KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS

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December 12, 1997

VIA OVERNIGHT DELIVERY

Ms. Blanca Bayo
Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

971614-TP

Re: Application for Authority to Transfer Control of Access Network Services, Inc.

Dear Ms. Bayo

Enclosed please find an original and 12 copies of the Application for Approval of a Transfer of Control of Access Network Services, Inc. from the existing shareholders of Shared Technologies Fairchild Inc. to Intermedia Communications Inc. for filing with the Commission. Also enclosed is a duplicate copy of this filing. Please date-stamp the duplicate and return it in the self-addressed, postage-paid envelope provided.

Please do not hesitate to call me at (202) 955-9883 if you have any questions regarding this filing.

Respectfully Submitted,

Marieann Z. Machida

Enclosure

DC01 SMITM 55096.41

DOCUMENT NUMBER-DATE
12769 DEC 15 97
FPSC-RECORDS/REPORTING

ORIGINAL

Before the
STATE OF FLORIDA
PUBLIC SERVICE COMMISSION

Application of	)	
	)	
	)	
INTERMEDIA COMMUNICATIONS INC.,	)	
SHARED TECHNOLOGIES FAIRCHILD INC.	)	Docket No.
and ACCESS NETWORK SERVICES, INC.	)	
	)	
	)	
For Approval of a Transfer of Control	)	

APPLICATION

Intermedia Communications Inc. ("ICI"), Shared Technologies Fairchild Inc. ("STFI") and Access Network Services, Inc. ("ANSI") (collectively the "Applicants"), by their attorneys, hereby respectfully request authority from the Florida Public Service Commission ("Commission"), pursuant to Sections 364.33 and 364.345 of the Florida Statutes, to transfer control of ANSI from the current shareholders of STFI to ICI. ANSI currently is certified to provide intrastate telecommunications services in Florida, and will continue to operate as a telecommunications services provider in Florida after the transfer of control.[1] Due to the timing of the Applicants' business plans, they respectfully request that the Commission issue an order approving the transfer of control on or before ***March 1, 1998***. In support of their Application, the Applicants provide the following information:

12769 DEC 15 97

[1] Please note that in July 1997, the shareholders of STFI approved a transaction whereby control of STFI, and thereby ANSI, would be transferred to Tel-Save Holdings, Inc. The Commission approved this transaction by order dated October 13, 1997, Docket No. 971026 TP. That transaction, however, has been superseded by the subsequent sale of the company to ICI as reported herein and the earlier transaction with Tel Save Holdings, Inc. will not be consummated.

I. THE APPLICANTS

ICI is a publicly held Delaware corporation headquartered at 3625 Queen Palm Drive, Tampa, Florida 33619. ICI is a rapidly growing provider of integrated telecommunications services offering a full range of local, long distance and enhanced data services to business and government customers, long distance carriers, Internet service providers and wireless communications companies. ICI operates as both a facilities-based and resale carrier. ICI is authorized by the Federal Communications Commission ("FCC") to provide interstate and international telecommunications services. ICI also is authorized to provide intrastate toll telecommunications services in all 50 states and the District of Columbia. ICI is authorized to provide local telecommunications services in 35 states and the District of Columbia, including Florida. ICI received its authority to provide intrastate telecommunications services in Florida on June 6, 1987 in Docket No. 870084-TI (toll), October 11, 1995 in Docket No. 950954-TX (local), and May 29, 1996 in Docket No. 960199-TS (STS). Its qualifications are, therefore, a matter of record before the Commission.

STFI is a publicly held Delaware corporation traded on the NASDAQ stock market under the stock symbol "STCH".[2] It maintains its principal office at 100 Great Meadow Road, Suite 104, Wethersfield, Connecticut 06109. STFI is the parent company of Shared Technologies Fairchild Communications Corp., which, in turn, is the parent company of ANSI, a certificated provider of intrastate telecommunications services in Florida. ANSI is authorized by the FCC to provide interstate and international telecommunications services. ANSI also is authorized to provide intrastate toll telecommunications services in 25 states,

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[2] Copies of STFI's most recent SEC Forms 10-K and 10-Q are appended hereto as Attachments A and B respectively.

including Florida. ANSI is authorized to provide local telecommunications services in 16 states, including Florida. ANSI received its authority to provide intrastate telecommunications services in Florida on January 27, 1994 in Docket No. 930757-TX, Certificate No. 3512 (toll), on January 27, 1997 in Docket No. 961424-TX, Order No. PSC-97-0079-FOF-TX (local), and on February 29, 1996 in Docket No. 951518-TP, Order No. PSC-96-0314-FOF-TP, Certificate No. 1669 (STS), as amended by Order No. PSC-96-0314A-FOF-TP, issued April 1, 1996.

II. DESIGNATED CONTACTS

The designated contacts for purposes of this Application are:

James J. Freeman
Marieann Z. Machida
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
Tel. (202) 955-9600
Fax (202) 955-9792
e-mail - jfreeman@kelleydrye.com
mmachida@kelleydrye.com

Copies of all correspondence, notices, inquiries and orders should also be sent to:

For ICI:

Patricia A. Kurlin
General Counsel
INTERMEDIA COMMUNICATIONS INC.
3625 Queen Palm Drive
Tampa, Florida 33619

For STFI and ANSI:

Allan C. Hubbard
Regulatory Counsel
SHARED TECHNOLOGIES FAIRCHILD INC.
300 West Service Road
P.O. Box 10804
Chantilly, Virginia 20153

III. REQUEST FOR APPROVAL TO TRANSFER CONTROL OF ANSI TO ICI

On November 25, 1997, ICI and STFI entered into a definitive Agreement and Plan of Merger ("Merger Agreement") pursuant to which ICI will acquire STFI by purchasing all of the company's outstanding shares from the current STFI shareholders.[3] Since STFI is the ultimate parent company of ANSI, the acquisition of STFI by ICI will result in a transfer of ultimate control of ANSI to ICI. The transfer of control will be accomplished through use of a reverse triangular merger whereby a newly formed, special-purpose subsidiary of ICI, Moonlight Acquisition Corp., will be merged with and into STFI. STFI will be the surviving entity, and will thereafter be a wholly owned subsidiary of ICI. ANSI will continue to exist as a wholly owned subsidiary of STFI. The boards of directors of ICI and STFI have approved the Merger Agreement.[4]

Under the terms of the Merger Agreement, each share of issued and outstanding STFI common stock, par value $.004 per share, will be exchanged for $15.00, payable, without interest, to the holder of each such share. ICI also is acquiring outstanding shares of STFI's preferred and convertible preferred stock. The total cost of the acquisition is estimated by ICI to be approximately $749 million and will be paid from existing cash reserves. Consummation of this transaction will not in any way undermine the financial condition of ICI or its ability to continue to provide high quality telecommunications services to customers in Florida.

After the transfer of control, ANSI will survive for an indefinite period as a wholly owned subsidiary of STFI, and STFI will be a subsidiary of ICI. ANSI will continue to

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[3] The Merger Agreement can be provided to the Commission on a confidential basis upon request.

[4] Charts depicting the transfer of control are appended hereto as Attachment C.

operate as it has in the past, pursuant to the same name, tariff and operating authority. Thus, the transfer of control will be seamless and will have no adverse impact on ANSI's customers in Florida. On the contrary, ANSI's access to ICI's capital, economies of scale, and various service offerings will enable it to improve its services to both existing and new customers.

