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December 8, 1997

Via Facsimile and Overnight Delivery

Ms. Blanco Bayo
Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0864

Re: ACSI Local Switched Services, Inc. -- Docket No. 971476-TI

Dear Ms. Bayo:

Pursuant to the request of Peter Lester of the Commission staff, ACSI Local Switched Services ("ACSI"), by its attorney, hereby respectfully supplements its Application for a Certificate of Public Convenience and Necessity. As requested, to demonstrate ACSI's financial capability, attached please find a copy of American Communications Services, Inc.'s (ACSI's parent company) most recent audited financial statements (including balance sheet, income statement and statement of retained earnings).

Also pursuant to Commission request, ACSI provides the following statements in support of its financial capabilities:

1. America One is a wholly-owned subsidiary of American Communications Services, Inc. ("American Communications"). As a subsidiary of American Communications, ACSI has access to the financing and capital necessary to provide the proposed services in the State of Florida. As of June 30, 1997, America One's consolidated net revenues for the first six months totaled $19.7 million as compared to $2.4 million for the same period in 1996. This continuous and record

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growth demonstrates American Communication's financial stability and its ability to finance ACSI's provisioning of long distance services in the State of Florida.

2. ACSI has the requisite financial ability to maintain the requested services. As noted above, the attached financial statements indicate that ACSI has sufficient assets and resources to develop and maintain the proposed services in the State of Florida.

3. Finally, the financial documents exhibit ACSI's ability to provide long distance service. ACSI does intend to invest in its own switches and other facilities in the future. At this time, however, ACSI's costs of providing service will be limited to the capital necessary to lease facilities from other certificated carriers or operate its own equipment. Thus, its total investment will be minimal and fully within the Applicant's financial capabilities.

Please do not hesitate to call me if you have further questions.

Respectfully submitted,

Andrea D. Pruitt

Andrea D. Pruitt

Counsel for ACSI Local Switched Services, Inc.

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

FORM 10-QSB

[X] **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June 30, 1997

[ ] **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT**

For the transition period from _________ to _________

COMMISSION FILE NUMBER 0-25314

AMERICAN COMMUNICATIONS SERVICES, INC.
(Exact name of small business issuer as specified in its charter)

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

131 National Business Parkway, Annapolis Junction, MD 20701
(Address of principal executive offices)

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 11, 1997, Common Stock, Par Value $0.01 — 36,210,387

Transitional Small Business Disclosure Format: Yes ☐ No ☒

AMERICAN COMMUNICATIONS SERVICES, INC.

FORM 10 — QSB

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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

(Note: there is no page 2.)

PART I

FINANCIAL INFORMATION

ITEM 1 — *Financial Statements*

AMERICAN COMMUNICATIONS SERVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 1996	June 30, 1997 (Unaudited)
ASSETS		
Current Assets		
Cash and Cash equivalents	$ 78,618,544	$ 8,499,115
Restricted cash	2,342,152	5,156,258
Accounts receivable, net	2,429,077	6,653,925
Other current assets	1,202,711	1,461,345
Total current assets	84,592,484	21,770,643
Networks, furniture and equipment, gross	144,403,123	219,933,362
(less: Accumulated depreciation)	(8,320,372)	(17,029,394)
	136,082,751	202,903,968
Deferred financing fees	8,380,283	10,340,377
Goodwill (net of accumulated amortization)	—	7,748,679
Other assets	982,649	617,309
Total assets	$230,038,167	$243,380,976
LIABILITIES, REDEEMABLE STOCK, OPTIONS AND WARRANTS AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 33,587,407	$ 28,621,966
Accrued liabilities	4,132,132	5,097,044
Notes payable — current portion	872,031	1,325,532
Total current liabilities	38,591,570	35,044,542
Long Term Liabilities		
Notes payable	209,538,226	223,753,180
Other Long Term Liabilities	—	808,781
Dividends payable	6,945,943	—
Total liabilities	255,075,739	259,606,503
Redeemable stock, options and warrants	2,000,000	2,000,000
Stockholders' Equity		
Preferred stock, $1.00 par value, 186,664 shares authorized and designated as 9% Series A-1 Convertible Preferred Stock, 186,664 and 0 shares, respectively, issued and outstanding	186,664	—
Preferred stock, $1.00 par value, 277,500 shares designated as 9% Series B Convertible Preferred Stock, authorized, 277,500 and 0, respectively, issued and outstanding	277,500	—
Common Stock, $0.01 par value, 75,000,000 shares authorized, 6,784,996 and 35,926,902 shares, respectively, issued and outstanding	67,850	359,269
Additional paid-in-capital	54,870,194	113,564,536
Accumulated deficit	(82,439,780)	(132,149,332)
Total stockholders' equity/(deficit)	(27,037,572)	(18,225,527)
Total Liabilities, Redeemable Stock, Options and Warrants and Stockholders' Equity/(deficit)	$230,038,167	$243,380,976

See accompanying notes to unaudited condensed consolidated interim financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended		For the six months ended	
	June 30, 1996	June 30, 1997	June 30, 1996	June 30, 1997
		(Unaudited)		
Revenues	$ 1,609,621	$11,615,836	$ 2,426,260	$19,792,511
Operating Expenses				
Network, development and operations	388,347	9,357,277	2,342,861	18,026,390
Selling, general and administrative	7,735,834	15,893,562	10,386,097	29,818,429
Non-cash compensation expense	(454,339)	584,458	1,531,426	824,002
Depreciation and amortization	1,685,765	5,338,596	2,315,769	9,456,250
Total Operating Expenses	9,355,607	31,173,893	16,576,153	58,125,071
Non-operating income/expenses				
Interest and other income	(2,970,916)	(193,620)	(3,632,229)	(1,077,691)
Interest and other expense	4,141,366	6,287,621	7,641,990	12,420,763
Net loss before minority interest	8,916,436	25,652,058	18,159,654	49,675,632
Minority interest	(154,671)	—	(256,745)	—
Net loss	8,761,765	25,652,058	17,902,909	49,675,632
Preferred stock dividends/accretion	1,061,344	106,201	2,016,833	1,094,839
Net loss to common stockholders	9,823,109	25,758,259	19,919,742	50,770,471
Net loss per common/common equivalent share	$ (1.49)	$ (0.92)	$ (3.03)	$ (2.82)
Average number of common/common equivalent shares outstanding	6,605,501	28,025,238	6,572,061	17,994,161

