruptcy court discharging it. Staff further recommends:

1. That, unless it provides services solely through the use of its own facilities, the Applicant procure an Interconnection Agreement, within 365 days of the effective date of the order in this matter or 30 days prior to the provision of service whichever comes first, and must remain in effect until further order of the Commission, before being allowed to offer local exchange service;

2. That the Applicant file with the Commission, within 365 days of the effective date of the order in this matter or 30 days prior to the provision of service whichever comes first, and must remain in effect until further order of the Commission, its plan to have its

customers' telephone numbers included in the incumbent's Directories and Directory Assistance databases;

3. That the Applicant pursue permanent number portability arrangements with other LECs pursuant to Commission rules, federal laws and federal rules;

4. That the Applicant agree to abide by and participate in the AUSF mechanism instituted in Decision No. 59623, dated April 24, 1996 (Docket No. RT-00000E-95-0498);

5. That the Applicant abide by the quality of service standards that were approved by the Commission for USWC in Docket No. T-01051B-93-0183;

6. That in areas where the Applicant is the sole provider of local exchange service facilities, the Applicant will provide customers with access to alternative providers of service pursuant to the provisions of Commission rules, federal laws and federal rules;

7. That the Applicant be required to certify, through the 911 service provider in the area in which it intends to provide service, that all issues associated with the provision of 911 service have been resolved with the emergency service providers, within 365 days of the effective date of the order in this matter or 30 days prior to the provision of service whichever comes first, and must remain in effect until further order of the Commission;

8. That the Applicant be required to abide by all the Commission decisions and policies regarding CLASS services;

9. That the Applicant be required to provide 2-PIC equal access;

10. That the Applicant be required to notify the Commission immediately upon changes to the Applicant's address or telephone number;

11. That the Applicant comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;

12. That the Applicant maintain its accounts and records as required by the Commission;

13. That the Applicant file with the Commission all financial and other reports that the Commission may require, and in a form and at such times as the Commission may designate;

14. That the Applicant maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require;

15. That the Applicant cooperate with Commission investigations of customer complaints; and

16. That the Applicant participate in and contribute to a universal service fund, as required by the Commission.

17. The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the company and has determined that its fair value rate base is zero. Accordingly, the company's fair value rate base is too small to be useful in a fair value analysis. In addition, the rate to be ultimately charged by the company will be heavily influenced by the market. Therefore, while Staff considered the fair value rate base information submitted by the company, staff recommends that the fair value information provided not be given substantial weight in this analysis.

Staff further recommends that the Applicant's application for a CC&N to provide intrastate telecommunications services should be granted subject to the following conditions:

1. The Applicant be ordered to file conforming tariffs within 365 days from the date of an Order in this matter or 30 days prior to providing service, whichever comes first, and in accordance with the Decision;

2. In order to protect the Applicant's customers,

   the Applicant should be ordered to procure a performance bond equal to $125,000;

   a. the minimum bond amount of $125,000 should be increased if at any time it would be insufficient to cover advances, deposits, and/or prepayments collected from the Applicant's customers. The bond amount should be increased in increments of $62,500. This increase should occur when the total amount of the advances, deposits, and prepayments is within $12,500 of the bond amount;

   b. if the Applicant desires to discontinue service, it should file an application with the Commission pursuant to AAC R14-2-1107;

   c. the Applicant should be required to notify each of its local exchange customers and the Commission 60 days prior to filing an application to discontinue service; and any failure to do so should result in forfeiture of the Applicant's performance bond;

   d. proof of the performance bond should be docketed within 365 days of the effective date of an Order in this matter or 30 days prior to the provision of service, whichever comes first, and must remain in effect until further order of the Commission;

   e. if at some time in the future the Applicant does not collect from its customers an advance, deposit, or prepayment, Staff recommends that the Applicant be allowed to

file a request for cancellation of a portion of its established performance bond. Such request should be filed with the Commission for Staff review. Upon receipt of such filing and after Staff review, Staff will forward its recommendation to the Commission.

5.2 RECOMMENDATION ON THE APPLICANT'S PETITION TO HAVE ITS PROPOSED SERVICES CLASSIFIED AS COMPETITIVE

Staff believes that the Applicant's proposed services should be classified as competitive. There are alternatives to the Applicant's services. The Applicant will have to convince customers to purchase its services, and the Applicant has no ability to adversely affect the local exchange service markets. Therefore, the Applicant currently has no market power in the local exchange service markets where alternative providers of telecommunications services exist. Staff therefore recommends that the Applicant's proposed services be classified as competitive.

Staff further recommends that the Applicant be subject to the Commission's rules governing interconnection and unbundling and the 1996 Telecommunications Act and the rules promulgated thereunder. In the event that the Applicant provides essential services or facilities that potential competitors need in order to provide their services, the Applicant should be required to offer those facilities or services to these providers on non-discriminatory terms and conditions pursuant to federal laws, federal rules, and state rules.