ICI possesses all financial, managerial and technical qualifications necessary to assume ultimate control of ANSI. ICI is a rapidly growing telecommunications company that was founded in 1987. Between 1994 and 1996, ICI's revenues grew from $14 million to $103 million.[5] For the third quarter of calendar year 1997, ICI reported revenues of approximately $165 million.[6] Due to the fact that it is in the process of acquiring and constructing fiber optic networks nationwide, ICI has relied principally on the capital markets to fund its rapidly expanding operations. ICI is led by a highly qualified team of management personnel, all of whom have extensive backgrounds in the telecommunications industry.[7] ICI's telecommunications expertise, and the public's satisfaction with its services, is demonstrated by the fact that the company experienced such tremendous growth in revenues over the last three years.

IV. PUBLIC INTEREST ANALYSIS

Approving the transfer of ultimate control of STFI from its current shareholders to ICI is in the public interest. The combination of STFI and ANSI and ICI will enhance both

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[5] A copy of ICI's 1996 SEC Form 10-K is appended hereto as Attachment D.

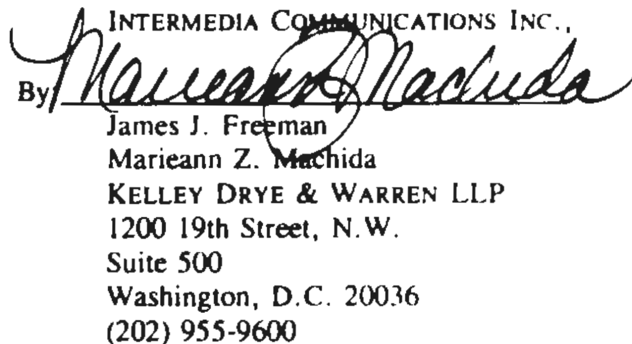
[6] A copy of ICI's most recent SEC Form 10-Q is appended hereto as Attachment E.

[7] Brief biographical statements concerning each of ICI's senior management personnel are appended hereto as Attachment F.

ANSI's and ICI's ability to compete in the market for telecommunications services in Florida. Both companies will benefit from increased economies of scale that will permit them to operate more efficiently and thus to compete more effectively. Over time, consumers in Florida will benefit from the availability of increased local and long distance telecommunications product and service options.

WHEREFORE, the Applicants respectfully request that the Commission authorize a transfer of control of ANSI from the existing shareholders of STFI to ICI.

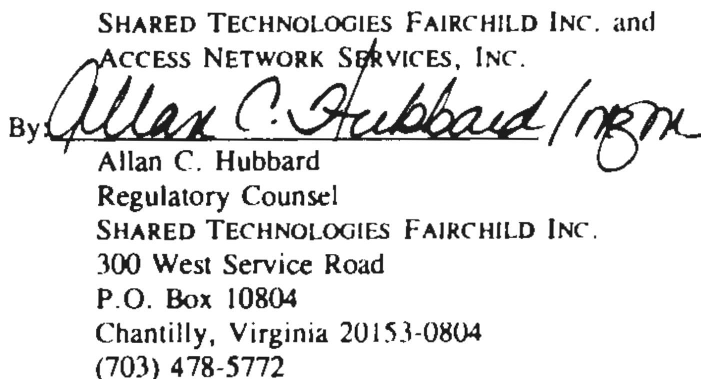
Respectfully submitted,



INTERMEDIA COMMUNICATIONS INC.,

By: [signature]

James J. Freeman
Marieann Z. Machida
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036
(202) 955-9600



SHARED TECHNOLOGIES FAIRCHILD INC. and
ACCESS NETWORK SERVICES, INC.

By: [signature]

Allan C. Hubbard
Regulatory Counsel
SHARED TECHNOLOGIES FAIRCHILD INC.
300 West Service Road
P.O. Box 10804
Chantilly, Virginia 20153-0804
(703) 478-5772

Their Attorneys

Dated: December 9, 1997

VERIFICATION

I represent Intermedia Communications Inc. and am authorized to make this statement on its behalf. I have reviewed the foregoing document and declare the statements therein concerning Intermedia Communications Inc. to be true of my own knowledge, except as to matters which are stated on information and belief. As to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.

By: Patricia A Kurlin

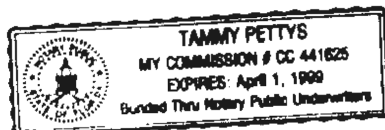
Name: PATRICIA A KURLIN

Title: VICE PRESIDENT, GENERAL Counsel

Date: 12/9/97

SUBSCRIBED AND SWORN to before
me this 9th day of December, 1997.

NOTARY PUBLIC in and for said County and State



COMMONWEALTH OF VIRGINIA,
COUNTY OF LOUDOUN, to-wit:

VERIFICATION

I am Regulatory Counsel for Shared Technologies Fairchild Inc. and Access Network Services Inc. and am authorized to make this statement on their behalf. I have read the foregoing document and declare the statements therein regarding the aforesaid parties to be true of my own knowledge, except as to matters which are stated on information and belief. As to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.

By: Allan Hubbard

Name: Allan C. Hubbard

Title: Regulatory Counsel

Date: 12/11/97

SUBSCRIBED AND SWORN to before me in my County aforesaid this 11th day of December, 1997.

Melinda L. Keuroglian

Melinda L. Keuroglian, Notary Public

My Commission Expires: 9/30/99

ATTACHMENT A

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

X ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE YEAR ENDED DECEMBER 31, 1996

____ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD ____ TO

Commission File Number 0-17366

SHARED TECHNOLOGIES FAIRCHILD INC.
(Exact name of registrant as specified in its charter)

Delaware	87-04245[illegible]
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

100 Great Meadow Road, Suite 104 Wethersfield, Connecticut	06[illegible]
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (860) 258-24[illegible]

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.004 par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 registrant's 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. [X]

The aggregate market value of the registrant's Common Stock held by nonaffiliates as of March 21, 1997 was approximately $49,350,000, based on the average of the closing bid and asked prices as reported on such date in the over-the-counter market.

Indicate the number of shares outstanding of each of the registrant's classes of Common Stock, as of March 20, 1997.
15,704,399 shares of Common Stock
$.004 par value

The following document is hereby incorporated by reference into Part III of this Form 10-K: The registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on April 30, 1997 to be filed with the Securities and Exchange Commission in definitive form on or before April 15, 1997.

PART I

Item 1.
Business

(a) General Development of Business - Shared Technologies Fairchild Inc., which was incorporated as Shared Technologies Inc. on January 30, 1986, its subsidiaries and affiliated partnerships (collectively, the "Company") are engaged in providing shared telecommunications services ("STS") and telecommunication systems ("Systems") to tenants of modern, multi-tenant office buildings. As an STS provider, the Company generally obtains the exclusive right from a building owner (the Owner/Developer") to install an on-site communications system, called a private branch exchange ("PBX"), or an off-site communications system, called Centrex, and to market telecommunications and office automation services and equipment to tenants.

In May 1991, the Company acquired the stock of Boston Telecommunications Company(BTC), a provider of STS in the Boston area. The Company paid $1,097,000 consisting of acquisition cost less cash received of $197,000, stock purchase warrants valued at $300,000 and a $600,000 promissory note payable. In May 1989, the Company acquired interests in four entities providing STS in the greater Chicago area from Shared Services, Inc. and I.S.E., Inc. for $180,000. Additionally, in February 1989, the Company purchased the stock of Multi-Tenant Services, Inc. (MTS) a former division of BellSouth Corporation for $4,048,000 of which $391,000 was paid in cash and in payment of the balance the Company assumed existing lease obligations. MTS was a provider of STS in nine metropolitan areas.