See accompanying notes to unaudited condensed consolidated interim financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended	
	June 30, 1996	June 30, 1997
	(Unaudited)	
Cash Flow from Operating Activities		
Net Loss	$(17,902,909)	$(49,675,632)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	2,294,569	9,456,250
Interest deferral and accretion	7,573,427	12,239,366
Amortization of deferred financing fees	668,317	473,666
Provision for doubtful accounts	151,934	859,621
Loss attributable to minority interest	(324,012)	—
Noncash compensation	1,531,426	824,002
Changes in operating assets and liabilities Restricted cash related to operating activities	—	(2,814,106)
Trade accounts receivable	(330,530)	(5,084,469)
Other current assets	(458,272)	(258,634)
Other assets	(107,574)	365,340
Accounts payable	16,271,487	(4,162,403)
Other accrued liabilities	(1,666,634)	964,912
Net cash provided by (used in) operating activities	7,701,229	(36,812,087)
Cash flows from investing activities Restricted cash related to network activities	(890,152)	—
Purchase of furniture and equipment	(1,538,943)	(4,911,864)
Network development costs	(41,660,076)	(68,301,375)
Net cash (used in) investing activities	(44,089,171)	(73,213,239)
Cash flows from financing activities Issuance of notes payable and warrants	66,234,486	1,737,297
Issuance of common stock	—	40,702,000
Issuance of Series B Preferred Stock	274,682	
Payment of notes payable	—	(238,291)
Payment of dividends	—	(290,193)
Payment of deferred financing fees	(3,459,582)	(3,299,499)
Warrant and stock option exercises	279,233	1,294,583
Net cash flow provided by financing activities	63,328,819	39,905,897
Net increase/(decrease) in cash and cash equivalents	26,940,877	(70,119,429)
Cash and cash equivalents — beginning of period	$107,175,104	$ 78,618,544
Cash and cash equivalents — end of period	$134,115,981	$ 8,499,115
Supplemental disclosure of cash flow information		
Dividends declared with preferred stock	$ 2,016,833	$ 1,094,839
(Decrease) in accrued redeemable warrant cost	$ (504,554)	$ —
(Increase) in goodwill	$ —	$ (8,118,632)

See accompanying notes to unaudited condensed consolidated interim financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Business and Organization

American Communications Services, Inc. (ACSI or the Company) provides a broad range of integrated local voice and data communications services primarily to commercial customers in mid-sized markets in the southern United States. The Company manages and operates its own local fiber optic networks.

Basis of Presentation and Related Matters

Effective December 31, 1996, the Company changed its fiscal year from a twelve month period ended June 30, to a twelve month period ended December 31. The consolidated financial statements include the accounts of ACSI and its majority-owned subsidiaries. All of the Company's subsidiaries are wholly owned with the exception of the Louisville, Fort Worth, El Paso, Greenville and Columbia subsidiaries, in which the Company has a 92.75% ownership interest. All material intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited interim financial information reflects all adjustments, consisting of normal recurring accruals, necessary for a fair presentation thereof. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the Securities and Exchange Commission. Although the Company believes that the disclosures provided are adequate to make the information presented not misleading, these unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the footnotes thereto included in the Company's Annual Report on Form 10 K for the year ended December 31, 1996. Operating results for the three and six months periods ended June 30, 1997 are not necessarily indicative of the results expected for the full year.

Significant Accounting Policies

Cash Equivalents and Restricted Cash

Pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company's short- and long-term debt securities and marketable equity securities are accounted for at market value. The fair market value of short- and long-term investments is determined based on quoted market prices for those investments. The Company's marketable securities have been classified as available for sale and are recorded at current market value with an offsetting adjustment to stockholders' equity (deficit).

The Company's investments consist of commercial paper, U.S. Government Securities and money market instruments, all with original maturities of 90 days or less. The fair market value of such securities approximates amortized cost. At December 31, 1996 and June 30, 1997, cash equivalents consists of government securities and overnight investments.

The Company has provided performance bonds and letters of credit in various cities in connection with its operations, resulting in a restriction of cash amounting to $2,342,152 and $5,156,258 at December 31, 1996 and June 30, 1997, respectively. The face amount of all bonds and letters of credits was approximately $6,200,000 as of December 31, 1996, and 8,072,000 as of June 30, 1997.

Networks, Equipment and Furniture

Networks, equipment and furniture are stated at cost less accumulated depreciation and amortization. Costs capitalized during the network development stage include expenses associated with network engineering, design and construction, negotiation of rights-of-way, obtaining legal and regulatory authorizations and the amount of interest costs associated with the network development.

Provision for depreciation of networks, equipment and furniture is computed using the straight-line method over the estimated useful lives of the assets beginning in the month a network is substantially complete and available for use and equipment and furniture are acquired.

The estimated useful lives of the Company's principal classes of assets are as follows:

Networks:	
Fiber optic cables and installation costs	20 years
Telecommunications equipment	3-7 years
Interconnection and collocation costs	3-10 years
Leasehold improvements	Life of lease
Furniture and fixtures	5 years
Capitalized network development costs	3-20 years

The Company adopted the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" on January 1, 1996. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

Deferred Financing Fees

Deferred financing fees include commitment fees and other costs related to certain debt financing transactions and are being amortized using the effective interest method over the initial term of the related debt.

Revenue Recognition

Revenue is recognized as services are provided. Billings to customers for services in advance of providing such services are deferred and recognized as revenue when earned. The Company also enters into managed services agreements with certain customers. Under such agreements the Company provides use of Company owned equipment, collocation and network access services. Revenue is recognized on a monthly basis as these services are provided to the customer.

Earnings (Loss) Per Common Share

The computation of earnings (loss) per common share is based upon the weighted average number of common shares outstanding. The effect of including common stock options and warrants as common stock equivalents would be anti-dilutive and is excluded from the calculation of loss per common share.

Income Taxes

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and loss carryforwards and tax credit carryforwards for which income tax benefits are expected to be realized in future years. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that all, or some portion, of such deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Reclassifications

Certain reclassifications have been made to the June 30, 1996 consolidated financial statements to conform to the June 30, 1997 presentation. Such reclassifications had no effect on net loss or total stockholders' equity (deficit).

Stock Option Plan

Prior to July 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On July 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock Based Compensation", which permits entities to recognize as expense over the vesting period the fair value of all stock based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosure for employee stock option grants as if the fair-value based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25.

Use of Estimates

The preparation of the consolidated 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 disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Concentration of Credit Risk

The Company receives a significant portion of its revenues from a small number of major customers, particularly the long distance telecommunications companies that service the Company's markets. The Company provides managed services to certain Internet service providers. Such companies operate in a highly competitive and uncertain environment.

Financing Activities

To date, the Company has funded the construction of its networks and its operations with external financings, as described below.

AT&T Credit Facility

In October 1994, the Company entered into the AT&T Credit Facility pursuant to which AT&T Credit Corporation has agreed to provide up to $31.2 million in financing for the development and construction of fiber optic local networks by five of the Company's subsidiaries. In connection with each loan made under the AT&T Credit Facility, AT&T Credit Corporation purchased 7.25% of the capital stock of the funded subsidiary, and ACSI pledged the other shares and the assets of the subsidiary to AT&T Credit Corporation as security for the loan. As of June 30, 1997, an aggregate of $31.2 million had been borrowed under these agreements. Principal amounts payable on the AT&T Credit Facility during 1997 are approximately $872,000

The Company has entered into negotiations with AT&T Capital Corporation to roll-up the five existing loan agreements comprising the AT&T Credit Facility into one loan agreement to be entered into with the Company, and to be secured by the existing assets of the Company (including the stock, but not the assets, of certain of the Company's subsidiaries) (the "New AT&T Facility"). The Company expects the New AT&T Facility to otherwise be on terms substantially similar to those of the existing AT&T Credit Facility. The maximum aggregate amount of credit available under the proposed New AT&T Facility will not exceed $35.0 million as defined by the Company's existing indentures. On June 26, 1997, each of the Company's Subsidiaries that are parties to the AT&T Credit Facility entered into an agreement with AT&T Credit Corporation to waive, for a period of 90 business days commencing on the date thereof, compliance by such subsidiaries with certain covenants contained therein. Such covenants are not expected to be included in the New AT&T Facility.

9% Series A Convertible Preferred Stock

In October 1994, the Company completed the private placement of 186,664 shares of its 9% Series A Convertible Preferred Stock, par value $1.00 per share (which was later exchanged for Series A-1 Preferred Stock that was converted into 7,466,560 shares of Common Stock simultaneous with the completion of the Offering) with accompanying warrants to purchase an aggregate of 2,674,506 shares of Common Stock, for an aggregate consideration of $16.8 million (before deduction of estimated offering expenses), including the conversion of $4.3 million of outstanding debt. Of the warrants sold in October 1994, warrants to acquire 1,491,222 shares of Common Stock were exercised by a principal stockholder for an aggregate exercise price of approximately $100,000. The Series A Preferred Stock was converted into an aggregate of 7,350,160 shares of common stock simultaneous with the completion of the April Offering discussed below.

9% Series B Convertible Preferred Stock

In June 1995, the Company completed a private placement of 227,500 shares of its Series B Preferred Stock with accompanying warrants to purchase an aggregate of 1,584,303 shares of Common Stock, for an aggregate consideration of $22.8 million. In addition, in November 1995, the Company completed a private placement of 50,000 shares of its Series B Preferred Stock together with the exercise of accompanying warrants to purchase 214,286 shares of Common Stock to a principal stockholder for an aggregate consideration of $4.7 million. The Series B Preferred Stock was converted into an aggregate of 9,910,704 shares of Common Stock simultaneous with the completion of the April Offering discussed below.

2005 Senior Discount Notes (2005 Notes)

On November 14, 1995, the Company completed an offering of 190,000 Units (the "Units") consisting of $190,000,000 principal amount of 13% Senior Discount Notes due 2005 (the "2005 Notes") and warrants to purchase 2,432,000 shares of the Company's common stock at a price of $7.15 per share (the "2005 Warrants"). The 2005 Notes will accrete at a rate of 13% compounded semi-annually to an aggregate principal amount of $190,000,000 by November 1, 2000. Thereafter, interest on the 2005 Notes will accrue at the annual rate of 13% and will be payable in cash semi-annually on November 1 and May 1, commencing May 1, 2001. The Company received net proceeds of approximately $96,105,000 from the sale of the Units. The value ascribed to the 2005 Warrants was $8,684,000.

2006 Senior Discount Notes (2006 Notes)

On March 21, 1996, the Company completed an offering of $120,000,000 of 12 3/4% Senior Discount Notes due 2006 (the "2006 Notes") resulting in net proceeds of approximately $61,800,000. The 2006 Notes will accrete at a rate of 12¾% compounded semi-annually, to an aggregate principal amount of $120,000,000 by April 1, 2001. Thereafter, interest on the 2006 Notes will accrue at the annual rate of 12¼% and will be payable in cash semi-annually on April 1 and October 1, commencing on October 1, 2001. The 2006 Notes will mature on April 1, 2006.

Common Equity (April Offering)

On April 15, 1997, the Company consummated the issuance and sale of 5,060,000 shares of Common Stock (inclusive of the May 14, 1997 exercise by the underwriters of their overallotment option) at a price per share of $5.00 in an underwritten public offering, and the issuance and sale directly to certain of its principal stockholders of 3,600,000 shares of Common Stock at a purchase price of $4.70 per share (together, the "April Offering"). Total net proceeds to the Company from the April Offering were approximately $40 million.

In addition, the Company recently completed additional financings, described below.

14¾% Redeemable Preferred Stock (Unit Offering)

On July 10, 1997, the Company consummated the private placement of 75,000 units, (the "Unit Offering"), consisting of its 14¾% Redeemable Preferred Stock due 2008 (the "Redeemable Preferred Stock") and warrants to purchase shares of common stock. The Company received net proceeds of approximately $67 million from the sale of these units. Each unit includes a warrant to purchase 80.318 shares of ACSI common stock subject to an increase of 22.645 additional shares of common stock in the event that the Company fails to raise net proceeds of at least $50 million through the issuance and sale of its qualified capital stock on or before December 31, 1998. Dividends on the Redeemable Preferred Stock will accrue from the date of issuance, are cumulative and will be payable in arrears on March 31, June 30, September 30 and December 31, commencing September 30, 1997. Dividends may be paid, at the Company's option, on any dividend payment date either in cash or by the issuance of additional shares of preferred stock, provided however, that after June 30, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the Redeemable Preferred Stock by the terms of any then outstanding indebtedness or any other agreement or instrument to which the Company is subject, the Company shall pay the dividends in cash. The company is required to redeem all the Redeemable Preferred Stock outstanding on June 30, 2008 at a redemption price equal to 100.00% of the liquidation preference thereof, plus, without duplication, accrued and unpaid dividends to the date of redemption.