During 1992, the Company completed a restructuring due to its working capital deficit and the maturity of its principal financing arrangements which were due to the FDIC, as receiver for the Company's principal lender. The restructuring included Shared Technologies Inc. and all of its subsidiaries. The restructuring resulted in the Company recording a gain of $5,162,000 before related expenses of $1,361,000 for consulting fees related to the restructuring and income taxes of $45,000. As a result of the restructuring, approximately $900,000 of vendor payables and $1,500,000 of capital lease obligations were forgiven and $3,300,000 of vendor payables were converted to three year non-interest bearing notes payable (see Note 7 of Notes to Consolidated Financial Statements). Additionally, a settlement agreement was entered into with the Federal Deposit Insurance Corporation ("FDIC") as receiver for the Company's principal lender which resulted in the Company paying off its term loan and revolving credit arrangements and recognizing a gain of approximately $2,700,000. In April 1994 the Company entered into a settlement agreement which provides for the payment of $750,000 plus interest at 10% which resulted in an accrued extraordinary loss of $150,000 in 1993.

In connection with the restructuring, the Company also raised equity capital of approximately $5,780,000 from certain institutional investors, net of expenses. A firm, one of whose

principals was a director and stockholder of the Company, at the time, served as Underwriter for the offering. The Company paid this firm underwriting commissions and expenses totaling $446,750 for the offering. No other parties to the restructuring were affiliated with the Company. The Company also entered into agreements with Series A and B Preferred Stockholders to convert their holdings, including $327,920 of the accrued dividends related thereto, into Series C Preferred Stock. As part of this conversion, $40,990 of the accrued dividends was forgiven by the stockholders.

In September 1992 the Company effected a one-for-four reverse stock split of Common Stock and increased the par value of Common Stock from $.001 to $.004 per share. All per share amounts contained herein have been retroactively adjusted to reflect this split.

In December and October 1993 the Company commenced management and subsequently completed the acquisition of certain assets and liabilities of Road and Show South, Ltd. and Road and Show Cellular East, Inc., respectively. The purchase price for South was $1,261,611 which represents $46,111 cash and an obligation to issue 272,763 shares of the Company's common stock. The purchase price for East was $750,245 which represents $209,245 cash and an obligation to issue 121,403 shares of the Company's common stock.

In June 1994, Shared Technologies Inc., completed its acquisition of the partnership interests of Access Telecommunication Group, L.P.("Access") for $9,000,000, subject to certain post closing adjustments. The $9,000,000 includes $4,000,000, paid at closing with the proceeds from the private placement sale of approximately 1,062,000 shares of the Company's Common Stock, and the issuance to the sellers of $400,000 shares of Preferred E stock, valued at $1,500,000 and 700,000 shares of Preferred F stock valued at $3,500,000.

In April 1995, the Company's subsidiary, Shared Technologies Cellular, Inc. ("STC"), completed an initial public offering. Prior to this date, STC was approximately an 86% owned subsidiary of the Company. STC sold 950,000 shares of common stock at $5.25 per share which generated net proceeds of approximately $3,274,000 after underwriter's commissions and offering expenses. The net effect of the public offering on the Company's consolidated financial statements was a gain of approximately $1,375,000.

On June 30, 1995, the Company purchased all of the outstanding capital stock of Office Telephone Management ("OTM"). OTM provides telecommunication management services primarily to businesses located in executive office suites. The purchase price was $2,135,000, of which $1,335,000 was paid in cash, and the balance through the issuance of a $800,000 note, including interest at 8.59% per annum, through June 30, 2005.

During December 1995, STC affected a private placement of approximately $3,000,000 in Series A voting preferred stock to

third parties. Although the Company's ownership percentage of common stock of 59.3% did not change, the voting rights assigned to the preferred stock reduced the Company's voting interest in STC to 42.7%, resulting in the Company's loss of voting control of STC. Accordingly, as a result of this stock issuance, the Company has accounted for STC on an equity basis with all assets and liabilities of STC eliminated and a non-current asset recorded to reflect the Company's equity investment in STC.

In March 1996, the Company's stockholders approved and the Company consummated a merger with Fairchild Industries, Inc. ("FII") with and into the Company. The Company simultaneously changed its name to Shared Technologies Fairchild Inc. ("STFI"). In connection with the merger, the Company issued 6,000,000 shares of common stock, 250,000 shares of cumulative convertible preferred stock with an initial $25,000,000 liquidation preference and 200,000 shares of special preferred stock with a $20,000,000 initial liquidation preference. In addition the Company raised approximately $111,000,000, net of expenses through the sale of 12 1/4% senior subordinated discount notes due 2006, and approximately $123,000,000 (of an available $145,000,000) in loans from a credit facility with Credit Suisse, Citicorp USA, Inc. and NationsBank. The funds were used primarily for the retirement two series of FII's preferred stock and of certain liabilities assumed from FII in connection with the merger and the retirement of the Company's existing credit facility.

In June 1996, the Company entered into a management agreement to serve as manager of ICS Communications, Inc. ("ICS"), a Dallas-based provider of cable and telephone services to over 600 residential properties nationwide. The management agreement is on a month-to-month basis, and was still in effect as of March 20, 1997. Additionally, the Company entered into a letter of intent with ICS in June 1996, which contemplates that the Company will become a minority equity holder of ICS, while continuing in the capacity of manager of the ICS business.

In March 1997, the Company entered into a similar short-term agreement to manage the shared telecommunications services business of GE Capital-ResCom, L.P.("ResCom"), which provides services to tenants of approximately 1,000 residential complexes nationwide. Similar to the ICS agreement, it is contemplated that the Company will obtain a minority equity position in the ResCom business, while continuing to serve as manager.

In addition to the above transactions, the Company has continued to pursue and achieve internal growth in its existing operations.

(b) Financial Information about Industry Segments - The Company is engaged in one industry segment, the telecommunications industry, providing a wide range of telecommunications and office automation services and equipment.

(c) Narrative Description of Business

(1) (i) **Products and Services**

Shared Telecommunication Services (STS)

The Company provides STS to commercial tenants in office buildings in which the Company typically has installed a dedicated private branch exchange (PBX) switch under exclusive agreement with the building owner, thereby permitting the Company's customers to obtain all their telephone and telecommunications needs from a single source and a single point of contact. Under multi-year contracts that usually extend through the terms of the tenants' leases, the Company offers its customers access to services provided by regulated communications companies, such as local, discounted long distance, international and "800" telephone services. The Company also provides telephone switching equipment and telephones, as well as voice mail, telephone calling cards, local area network wiring, voice and data cable installation. Other services provided by the Company include audio conferencing, automatic call distribution services and message center capability. In addition, the Company's customers receive a convenient single monthly customized invoice for all services provided by the Company.

Historically, the Company has marketed its services to small and medium-sized (25 to 250 lines) business customers who are not otherwise able to take advantage of economies of scale in procuring their telecommunications services. "One-stop shopping" is provided for these customers' telecommunications needs without the substantial initial capital costs that would be incurred with the purchase of the same telecommunications system from multiple suppliers. The Company offers its customers (i) services that would otherwise not be cost-effective for, or readily available to, such customers due to the size of their business; (ii) reduced capital expenditures and space requirements by allowing its customers to utilize the Company's existing infrastructure and centrally located hardware; and (iii) comprehensive maintenance programs. Additional services are available as the customer's business and telecommunications needs grow. The Company also provides its customers with the benefits of responsive on-site service.