2007 Senior Notes (2007 Notes)

On July 18, 1997, the Company completed the private placement of $220 million of 13¾% Senior Notes due 2007. The Company received net proceeds of approximately $209 million from the sale of the 2007 Notes, of which, approximately $70 million has been placed in escrow solely to fund the first five interest payments or otherwise for the benefit of the holders of the 2007 Notes. The 2007 Notes bear interest at 13¾% compounded semi-annually in arrears, payable on January 15 and July 15 each year, commencing on January 15, 1998. The notes mature on July 15, 2007. The 2007 Notes will not be redeemable at the option of the Company prior to July 15, 2002, except that any time prior to July 15, 2000, the Company may redeem up to 35% of the aggregate principal amount of the 2007 Notes with the net proceeds from one or more equity offerings of the Company, at a redemption price equal to 113.75% of the aggregate principal amount thereof on the date of the redemption, subject to other conditions.

ITEM 2 — *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion and analysis should be read in conjunction with the Company's condensed Consolidated Financial Statements and Notes thereto included herewith, and with the Company's Management Discussion and Analysis of Financial Condition and Results of Operations and audited financial statements and notes thereto for the years ended June 30, 1995 and 1996 and for the six months ended December 31, 1996.

Overview

American Communications Services, Inc. ("ACSI" or the "Company") provides a broad range of integrated local voice and data communications services primarily to commercial customers in mid-sized markets in the southern United States. As a competitive local exchange carrier ("CLEC"), the Company has constructed its own local fiber optic networks in 31 markets, expects to have operational networks in approximately 35 markets by the end of 1997 and expects to offer services on its own networks or on a resale basis in up to 50 markets by the end of 1998. The Company uses its owned facilities and leases network capacity from others to provide long distance carriers, Internet service providers ("ISPs") and business, government and institutional end-users with an alternative to the incumbent local phone companies for high quality voice, data, video transport and other telecommunications services. The Company believes that its customers choose ACSI's telecommunications services because of the reliability and breadth of the Company's services, discounted pricing relative to the incumbent local exchange carrier ("ILEC") and a high level of customer service.

From the formation of the Company through 1996, the Company derived substantially all of its revenues from the sale of dedicated services to interexchange carriers ("IXCs") and ISPs. Since the passage of the Telecommunications Act of 1996 (the "Federal Telecommunications Act"), however, the Company has enhanced its product offerings to meet the needs of commercial end-users, and is aggressively expanding the sales and marketing capabilities necessary to deliver these products to such customers. Specifically, the Company introduced local switched voice services, including local exchange services (dial tone) in late 1996, and has also added capabilities to provide other enhanced services such as high speed video conferencing, frame relay, asynchronous transfer mode ("ATM") and Internet access.

The Company currently provides a wide range of local telecommunications services including dedicated and private line, local switched voice services, high-speed data services and Internet services. The Company's SONET-based local fiber optic networks and its coast-to-coast leased high broadband backbone data network ("ACSINet") are designed to support this wide range of enhanced communications services, provide increased network reliability and reduce costs for its customers, as follows:

Dedicated Services. The Company's special access services, switched transport services and private line services provide high capacity non-switched interconnections: (1) between points of presence ("POPs") of the same IXC; (2) between POPs of different IXCs; (3) between large business and government end-users and their selected POPs; (4) between an IXC POP and an ILEC central office, or between two such central offices; and (5) between different locations of business or government end-users. During 1996, such dedicated services provided substantially all of the Company's revenues.

Local Switched Voice Services. The Company began offering local switched voice services (including dial tone) in late 1996. As of June 30, 1997, the Company offered such local switched services using its own facilities in 8 markets and offered such services on a resale basis in a total of 24 markets for switched services. This compares to 5 markets for switched services using its own facilities, and no markets for resale services at March 31, 1997. The Company expects to offer facilities-based services in 16 of the markets in which it has operational local networks by the end of 1997, and it expects to offer local services on a resale basis in additional markets.

Data Services. During 1996, the Company deployed ACSINet and as of June 30, 1997 had a total of 44 data POPs as compared to 30 data POPs as of March 31, 1997. ACSI provides a full range of high-speed data services over this network, including Internet connectivity, frame relay, ATM and managed services (such as network design, configuration and installation) to businesses, government, health care providers, educational institutions and ISPs for local and wide area network solutions.

Internet Services. On January 17, 1997, the Company acquired 100% of the outstanding capital stock of Cybergate, Inc. in exchange for 1,030,000 shares of Common Stock plus up to an additional 150,000 shares if certain performance goals are achieved (the "Cybergate Acquisition"). Cybergate, a Florida-based ISP, delivers high-speed data communications services, including computer network connections and related infrastructure services, that provide both commercial and residential customers access to the Internet through their personal computers and the use of a modem. The Cybergate Acquisition provides ACSI with the ability to offer direct Internet access to end-user commercial and consumer customers as well as to provide private label Internet services for the Company's strategic distribution partners throughout all of the Company's markets.

Initially, the Company expects to experience negative cash flow from operations in each of its operating local networks. The Company estimates that because of the reduced operating costs associated with its smaller local networks and its single point of service sales force, it can achieve operating cash flow breakeven (i.e., positive EBITDA before overhead allocations) on dedicated access services provided on its local networks within ten to 15 months from the start of those services. Thereafter, the Company anticipates that its profit margins will increase as each local network is expanded to connect additional customers directly to its network backbone and as off-net customers migrate to on-net status (thus allowing the Company to retain the portion of customer charges previously paid out to the ILEC for resale of ILEC facilities). The Company will also experience initial negative cash flow from operations as its data, local switched voice and Internet services are introduced and until networks providing those services reach operating cash flow breakeven.

Results of Operations

Three and Six Month Periods Ended June 30, 1997 Compared to Three and Six Month Periods Ended June 30, 1996

Network Statistics

The following table presents key operating statistics for the Company for the reporting periods.