STS providers, such as the Company, negotiate and enter into long-term telecommunications agreements with owners and developers of office buildings. Under these agreements, the STS provider typically has the right for a period of up to ten or more years to install switching equipment, wiring and telephones capable of serving all of the tenants in an office building. Typically, the right to install a dedicated PBX switch is exclusive. Such agreements provide for the owners to assist the STS provider by identifying potential tenant customers. Generally, an STS provider leases and pays rent to the owner for switch room space in the building and, under certain circumstances, may agree to provide an incentive to the owner. By contracting with an STS provider, an owner will have the benefit of a state-of-the-art telecommunications infrastructure in its building and be able to offer its tenants the ability to access sophisticated telecommunications services.

Telecommunications Systems (Systems)

The Company's telecommunications systems business provides end users with a wide variety of telecommunications products and services and offers its customers the flexibility to expand or enhance their telecommunications systems as their businesses change. Through its telecommunications systems business, the Company is also able to provide customized telecommunications solutions to those of its customers choosing to purchase, rather than lease, equipment. Under the trade name Telecom 2000(, the Company sells directly to end users a wide selection of telecommunications equipment produced by leading manufacturers, including Northern Telecom, Inc , AT&T, NEC, Octel Communications Corporation, Centigram Communications Corporation and Active Voice Corporation. Through a staff of field and other engineers, the Company designs and installs all of its customers' telecommunications infrastructure needs in a complete turn-key telecommunications system including post-installation maintenance. Post-installation maintenance consists of complete maintenance of the customer's entire telecommunications system, including warranty and post-warranty maintenance contracts, upgrades and adds, moves and changes. Telecommunications systems installations include PBX and key telephone systems, voice mail, automated call distribution systems and entire call centers. The Company also provides a variety of long distance services including basic services, "800" services, calling cards, international calling and various other network services. The Company provides telecommunications systems to commercial customers and government agencies with systems ranging in size from 15 to several thousand lines.

Customer service options range from nine-to-five coverage to 24 hours a day, 365-days a year maintenance contracts. The Company also contracts with customers to staff their facilities with dedicated service personnel under long term contracts. As of December 31, 1996, the Company provided telecommunications systems nationwide, including maintenance and other services covering in excess of 500,000 customer lines.

Cellular

The Company owns an equity investment in Shared Technologies Cellular, Inc. ("STC") which is a national cellular services provider, offering rental or prepaid services to over 640 of the approximately 950 Cellular Geographical Service Areas ("CGSA") within the United States, and cellular activation services in over 690 CGSA's. As a reseller or agent for cellular and PCS carriers, STC can offer cellular service to approximately 94 percent of the US population.

STS Buildings

As of December 31, 1996, the Company was providing STS in 28 metropolitan areas. The Company is able to realize significant operating economies by sharing management, administrative, sales and technical staff across a number of

locations. The following table sets forth as of December 31, 1996, on a city-by-city basis, the Net Leaseable Square Feet and the Potential Lines of Service in each location where the Company provides STS to tenants.

Location	Leasable Square Feet	Total Potential Lines	Total Lines in Service
Atlanta	13,607,723	45,359	11,250
Austin	400,000	1,333	3,077
Baltimore	479,000	1,597	133
Birmingham	1,435,000	4,783	1,14[illegible]
Boston	4,596,000	15,320	3,060
Chicago	18,856,319	62,854	12,676
Dallas	19,390,123	64,634	13,483
Ft Lauderdale	561,000	1,870	898
Hartford	1,855,000	6,183	2,475
Houston	11,419,555	37,065	3,130
Indianapolis	6,724,439	22,415	8,642
Los Angeles	7,845,108	26,150	4,195
Miami	2,583,216	8,611	2,316
Milwaukee	394,000	1,313	166
Minneapolis	5,918,230	19,727	6,428
Myrtle Beach	125,820	419	20
New Jersey	625,000	2,083	856
New Orleans	4,697,500	15,658	7,195
Orlando	435,000	1,450	801
Philadelphia	9,427,600	31,425	5,658
Phoenix	2,837,400	9,458	3,015
Pittsburgh	7,346,272	24,488	2,205
Salt Lake City	1,010,000	3,367	864
Seattle	4,848,721	16,162	3,518
Stamford	1,937,200	6,457	627
Tampa	2,869,636	9,565	3,787
Nashville	1,352,600	4,509	1,767
Washington D C	11,701,100	39,004	8,241
Totals	144,978,562	483,259	111,627
Penetration Rate* 26%			

*Penetration rate assuming a 10% National Vacancy rate. Lines in Service/(Potential Lines x 90%)

Owner/Developer Agreements

In most buildings where it provides STS, the Company or its assignor has entered into a contractual agreement ("Owner/Developer Agreement") with the building Owner/Developer. Subject to specific provisions contained in certain Owner/Developer Agreements, the Owner/Developer Agreements generally grant the Company the exclusive right to provide STS in the building and the Owner/Developer is precluded from entering into a "materially similar arrangement" with a third party. In addition, the Company is granted a right of first refusal in the building for the offering of additional STS, such as telephone answering services, word and data processing, telex, copier services and certain other STS. The term of the agreement is generally for ten years with renewal options.

The Owner/Developer Agreements generally provide for the payment of royalties to the Owner/Developer which may be based on a percentage of gross revenues or on a percentage of rental, sale and service income or net long-distance revenues. Such royalty payments may commence at the initial service date, at some later date, typically 18 to 24 months after the Company commences to provide STS to the building, or at the time the Company achieves a certain level of market penetration in the building.

The Company is responsible for the costs and expenses incurred in operating and maintaining the STS equipment in the building and must obtain the Owner/Developer's approval to make any modification in the STS equipment which would affect the building structure. The agreement is assignable by the Owner/Developer upon the sale of the building. Certain Owner/Developers also have the right to purchase the Company's STS equipment in the building at a, nominal or fair market price if the agreement is terminated.

Each Owner/Developer Agreement either contains a lease, or references a separately executed lease, for the space necessary for the Company's on-site personnel and equipment.

Tenant Contracts

The Company is a party to a master shared tenant services agreement ("Tenant Contract") with substantially all of its STS customers. The Tenant Contract contains terms and conditions governing the provision of STS. Subsequent to signing a Tenant Contract, tenants submit individual customer orders for specific equipment rentals and STS. In addition to the typical Tenant Contracts for STS, the Company has agreements with several tenants who have their own PBX to maintain the system and manage the tenant's telephone call billing system, and the Company receives a monthly fee for its services.

The Company generally signs contracts for a period coterminous with the customer's lease in the building. The Company feels it has staggered the contracts such that there is

no time when a material amount of contracts come due at the same time. Additionally, the Company does not have any individual customer contracts which are material.

(iii) Sales and Marketing

The Company markets its services and products through a direct sales force which is segmented into distinct geographic markets. Typically, under agreements with the Company, the owner identifies prospective and existing tenants to the Company's local sales force. After establishing contact with the potential customer and obtaining an understanding of the prospective customer's telecommunications needs, the Company's local sales representative arranges for a presentation of the Company's products and services and the cost of potential solutions meeting the customers requirements. After securing a sale, members of the Company's sales force follow-up with customers by offering them new value-added services. Management believes that direct sales activities are more effective than advertising for securing and maintaining the businesses of small to medium-sized services customers. A significant percentage of new systems sales result from upgrading, enlarging or replacing systems currently used by the Company's existing customers. As of December 31, 1996, the Company had approximately 66 employees in its direct sales force.