As of Date	Employees	Operational Networks	Route Miles	Fiber Miles	Bldgs	VGE	Access Lines	5ESS Switches
June 30, 1997	559	31	957	82,693	1,083	886,375	9,177	8
March 31, 1997	502	28	908	75,867	858	554,883	360	5
December 31, 1996	322	21	697	48,792	595	384,134	0	1
June 30, 1996	199	15	386	28,476	216	137,431	0	0
March 31, 1996	142	10	200	9,466	133	125,208	0	0

Employees represent full-time employees of the Company. Operational networks represent networks that are in service and have revenue generating customers. VGE represents voice grade equivalent circuits, a measure of service equivalent to one telephone line actually billed to a customer. Access lines represent business lines providing switched voice services.

Revenues

The Company recorded revenues of $11.6 million for the three month period ended June 30, 1997 and revenues of $19.8 million for the six month period ended June 30, 1997. This compares to revenues of $1.6 million for the three month period ended June 30, 1996 and revenues of $2.4 million for the six month period ended June 30, 1996. Although substantially all of the revenues in the 1996 periods were derived from the provision of dedicated services, revenues in the 1997 periods were derived primarily from significant growth in dedicated services, plus the addition of data services, Internet services and local switched voice services

Total Operating Expenses

Network development and operating expenses for the three month period ended June 30, 1997 increased to $9.4 million from $0.4 million in the three month period ended June 30, 1996, reflecting significant increases in personnel, network development and non-payroll operating expenses. Related personnel costs increased to $3.3 million in the quarter ended June 30, 1997, from approximately $0.3 million in the quarter ended June 30, 1996. Other operating expenses related to the development of prospective new markets, which include expenses such as contract labor and legal expenses, travel expenses, rent, utilities, charges and taxes increased to $6.0 million in the quarter ended June 30, 1997 from approximately $0.1 million in the quarter ended June 30, 1996.

For the six month period ended June 30, 1997, total network development and operating expenses increased to $18.0 million from $2.3 million in the six month period ended June 30, 1996, reflecting significant increases in personnel, network development and non-payroll operating expenses. Related personnel costs increased to $6.5 million in the six month period ended June 30, 1997, from approximately $3.0 million in the same period in 1996. Other operating expenses, which include expenses such as contract labor and legal expenses, travel expenses, rent, utilities, charges and taxes increased to $11.5 million in the six month period ended June 30, 1997 from approximately ($0.7) million in the six month period ended June 30, 1996.

In the three month period ended June 30, 1997, selling, general and administrative expenses increased to $15.9 million from $7.7 million in the three month period ended June 30, 1996. Related personnel costs increased to $6.7 million in the quarter ended June 30, 1997 from $1.8 million in the quarter ended June 30, 1996, and corresponding operating costs increased to $9.2 million in the quarter ended June 30, 1997 from $5.9 million in the quarter ended June 30, 1996. This increase reflected costs associated with the Company's efforts to expand significantly its national and local city sales and its marketing and administrative staffs, as well as increased legal and other consulting expenses associated with its aggressive programs for obtaining regulatory approvals and certifications and providing quality network services.

In the six month period ended June 30, 1997, selling, general and administrative expenses increased to $29.8 million from $10.4 million in the six month period ended June 30, 1996. Related personnel costs increased to $12.1 million in the six month period ended June 30, 1997 from $1.7 million in the six month period ended June 30, 1996, and corresponding operating costs increased to $17.7 million in the six month period ended June 30, 1997 from $8.7 million in the six month period ended June 30, 1996.

Depreciation and amortization expenses increased to $5.3 million in the three month period ended June 30, 1997 from $1.7 million in the three month period ended June 30, 1996 and increased to $9.5 million in the six month period ended June 30, 1997 from $2.3 million in the six month period ended June 30, 1996. As of June 30, 1997 the Company increased its capital assets to $219.9 million, from $144.4 million at December 31, 1996 and from $80.1 million as of June 30, 1996. Non-cash stock compensation expense increased to $0.6 million for the quarter ended June 30, 1997 from ($0.5 million) for the quarter ended June 30, 1996. For the six month period ended June 30, 1997, non-cash compensation expense decreased to $0.8 million from $1.5 for the same period in 1996. This expense reflects the Company's accrual of non-cash costs for options and warrants granted to key executives, employees and others arising from the difference between the exercise price and the valuation prices used by the Company to record such costs and from the vesting of those options and warrants. Certain of these options had put rights and other factors that required variable plan accounting in both 1996 and 1995 but, at the end of fiscal 1995, the Company renegotiated contracts with certain of its officers, establishing a limit of $2,500,000 on the Company's "put right" obligations with respect to those contracts. During fiscal period ended December 31, 1996, the limit was further reduced to $2,000,000.

Interest and Other Expenses

Interest and other income decreased to $0.2 million and $1.1 million for the three and six month periods ended June 30, 1997, respectively from $3.0 million and $3.6 million in the three and six month periods ended June 30, 1996, respectively. Interest and other expense increased to $6.3 million and $12.4 million in the quarter and six month period ended June 30, 1997, respectively from $4.2 million and $7.6 million in the quarter and six month period ended June 30, 1996, respectively. The decrease in interest and other income reflects the decrease in available funds from the Company's sale of its 9% Series B Preferred Stock, the 2005 Notes and the 2006 Notes. The increase in interest and other expenses reflected the accrual of interest related to the 2005 Notes and 2006 Notes and the Company's increased borrowings under AT&T Credit Facility. Payments of principal and interest on the AT&T Credit Facility began in the first quarter 1997. Payments of interest on the 2005 Notes will not begin until May 2001 and payments of interest on the 2006 Notes will not begin until October 2001.