Customer Service

The Company strives to provide superior customer service and believes that personal contact with potential and existing customers is a significant factor in securing and retaining customers. Each new customer account is processed locally at the site location that was responsible for obtaining the account. The Company's customer service staff is dedicated to providing new customers with a smooth transition to its services and systems. All customers' calls for repair, moves, adds, and changes are handled and processed at the local site. Management believes that this personal and local handling of the customer service function is very important to the customers, creating strong alliances for the Company and encouraging repeat business. The Company's local offices retain total responsibility for all aspects of their respective customers services (including equipment, local service, and long distance). As a result, the customer only needs to place one call to inquire about any aspect of its service. The management of each local office site is evaluated quarterly on the quality of its customer service and the Company's field service representatives conduct periodic audits of all its customers to assess their satisfaction with all aspects of service. The Company's service contracts with STS customers are typically for a duration of five years (or expire upon termination of a customer's building lease). Service contracts with the Company's telecommunications systems customer are typically for one to three year duration and generally for automatic extensions of such term.

Management Information Systems (MIS)

Providing accurate and customized billing for customers is an integral component of the Company's business. The Company's MIS systems process millions of call records a month for the telecommunications services business and combine this information with other recurring and nonrecurring customer charges to produce monthly invoices. Tenants are quoted a monthly charge for leased equipment which includes a rental fee for equipment, a charge for access to the PBX owned by the Company and installed in the buildings where such tenants are located, and a local access charge for access based on the cost of the trunk lines which connect the building to the central office of the local telephone company. In addition, tenants are charged for special services and usage, including "800" service, dedicated circuits, directory listings, local message units, directory assistance, calling card services, third party billing calls, and long-distance at a discount from the standard rates charged by long-distance providers. The Company believes that its detailed billing reports provide a unique service to small and medium-sized customers allowing customers to understand and control their telecommunications costs.

The MIS systems also track telecommunications installations and customer requests from initial request to final collection. Each customer request is entered into the job order system to monitor the progress of the work as well as to keep track of the time and material requisitioned for the job.

The Company's MIS systems can be expanded with minimal incremental cost to accommodate substantially more volume. Such systems feature backup processors and short-time response maintenance agreements and are designed to respond to customer needs as well as support the Company's operations.

Canadian Operations

In June 1996, STF Canada, Inc., a wholly-owned subsidiary of the Company, entered into an agreement with RH Telecom, ICN. ("RHTI"), an affiliate of O&Y Properties, Inc., a major property management company that currently manages in excess of 12 million square feet of mixed use properties across Canada, and with Rogers Cablesystems Limited ("Rogers"), a Canadian telecommunications company, pursuant to which the three parties formed Shared Technologies of Canada Inc. ("STOC"), with each party holding a one-third interest in STOC. STOC provides shared telecommunications services in Canada, combining the Company's telecommunications services expertise with RHTI's extensive property management resources and expertise and Rogers' resources as a Canadian telecommunications service provider.

The Company believes it is well positioned to continue to grow through the continued implementation of its business strategy, the key elements of which are:

- Increased Penetration of Existing Buildings. The Company intends to increase its focus on generating additional

revenue from the buildings in which it now provides shared telecommunications services. Although the Company may continue to make selective acquisitions of STS providers in the future, its principal focus will be on marketing services within its existing buildings, both to new customers and to existing customers.

- Significant Additions of Buildings. The Company plans to continue to take advantage of its improved market position to aggressively pursue opportunities to add buildings to its portfolio, in particular, through multi-building contracts with large commercial property owners.

- Expanded Service Offerings. The Company intends to capitalize on the growing demand for new telecommunications and information technology by expanding its services to include high speed access to the Internet, video teleconferencing, wireless services and the delivery of cable programming. The Company's existing infrastructure allows for low-cost delivery of these services at minimal incremental expense to the Company. The Company believes that many of these services would otherwise not be readily available or affordable to its customers.

- Cross Marketing of Services and Systems. The Company intends to leverage its Systems business by marketing telecommunications services to its existing Systems customer base. In addition, the Company intends increasingly to market Systems to its STS customers relocating from existing rental space who continue to require customized telecommunications solutions, including the purchase or lease of equipment or the provision of long distance and other network services offered by the Company.

(iv) Patents, Trademarks, Licenses, Franchises, Concessions- See Item 1(d)(i) - "Owner/Developer Agreements" herein. Additionally, Shared Technologies Fairchild and Shared Technologies Cellular are registered trademark.

(v) Seasonality

While the Company's business is not generally seasonal, the Company has experienced, over the last several years, a reduction in local and long distance revenues in the month of December which is believed to be associated with the holiday season.

(vi) Working Capital

To date, the Company has funded its working capital shortfall through borrowings and sales of its securities. See Item 1(a) - "General Development of Business"; "Management's Discussion and Analysis of Results of Operations and Financial Condition". The Company requires working capital to sustain its growth and maintain its revenue base.

In March 1996, the Company's stockholders approved and the Company consummated a merger with Fairchild Industries, Inc. ("FII") with and into the Company. The Company simultaneously changed its name to Shared Technologies Fairchild Inc. ("STFI"). In connection with the merger, the Company issued 6,000,000 shares of common stock, 250,000 shares of cumulative convertible preferred stock with an initial $25,000,000 liquidation preference and 200,000 shares of special preferred stock with a $20,000,000 initial liquidation preference. In addition the Company raised approximately $111,000,000 net of expenses through the sale of 12 1/4% senior subordinated discount notes due 2006, and approximately $123,000,000 (of an available $145,000,000) in loans from a credit facility with Credit Suisse, Citicorp USA, Inc. and NationsBank. The funds were used primarily for the retirement two series of FII's preferred stock and of certain liabilities assumed from FII in connection with the merger and the retirement of the Company's existing credit facility.

As of March 15, 1997, the Company has approximately $20 million available under the credit facility to fund working capital requirements. The credit facility contains, among other things, affirmative and negative covenants which are usual and customary with respect to senior secured indebtedness.

The Company expects to satisfy its future cash requirements through cash from operations and borrowings under the Credit Facility.

The Company expects that its working capital requirements will remain manageable primarily due to the minimal capital requirements of the Systems business and, with respect to the Services business, its ability to negotiate favorable payment terms with its vendors and to bill its customers in advance for many recurring services.

(vii) Dependence on a Single Customer

No single customer or building accounts for 10% or more of the Company's revenues. The Company's business is not dependent upon a single or a few customers.

(viii) Backlog

At any given period the Company maintains new contracts signed but not yet installed due to the term of the contract which further adds to this backlog. The number of additional lines not yet installed related to new contracts cannot be determined due to changes that occur through the installation date. Therefore, backlog information cannot be quantified.

(ix) Government Regulation

The Company is subject to specific regulations in several states. Within various states, such regulations may

include limitations on the number of lines or PBX switches per system, limitations of shared telecommunications systems to single buildings or building complexes, requirements that such building complexes be under common ownership or common ownership, management and control and the imposition of local excharge access rates that may be higher than those for similar single-user PBX systems.

Rates for telecommunications services generally are governed by tariffs filed by certified carriers with various regulatory agencies. Future changes in the regulatory structure under which such tariffs are filed, or material changes in the tariffs themselves, could have a material adverse effect on the Company's business.

The Company's Systems business is generally exempt from governmental regulation from the standpoint of marketing and sales. However, various regulatory bodies, including the Federal Communications Commission, require that manufacturers of equipment obtain certain certifications.