Liquidity and Capital Resources

To date, the Company has funded the construction of its local networks and its operations with external financing. Prior to November 1995, the primary sources of funds used to finance the building of existing networks and the completion of new targeted networks were two preferred stock private offerings completed in October 1994 and June 1995, through which the Company raised an aggregate of approximately $39.6 million before related expenses, and the AT&T Credit Facility, through which the Company has financing commitments for $31.2 million. On November 14, 1995, the Company completed a private offering of the 2005 Notes and the 2005 Warrants from which the Company received approximately $96.1 million in net proceeds. The 2005 Notes will accrue to an aggregate principal amount of $190.0 million by November 1, 2000, after which cash interest will accrue and be payable on a semi-annual basis. The Company also received net proceeds of approximately $4.7 million from the private sale of an additional 50,000 shares of its preferred stock to a principal stockholder and the exercise by that stockholder of warrants to purchase 214,286 shares of Common Stock acquired in the Company's June 1995 preferred stock private placement. On March 21, 1996, the Company completed a private offering of the 2006 Notes from which the Company received net proceeds of approximately $61.8 million. The 2006 Notes will accrue to an aggregate principal amount of $120.0 million by April 1, 2001, after which cash interest will accrue and be payable on a semi-annual basis. On April 15, 1997, the Company completed the April Offering of 8,000,000 shares of Common Stock. The Company completed the sale of an additional 660,000 shares on May 14, 1997 upon exercise of the Underwriters' over-allotment option. The Company received net proceeds of approximately $40.0 million from the sale of these 8,660,000 shares. On July 10, 1997, the Company completed the Unit Offering of 75,000 units from which the Company received net proceeds of approximately $67 million. On July 18, 1997, the Company completed a private offering of the 2007 Notes from which the Company received net proceeds of approximately $209.0 million, $70 million of which is being held in escrow solely to fund the first five interest payments or otherwise for the benefit of the holders of the 2007 Notes.

AT&T Credit Facility.

In October 1994, the Company entered into the AT&T Credit Facility pursuant to which AT&T Credit Corporation has agreed to provide up to $31.2 million in financing for the development and construction of fiber optic local networks by five of the Company's subsidiaries. In connection with each loan made under the AT&T Credit Facility, AT&T Credit Corporation purchased 7.25% of the capital stock of the funded subsidiary, and ACSI pledged the other shares and the assets of the subsidiary to AT&T Credit Corporation as security for the loan. As of June 30, 1997, an aggregate of $31.2 million had been borrowed under these agreements. Principal amounts payable on the AT&T Credit Facility during 1997 are approximately $872,000.

The Company has entered into negotiations with AT&T Capital Corporation to roll-up the five existing loan agreements comprising the AT&T Credit Facility into the New AT&T Facility. The Company expects the New AT&T Facility to otherwise be on terms substantially similar to those of the existing AT&T Credit Facility. The maximum aggregate amount of credit available under the proposed New AT&T Facility will not exceed $35.0 million as defined by the Company's existing indentures. On June 26, 1997, each of the Company's Subsidiaries that are parties to the AT&T Credit Facility entered into an agreement with AT&T Credit Corporation to waive, for a period of 90 business days commencing on the date thereof, compliance by such subsidiaries with certain covenants contained therein. Such covenants are not expected to be included in the new AT&T Facility.

The Redeemable Preferred Stock

On July 10, 1997, the Company consummated the private placement of 75,000 units, (the "Unit Offering"), consisting of its 14 3/4% Redeemable Preferred Stock due 2008 (the "Redeemable Preferred Stock") and warrants to purchase shares of common stock. The Company received net proceeds of approximately $67 million from the sale of these units. Each unit includes a warrant to purchase 80.318 shares of ACSI common stock subject to an increase of 22.645 additional shares of common stock in the event that the Company fails to raise net proceeds of at least $50 million through the issuance and sale of its qualified capital stock on or before December 31, 1998. Dividends on the Redeemable Preferred Stock will accrue from the date of issuance, are cumulative and will be payable in arrears on March 31, June 30, September 30 and December 31, commencing September 30, 1997. Dividends may be paid, at the Company's option, on any dividend payment date either in cash or by the issuance of additional shares of preferred stock, provided however, that after June 30, 2002, to the extent and for so long as the Company is not precluoed from paying cash dividends on the Redeemable Preferred Stock by the terms of any then outstanding indebtedness or any other agreement or instrument to which the Company is subject, the Company shall pay the dividends in cash. The company is required to redeem all the Redeemable Preferred Stock outstanding on June 30, 2008 at a redemption price equal to 100.00% of the liquidation preference thereof, plus, without duplication, accrued and unpaid dividends to the date of redemption.

2005 and 2006 Senior Discount Notes and 2007 Senior Notes

On November 14, 1995, the Company completed an offering of 190,000 Units consisting of $190,000,000 principal amount of its 2005 Notes and the 2005 Warrants to purchase 2,432,000 shares of the Company's common stock at a price of $7.15 per share. The 2005 Notes will accrete at a rate of 13% compounded semi-annually to an aggregate principal amount of $190,000,000 by November 1, 2000. Thereafter, interest on the 2005 Notes will accrue at the annual rate of 13% and will be payable in cash semi-annually. The Company received net proceeds of approximately $96,105,000 from the sale of the 1995 Units. The value ascribed to the 2005 Warrants was $8,684,000.

On March 21, 1996, the Company completed an offering of $120,000,000 of 12 3/4% Senior Discount Notes due 2006 (the "2006 Notes") resulting in net proceeds of approximately $61,800,000. The 2006 Notes will accrete at a rate of 12 3/4% compounded semi-annually, to an aggregate principal amount of $120,000,000 by April 1, 2001. Thereafter, interest on the 2006 Notes will accrue at the annual rate of 12 3/4% and will be payable in cash semi-annually on April 1 and October 1, commencing on October 1, 2001. The 2006 Notes mature on April 1, 2006.

On July 18, 1997, the Company completed the private placement of $220,000,000 of 13-3/4% Senior Notes due 2007 (the "2007 Notes"). The Company received net proceeds of approximately $209,000,000 from the sale of the 2007 Notes, with approximately $70,000,000 place in escrow for the first five interest payments. The 2007 Notes will bear interest at a rate of 13-3/4% compounded semi-annually in arrears on January 15 and July 15 commencing on January 15, 1998. The notes will mature on July 15, 2007.

On June 11, 1997, the Company notified the trustee under each of the indentures governing the 2005 Notes and the indenture governing the 2006 Notes (the "Existing Indentures") that, as of June 10, 1997, it had approximately $13.0 million in the aggregate of ordinary course trade accounts payable that were more than 60 days overdue. As of June 30, 1997, the Company had approximately $17.4 million in the aggregate of ordinary course trade accounts payable that were more than 60 days overdue. These overdue amounts constituted Indebtedness of the Company, as that term is defined in each of the Existing Indentures. The incurrence by the Company of such Indebtedness is not permitted under each of the Indentures and, therefore, constituted an Event of Default (as defined in the Existing Indentures) under each Existing Indenture. The Company used a portion of the proceeds of the Unit Offering to pay in full all ordinary course trade accounts payable that were more than 60 days overdue to cure such Event of Default.

Management anticipates that the cash resources available from these offerings will be sufficient to fund the Company's negative cash flow and capital expenditures required through the fourth quarter 1998. The Company's expectations of required future cash flow and capital expenditures are based on the Company's current estimates and the current state and Federal regulatory environment. There can be no assurance that actual cash flows and capital expenditures will not be significantly higher or lower than the Company's estimates. In the future, additional funding will be required through the sale of additional equity securities, increases in existing or new credit facilities, or through the sale of additional debt securities, certain of which would require the consent of the Company's debtholders. In addition there can be no assurances that the Company will be able to meet its strategic objectives or that such funds, if available at all, will be available on a timely basis or on terms that are acceptable to the Company.

In addition, the Company in the past has considered and expects to continue to consider potential acquisitions or other strategic arrangements that may fit the Company's strategic plan. Although the Company has had discussions concerning such potential acquisitions or arrangements, to date, no agreements have been reached with regard to any particular transaction. Any such acquisitions or strategic arrangements that the Company might consider are likely to require additional equity or debt financing, which the Company will seek to obtain as required.

Effects of New Accounting Standards

During early 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128, Accounting for EPS, which will become effective December 15, 1997, and will thereafter require the Company to disclose basic earnings (loss) per share in addition to the common stock equivalent disclosure information already required. Early adoption of SFAS No. 128 is not permitted.

While the Company does not know precisely the impact of adopting SFAS No. 128, the Company does not expect that the adoption of SFAS No. 128 will have a material effect on the Company's consolidated financial statements.

Information Regarding Forward-Looking Statements

Information contained herein contains "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995) which can be identified by the use of forward looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections herein, including statements concerning the continued development of the Company's businesses, the markets for the Company's services and products, the Company's anticipated capital expenditures and regulatory reform, and other statements contained herein regarding matters that are not historical facts, are forward-looking statements. No assurance can be given that the future results covered by the forward-looking statements will be achieved. The matters set forth in Exhibit 99.1 to the Company's Annual Report on Form 10-KSB for the fiscal period ended December 31, 1996 constitute cautionary statements identifying important factors with respect to such forward-looking statements, including risks and uncertainties, that could cause actual results to vary materially from the future results indicated, expressed or implied, in such forward-looking statements. Other factors could also cause actual results to vary materially from the future results indicated in such forward-looking statements.

PART II

OTHER INFORMATION

ITEM 1 — *Legal Proceedings*

ACSI's former Chief Financial Officer, Harry J. D'Andrea, has initiated litigation against the Company in the Circuit Court of Maryland for Anne Arundel County. The lawsuit alleges four different counts: breach of contract; breach of the covenant of good faith and fair dealing; negligent misrepresentation; and specific performance. Mr. D'Andrea seeks damages in excess of $5,000,000, and the right to exercise options to purchase 100,000 shares of ACSI common stock at $4.25 per share. The Company received a copy of the

Complaint on April 8, 1997. The Company believes it has meritorious defenses to this complaint and intends to defend this lawsuit vigorously.

Additionally, the Company and its subsidiaries are currently parties to routine litigation incidental to their business, none of which, individually or in the aggregate, are expected to have a material adverse effect on the Company. The Company and its subsidiaries are parties to various court appeals and regulatory arbitration proceedings relating to certain of the Company's interconnection agreements and continue to participate in regulatory proceedings before the FCC and state regulatory agencies concerning the authorization of services and the adoption of new regulations.

ITEM 2 — *Changes in Securities*

On April 15, 1997, the Company completed a public offering of its Common Stock. Upon completion of such offering, 461,254 shares of Preferred Stock then outstanding were converted into 17,260,864 shares of Common Stock and once again became authorized but unissued shares of Preferred Stock. The Company's Certificate of Incorporation was restated to reflect the conversion of such Preferred Stock and the elimination of voting, dividend, liquidation and other rights of such Preferred Stock. Currently, the only class of voting stock outstanding is the Common Stock.

Approximately $7.5 million of accrued dividends on 434,481 of the 461,254 shares of Preferred Stock converted in connection with the public offering were paid April 15, 1997, through the issuance by the Company of 1,601,474 shares of Common Stock to the holders of such Preferred Stock pursuant to the exemption from the registration requirements of Section 5 of the Securities Act of 1933 set forth in Section 4(2) of such Act.

Effective March 6, 1997, the Company and MCImetro entered into an agreement in which MCI named ACSI as its preferred local provider for dedicated and transport services in 21 ACSI markets for at least a five year period. Pursuant to this preferred provider agreement, MCI will migrate current dedicated transport circuits in these markets to ACSI and ACSI will be listed as the first choice provider in MCI's provisioning system for all new dedicated access circuits in the designated markets and on June 19, 1997, executed an agreement giving MCI the option to purchase loop transport services from ACSI where ACSI has collocations with the ILEC and MCI has deployed its own local switch. The parties also have agreed to use their best efforts to execute an agreement pursuant to which MCI will resell local switched services in at least 10 of the 21 identified markets on a wholesale basis. In connection with these agreements (collectively, the "MCI Transaction"), ACSI issued MCI warrants to purchase up to 620,000 shares of ACSI's Common Stock at $9.86 per share, subject to number and price adjustment in certain circumstances. ACSI has also agreed to issue warrants to purchase up to an aggregate of approximately 1.7 million additional shares of ACSI's Common Stock at fair market value on the date of grant in tranches every six months after execution of the preferred provider agreement, subject to, and based upon, certain increases in revenues to ACSI generated under that agreement. Of the 620,000 warrants issued to MCI on March 6, 1997, 360,000 warrants have vested and the remaining 260,000 warrants will vest only upon execution of the switched services resale agreement. MCI has certain registration rights with respect to any shares of Common Stock issued to MCI in connection with the MCI Transaction.