On February 8, 1996, the Telecommunications Act of 1996 ("Telecommunications Act") was enacted as Federal law. The Telecommunications Act made certain changes in the regulatory environment in which the Company operates by: (i)pre-empting any State or local law or regulation that prohibits, or has the effect of prohibiting, the ability of any entity to provide any interstate or intrastate telecommunications service which may result in the removal of regulatory barriers that have heretofore discouraged the Company from expanding its business in certain States; (ii) prohibiting local exchange telephone companies from prohibiting, or imposing unreasonable or discriminatory conditions on, the resale of those companies' telecommunications services which may result in the removal or relaxation of some of the restrictions on shared telecommunications systems referred to above, and reduces the risk that telephone companies could modify their tariffs to improve more restrictive terms and conditions on such Systems; (iii) authorizing the FCC to forebear from applying any regulation to a telecommunications carrier or class of telecommunications carriers under certain conditions, which may result in a relaxation of the FCC's regulatory supervision of over the Company's operations; and (iv) authorizing the Regional Bell Operating Companies upon satisfying certain conditions, to apply for, and the FCC to grant, authority to offer long-distance services to customers within the States in which they offer local telephone service. This will result in more intense competition within the markets in which the Company operates.

The Telecommunications Act has affected government regulation of telecommunications, both at the state and federal level. Although the long term goal of the legislation is deregulatory, federal and state government regulatory agencies have created new rules to govern competition in the local exchange market that, in the short term, could subject the

Company's shared telecommunications services to greater regulation than in the past.

(x) Competition

The Company's STS business competes with regulated major carriers that may provide a portion of the services that the Company provides, but are typically not structured to provide all of a customer's telecommunications requirements. The Company also competes with small independent operators serving regional or local markets and with other STS providers, including the Realcom unit of MFS WorldCom, Inc. ("MFS"). The Company also competes with equipment manufacturers and distributors and long distance companies for the provision of telephone and other telecommunications equipment and services to tenants in buildings under franchise with the Company. Within the past five years, competition has expanded to include a group of companies known as alternate access providers, including MFS, TCG, Inc. and others. The major competitive factors in the STS market are technology, price and service. The Company's principal competitive advantages are its ability to provide "one-stop shopping" for telecommunications services and site-based technical service.

The principal competitors of the Company's Systems business and, once a building franchise has been obtained, the Company's STS business, include the direct sales channels of manufacturers such as Lucent Technologies, Northern Telecom, Inc., NEC, other distributors of equipment manufactured by such companies, as well as the Regional Bell Operating Companies ("RBOCs").

On February 8, 1996, the Telecommunications Act was enacted as Federal Law. The Telecommunications Act makes certain changes in the regulatory environment in which the Company operates by: (i) pre-empting any State or local law or regulation that prohibits, or has the effect of prohibiting, the ability of any entity to provide any interstate or intrastate telecommunications services which may result in the removal of regulatory barriers that have heretofore discouraged the Company from expanding its business in certain States; (ii) prohibiting local exchange telephone companies from prohibiting, or imposing unreasonable or discriminatory conditions on, the resale of those companies' telecommunications services which may result in the removal or relaxation of some of the restriction on shared telecommunications Systems referred to in the preceding paragraph, and reduces the risk that telephone companies could modify their tariffs to impose more restrictive terms and conditions on such Systems; (iii) authorizing the FCC to forebear from applying any regulation to a telecommunications carrier or class of telecommunications carriers under certain conditions, which may result in a relaxation of the FCC's regulatory oversight over the Company's operations; (iv) authorizing the RBOCs, upon satisfying certain conditions, to apply for, and the FCC to grant, authority to offer long-distance services to customers within the States in which they offer local telephone service. This may result in more intense competition within the markets in which the Company operates. Other provisions of the

Telecommunications Act direct the FCC to conduct rulemaking proceedings on a variety of subjects, including interconnections, resale, and universal service, which may affect the Company, but it is not possible to predict the outcome of any such proceedings.

The Telecommunication Act may result in greater competition for the Company. The RBOCs are free immediately to seek authority to offer long distance service outside their current operating areas. They will be free to offer long distance services to customers within their current operating regions after satisfying the law's requirements for opening their local markets to competition. GTE and other local exchange carriers are free immediately to seek authority to offer long distance services both within and outside their regions.

Long distance carriers also are permitted to seek authority to offer local exchange services. The major carriers (AT&T, MCI and Sprint) will be subject, on an interim basis, to restrictions on joint marketing of local and long distance services.

(xiii) Employees

As of March 15, 1997, the Company had 787 employees, of whom 66 were covered by two collective bargaining agreements. One agreement expires in 1998 and the other expires in 1999. Management believes its relations with their employees are satisfactory.

Item 2.
Property

As of December 31, 1996, the Company leased real property totaling approximately 340,000 square feet. The Company does not own any real property. Each of the leased properties is, in management's opinion, generally well maintained, is suitable to support the Company's business and is adequate for the Company's present needs.

The Company leases from RHI Holdings, Inc., the former parent of FII, on an arm's-length basis, office space at Washington-Dulles International Airport.

Item 3.
Legal Proceedings

As a result of the merger with FII, the Company became liable for all liabilities of FII. The Federal Corporate Administrative Contracting Officer (the "AOC"), based upon the advice of the United States Defense Contract Audit Agency, has made a determination that FII did not comply with Federal Acquisition Regulations and Cost Accounting Standards in accounting for the (i) the 1985 reversion to FII of approximately $50.0 million in excess pension funds in connection with the termination of defined benefit pension plans, and (ii) pension costs upon the closing of segments of FII's business.

The ACO has directed FII to prepare a cost impact proposal relating to such plan terminations and segment closings and, following receipt of such cost impact proposal, may seek adjustments to contract prices. The ACO alleges that substantial amounts will be due if such adjustments are made. In connection with the merger FII stated that it believes it has properly accounted for the asset reversions in accordance with applicable accounting standards. FII has had discussions with the government to attempt to resolve these pension accounting issues.

The aforementioned government claim (the "Contingent Pension Liability") and other liabilities are covered by an indemnification agreement (the "Indemnification Agreement") entered into between the Company and RHI Holdings, Inc.("RHI"), the former parent of FII. Pursuant to the Indemnification Agreement, RHI agreed to indemnify the Company for various liabilities, including the Contingent Pension Liability. However, since RHI is primarily a holding company, any claim by the Company pursuant to said Indemnification Agreement will be effectively subordinated to the creditors of RHI's subsidiaries. There is no expiration date with respect to the Indemnification Agreement. RHI's indemnification obligations under the Indemnification Agreement are secured by all of the shares of Cumulative Convertible Preferred Stock (other than an amount equal to $1,500,000 in initial liquidation preference) and the Special Preferred Stock issued to RHI in the merger.

In view of the Indemnification Agreement and RHI's current financial condition, it is the opinion of the Company's management that the Contingent Pension Liability is unlikely to have a material adverse effect on the Company's financial condition, future results of operations or cash flows.

In December 1995, Gerard Klauer Mattison & Co., LLC ("GKM"), filed suit against the Company in U.S. District Court for the Southern District of New York alleging breach of a letter agreement and seeking an amount in excess of $2.25 million for a commission allegedly owed to GKM as a result of GKM initiating negotiations between the Company and FII and negotiating the Merger. GKM has alleged that the Company entered into a fee agreement, whereby the Company agreed to pay to GKM 0.75% of the value of the transaction as a fee. FII has denied that FII at

Answer in January, 1996, denying that any commission is owed. This litigation is in the discovery process. Management believes, however, that an adverse outcome, if any, would not have a material adverse effect on the Company's consolidated financial position.