On July 10, 1997, the Company consummated the private offering pursuant to Rule 144A under the Securities Act of 1933, as amended, (the "Securities Act") of 75,000 units, (the "Unit Offering"), consisting of its 14¾% Redeemable Preferred Stock due 2008 and warrants to purchase shares of common stock. The Units were resold by the initial purchasers to certain "qualified institutional buyers" (as such term is defined under Rule 144A) and to a limited number of institutional "accredited investors" (as defined in Rule 501(a)(1),(2),(3) or (7) of Regulation D under the Securities Act). The Company received net proceeds of approximately $67 million from the sale of these units. Each unit includes a warrant to purchase 80.318 shares of ACSI common stock subject to an increase of 22.645 additional shares of common stock in the event that the Company fails to raise net proceeds of at least $50 million through the issuance and sale of its qualified capital stock on or before December 31, 1998. Dividends on the Redeemable Preferred Stock will accrue from the date of issuance, are cumulative and will be payable in arrears on March 31, June 30, September 30 and

December 31, commencing September 30, 1997. Dividends may be paid, at the Company's option, on any dividend payment date either in cash or by the issuance of additional shares of preferred stock, provided however, that after June 30, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the Redeemable Preferred Stock by the terms of any then outstanding indebtedness or any other agreement or instrument to which the Company is subject, the Company shall pay the dividends in cash. The company is required to redeem all the Redeemable Preferred Stock outstanding on June 30, 2008 at a redemption price equal to 100.00% of the liquidation preference thereof, plus, without duplication, accrued and unpaid dividends to the date of redemption.

ITEM 4 — *Submission of Matters to a Vote of Security Holders*

On June 25, 1997, the Company held its annual meeting to consider four proposals.

The first proposal was to elect the seven nominees set forth in the Proxy Statement. Pursuant to the Second Restated Certificate of Incorporation, the Board is currently comprised of seven members, all of whom shall be elected by the holders of the Company's Common Stock.

The nominees for directorship by holders of the Common Stock were: Anthony J. Pompliano, Edwin M. Banks, Peter C. Bentz, Benjamin P. Giess, George M. Middlemas, Christopher L. Rafferty and Olivier L. Trouveroy. There were 30,840,593 votes cast For, 15,162 Abstentions for Anthony J. Pompliano; there were 30,841,793 votes cast For, 13,962 Abstentions for Edwin M. Banks; 30,841,993 votes cast For, 13,762 Abstentions for Peter C. Bentz; 30,841,993 votes cast For, 13,762 Abstentions for Benjamin P. Giess; 30,841,993 votes cast For and 13,762 Abstentions for George M. Middlemas; 30,841,993 votes cast For, 13,762 Abstentions for Christopher L. Rafferty and 30,841,993 votes cast For, and 13,762 Abstentions for Olivier L. Trouveroy.

The second proposal was to approve an amendment to the Company's 1994 Stock Option Plan, as amended, to increase the number of shares of common stock reserved for issuance upon exercise of option grants from 3,000,000 to 5,000,000. There were 21,951,403 votes cast For, 4,942,409 votes cast Against and 12,556 Abstentions for Proposal No. 2.

The third proposal was an amendment to the Stock Option Plan to permit the transfer by Outside Directors of options granted to them under the Stock Option Plan. There were 27,736,863 votes cast For, 1,550,648 votes cast Against and 17,550 Abstentions for Proposal No. 3.

The fourth proposal was to ratify the selection of KPMG Peat Marwick LLP to audit the consolidated financial statements of the Company for the fiscal year ending December 31, 1997. There were 30,838,119 votes cast For, 14,836 votes cast Against and 2,800 Abstentions for Proposal No. 4.

ITEM 6 — *Exhibits and Reports On Form 8-K*

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

Exhibit Number	Description
3.1	— Second Restated Certificate of Incorporation of the Company
3.2	— Certificate of Designations of the Company's 14.75% Redeemable Preferred Stock due 2008
3.3	— Certificate of Amendment of the Certificate of Designations of the Company's 14.75% Redeemable Preferred Stock due 2008
3.4	— Amended and Restated By-Laws of the Company
4.1	— Supplemental Indenture dated as of July 7, 1997, between the Company and The Chase Manhattan Bank, as trustee, to the Indenture dated November 14, 1995, as amended, relating to the Company's 13% Senior Discount Notes due 2005

Exhibit Number	Description
4.2	— Supplemental Indenture dated as of July 7, 1997, between the Company and The Chase Manhattan Bank, as trustee, to the Indenture dated March 26, 1995, as amended, relating to the Company's 12.75% Senior Discount Notes due 2006
4.3	— Specimen Certificate of the Company's 14.75% Redeemable Preferred Stock due 2008
4.4	— Warrant Agreement dated as of July 10, 1997, between the Company and The Chase Manhattan Bank, as warrant agent
4.5	— Form of Warrant
4.6	— Indenture dated as of July 23, 1997, between the Company and The Chase Manhattan Bank, as trustee, relating to the Company's 13.75% Senior Discount Notes due 2007
4.7	— Escrow and Disbursement Agreement dated as of July 23, 1997, the Company, The Bank of New York, as escrow agent, and The Chase Manhattan Bank, as trustee, relating to the Company's 13.75% Senior Discount Notes due 2007
10.1	— Registration Rights Agreement dated as of July 10, 1997, among the Company, BT Securities Corporation, Alex. Brown & Sons Incorporated, The Huff Alternative Income Fund, L.P., General Motors Domestic Group Pension Trust, Societe Generale Securities Corporation, ING Baring (U.S.) Securities, Inc. and McDermott Inc. Master Trust
10.2	— Registration Rights Agreement dated as of July 23, 1997, among the Company and BT Securities Corporation as representatives of the Initial Purchasers names therein
11.1	— Computation of Primary Net Income Per Share
11.2	— Computation of Fully Diluted Net Income Per Share
27 0	— Financial Data Schedule

(b) *Reports on Form 8-K*

(b) On July 29, 1997, the Company filed with the SEC a Current Report on Form 8-K dated July 29, 1997, to report the commencement and completion of its private offering of units and certain other matters and the commencement and completion of its private offering of 13 3/4% Senior Notes due 2007.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Communications Services, Inc.

(Registrant)

/s/ ANTHONY J. POMPLIANO

(Anthony J. Pompliano, *Executive Chairman)*

August 14, 1997

/s/ DAVID L. PIAZZA

David L. Piazza *Chief Financial Officer*

August 14, 1997