The Company is a party to other lawsuits and administrative proceedings that arose in the ordinary course of its business. Although the final results in all suits and proceedings cannot be predicted, the Company presently believes that the ultimate resolution of all such other lawsuits and proceedings, after taking into account the liabilities accrued with respect to such matters, will not have a material adverse effect on the Company's financial condition, results of perations or cash flows. See Note 14 to the Company's Consolidated Financial Statements.

The Company has no other material litigation or unasserted claims, the outcome of which would have a material impact 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 Stock and Related Stockholder Matters

The Company's shares of Common Stock (trading symbol: STCH) have been quoted and traded in the over-the-counter market since December 13, 1988. Over-the-counter market quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. During 1996 and 1995, the quarterly high and low closing prices were as follows:

	1996		1995	
	High	Low	High	Low
First Quarter	$6 3/8	3 5/8	$5 1/4	$3 1/2
Second Quarter	9 5/8	4 1/8	5 3/4	4
Third Quarter	8 1/10	5 1/4	5 1/4	3 7/8
Fourth Quarter	9 7/8	6 11/16	4 3/4	3 1/8

The number of beneficial holders of the Company's Common Stock as of March 6,1997 was 1,448.

Item 6.
Selected Financial Data

The following table sets forth the selected financial data of the Company for each of the last five years. Financial

statements for 1993 and 1992 are not presented in this filing. Such selected financial data were derived from audited consolidated financial statements not included herein. The selected financial data of the Company should be read in conjunction with the Consolidated Financial Statements and related notes appearing elsewhere in this Form 10-K. In September 1992 the Company effected a one-for-four reverse stock split of common stock and increased the par value of common stock from $.001 to $.004 per share. Weighted average common shares outstanding and per share information have been retroactively adjusted to reflect this split. All amounts, except per share amounts, are in thousands.

Statement of Operations Data:	1996	1995	1994	1993	1992
Revenues	$157,241	$47,086	$45,367	$25,426	$24,077
Gross margin	74,669	18,214	19,195	10,912	9,254
Selling, general and administrative expenses	55,329	16,188	16,909	9,797	9,954
Business Development Expenses	-	-	-	305	
Operating income (loss)	19,340	2,026	2,286	810	705
Interest expense, net	(22,888)	(667)	(359)	(438)	290
Equity in loss of affiliate	(3,927)	(1,752)	-	-	-
Minority interest in net income of subsidiaries	-	-	(128)	(82)	37
Gain on sale of subsidiary stock	-	1,375	-	-	
Income taxes	(783)	(45)	487	-	
Extraordinary Items:					
(Loss) gain on restructuring	-	-	-	(150)	3,756
Loss on early retirement of debt	(311)	-	-	-	-
Net income (loss)	(8,569)	927	2,286	140	2,724
Net income (loss) per common share applicable to common stockholders	(.79)	.06	.27	(.04)	.59
Weighted average common shares outstanding	13,787	8,482	6,792	5,132	4,063
Balance Sheet Data:					
Working capital deficit	($8,765)	($3,393)	($3,691)	($3,874)	($4,506)
Total assets	369,566	42,863	37,925	20,601	18,752
Notes payable, convertible promissory notes payable, other long-term debt (incl. current portion) and redeemable preferred stock	291,004	6,998	4,727	3,719	4,741
Stockholders' equity (deficit)	43,209	22,844	20,881	9,302	6,034

Item 7.
Management's Discussion and Analysis of Results of Operations and Financial Condition

The following Management's discussion and analysis of results of operations and financial condition include forward-looking statements with respect to the Company's future financial performance. These forward-looking statements are subject to various risks and uncertainties which could cause actual results to differ materially from historical results or those currently anticipated.

Overview and Recent Developments

STFI is a national provider of shared telecommunications services ("STS") and telecommunications systems ("Systems") to tenants of multi-tenant commercial office buildings. One of STFI's affiliates, Shared Technologies Cellular Inc. ("STC"), is a provider of short-term portable cellular telephone rentals and prepaid, or debit, cellular telephone service.

In March 1996, STFI's stockholders approved, and STFI completed, a merger with Fairchild Industries, Inc.("FII") following a reorganization in which FII transferred all non-communications assets to its parent, RHI Holding, Inc. As a result of the merger, STFI is the largest provider of STS in the United States. On a pro forma basis, STFI generated approximately $185 million in revenues and $24 million in operating income for the year ended December 31, 1996.

Results of Operations

The following table sets forth various components of STFI's statements of operations expressed as a percentage of revenues:

	Year Ended December 31,		
	1996	1995	1994
Revenues	100.00%	100.00%	100.00%
Cost of revenues	52.51%	61.32%	57.69%
Gross Margin	47.49%	38.68%	42.31%
Selling, General and Administrative Expenses	35.19%	34.38%	37.27%
Operating Income	12.30%	4.30%	5.04%
Interest expense (net)	-14.55%	-1.44%	-0.79%
Minority Interest	0.00%	0.00%	-0.28%
Gain on sale of subsidiary stock	0.00%	2.92%	0.00%
Equity in loss of subsidiaries	-2.50%	-3.72%	0.00%
Income Tax Benefit (Expense)	-0.50%	-0.10%	1.07%
Extraordinary Item	-0.20%	0.00%	0.00%
Net (loss) Income	-5.45%	1.96%	5.04%

Year Ended December 31, 1996 compared to Year Ended December 31, 1995 Revenues

STFI's revenues for the year ended December 31, 1996 increased by $110.2 million, or 233.8%, to $157.2 million compared to $47.1 million for the year ended December 31, 1995. This increase was principally due to the March 13, 1996 merger with Fairchild Industries, Inc. ("FII"). Shared Telecommunications Services ("STS") revenue increased $60.8 million, or 173.0%, and telecommunications systems ("Systems") revenues increased $49.3 million or 414%.

Gross margin

Gross margin increased in 1996 to 47.5% of revenues, from 38.7% of revenues in 1995. The following table sets forth the components of the Company's overall gross margin for 1996 for the STS and Systems divisions, respectively.

Division	Revenues	GM	Weighted GM
STS	61.1%	53.0%	32.4%
Systems	38.9%	38.9%	15.1%
Company Total	100.0%		47.5%

In 1996, the Company's gross margin was a combination of STS gross margin of 53.0% and Systems gross margin of 38.9%. In 1995 the Company's gross margin was a combination of STS gross margin of 44.6% and Systems gross margin of 21.1%. STS increased gross margin from the 1995 level mainly due to the network synergies resulting from the March 1996 FII merger. Systems margins increased from 21.1% in 1995 to 38.9% in 1996. This increase was due primarily to the FII merger and the resultant change in the mix of systems revenue. The Company's systems revenue was comprised of long-distance revenues outside of its building sites and the sale and ongoing maintenance of equipment to customers in and out of its building. The long distance component had margins in the range of 20-25%, while the sale of equipment, with its maintenance component, provides margins in the range of 35-40%. With the completion of the March 1996 merger of FII, the Company's sales mix in Systems became more concentrated in the equipment sale and maintenance end. Therefore, the Company's margin has increased accordingly.

In addition the revenues generated from the management agreement with ICS Communications, Inc. ("ICS") have been included in Systems revenue. Since the associated cost for this revenue of $5 million is in the selling, general and administrative expense, it has a positive effect on Systems gross margin.

Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") as a percentage of revenue increased to 35.2% for 1996, compared to

34.4% for 1995. This increase was due to the merger with FII, principally in the Systems division, as the higher margin sale of equipment and maintenance requires sales and support personnel.

Operating income

Operating income increased by $17.3 million, or 854.6%, to $19.3 million in 1996, from $2.0 million in 1995. The increase was mainly due to the merger with FII.

Equity in loss if affiliates

The Company recorded an equity loss of $3.9 million, $3.7 of which came as a result of STC losses of $8.9 million for the year ended December 31, 1996. The remaining $.2 million came as a result of the Company's portion of the losses incurred by Shared Technologies of Canada, Inc.

Interest expense

Interest expense, net of interest income, increased by $22.2 million to $22.9 million for 1996, compared to $0.7 million in 1995. This increase was due to the merger with FII and the resulting bank and bond debt incurred as a result of the transaction. As of December 31, 1996, the Company has bank debt in the amount of $123.3 million and bond debt in the amount of $126.5 million. It should be noted that the interest on the bonds is initially accretive and, therefore, non-cash. The total non-cash portion of interest expense was $12.1 million as of December 31, 1996.

Extraordinary item - Loss on early retirement of debt

An extraordinary loss of $0.3 million for 1996 was recorded to reflect the expense associated with the early retirement of pre-merger bank debt which was paid at the conclusion of the March 1996 FII merger.

Income tax expense

The Company's income tax expense of $.8 million consisted of actual payments of tax for approximately $.2 million and the reversal of a tax asset benefit of $.6 million. Since the March 1996 merger, and the corresponding loss due primarily to interest charges on debt, the company reversed its tax benefit.

Net income (loss)

As a result of the factors listed above, net loss for the year ended December 31, 1996 was $8.6 million compared to net income of $.9 million for 1995.

Net (loss) income applicable to common stockholders

As a result of the FII merger, the Company issued additional mandatorily redeemable preferred stock, this resulted in the Company recording higher preferred cash dividends and non-cash

dividends through the accretion of these instruments to liquidation values.

Year Ended December 31, 1995 compared to Year Ended December 31, 1994

Revenues

STFI's revenues rose to a record $47.1 million in 1995 an increase of $1.7 million or 3.7% over 1994 revenues of $45.4 million. This increase occurred despite the loss of STC revenue as STC results were recorded per the equity method in 1995; STC accounted for $10.2 million of 1994 revenue. STS revenue increased $6.5 million or 22.7% and Systems $5.4 million or 83.1% in 1995 over 1994 levels. Approximately $2.9 million of the growth in revenue for STS was attributable to a full year of service at locations acquired in June 1994 with the acquisition of Access Telecommunications Group, L.P. (Access), $1.6 million was attributable to the June 1995 acquisition of Office Telephone Management (OTM), the remaining increase of approximately $2.0 million was generated through internal growth at existing and new locations. Approximately $4.7 million of the growth in Systems revenues is attributable to a full year of activity at accounts acquired with the June 1994 acquisition of Access, the remaining increase of $1.8 million was generated internally.

Gross margin

Gross margin dropped to 38.7% of revenues for 1995 from 42.3% for 1994, a reduction of 3.6%. The following table sets forth the components of the Company's overall gross margin for 1995 as a factor of sales percentage and gross margin percentage per line of business:

Division	Revenues	GM	Weighted GM
STS	74.7%	44.6%	33.3%
Systems	25.3%	21.1%	5.4
Company Total	100.0%		38.7%

As shown above, the 1995 gross margin was a mix of STS gross margin of 44.6% and Systems gross margin of 21.1%. In 1994 the Company's gross margin was a combination of STS gross margin of 45.2%, Systems gross margin of 20.4% and STC gross margin of 48.2%. STS produced slightly reduced gross margin from the 1994 level mainly due to the acquisition of OTM operations which produced gross margin of approximately 30%. Systems experienced slightly improved gross margin mainly due to a full year of operations obtained with the Access acquisition. The overall decrease in the Company's gross margin was principally the result of changes in sales mix. The change in accounting to the equity method for STC results of operations created an overall drop in gross margin of approximately 1.7% for 1995. The drop in STS

gross margin for 1995 contributed 0.4% to the overall reduction in gross margin for 1995. The remainder of the decrease in gross margin was generated by Systems. As noted above, Systems revenues grew at a faster rate than STS revenues in 1995. Since Systems produces significantly lower gross margin compared to STS, the growth in Systems sales depressed overall gross margin for the Company 1.5%.

Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") as a percentage of revenues decreased to 34.4% for 1995 compared to 37.3% for 1994. The Company has reduced SG&A as a percentage of revenues by increasing revenues without adding a comparable percentage of SG&A costs. Certain SG&A costs are essentially fixed and do not increase significantly with revenue growth. In addition the Company has carefully chosen to expand in locations with existing management infrastructures already in place.

Operating income

Operating income decreased by $0.3 million or 11.4% to $2.0 million in 1995 from $2.3 million in 1994. The decrease was partially the result of STC no longer a part of the STFI consolidated group in 1995. STC contributed approximately $0.7 million to operating income in 1994. This was offset by improved STS and Systems contribution of $0.4 million in 1995 over 1994 levels.

Gain on sale of subsidiary stock

In April 1995 the Company successfully completed a public offering of STC stock. Following the offering the Company's percentage of ownership decreased from approximately 86% to 60%. The accounting treatment of the sale required the Company to record a gain of $1.4 million for the year ended December 31, 1995.

Equity in loss of subsidiary

In December 1995, STC issued approximately $3.0 million in voting preferred stock to third parties. While STFI's ownership percentage did not change, STFI's voting interest in STC was reduced to 42.7%, resulting in STFI's loss of voting control. Accordingly, subsequent to this stock issuance, STC was accounted for under the equity method, The Company recorded an equity loss of $1.7 million as a result of STC losses of $2.8 million for the year ended December 31, 1995.

Interest expense

Interest expense net of interest income increased by $0.3 million for the year ended December 31, 1995 over the year ended December 31, 1994. This is attributable to the addition of approximately $4.4 million in interest bearing debt during 1995. Approximately $0.3 million in non interest bearing debts were repaid during 1995.

Income tax benefit (expense)

The Company recorded an insignificant amount of income tax expense for the year ended December 31, 1995 compared to a net benefit of $0.5 million for the year ended December 31, 1994. Income tax expense for 1995 was mainly the result of state income taxes. During 1994 STFI adjusted the deferred tax asset valuation reserve per Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). This adjustment resulted in a deferred tax asset of $8.0 million, a corresponding valuation reserve of $7.4 million and a $0.6 million tax benefit for the year ended December 31, 1994. This benefit was partially offset by state income taxes resulting in a net benefit of $0.5 million for 1994. The source of the deferred tax asset is principally the expected future utilization on a conservative basis of net operating losses ("NOL") generated in prior years. Based on the requirements of SFAS 109 the Company recalculated the deferred tax asset and adjusted the valuation reserve for the year ended December 31, 1995. This adjustment resulted in no significant impact to the Company's results of operations for the year ended December 31,1995. At December 31, 1995 the Company's NOL carryforward for federal income tax purposes was approximately $21.8 million.

Net income

As a result of the factors listed above, net income for the year ended December 31, 1995 decreased by $1.4 million or 60.9% to $0.9 million from $2.3 million for 1994.

Liquidity and Capital Resources

Net cash provided by operations reached $24.4 million in 1996 compared to $4.9 million in 1995 and $3.1 million in 1994. The Company's working capital deficit was $8.8 million at December 31, 1996 compared to $3.4 million and $3.7 million for December 31, 1995 and 1994 respectively. The increase in the Company's working capital deficit was directly related to the March 1996 merger with FII and the current portion of bank debt raised as part of this transaction. The Company's current portion of long-term debt and capital leases went from $2.9 million in the year ended December 31, 1995 to $13.6 million in the year ended December 31, 1996.

The merged Company has continued to invest in capital equipment directed at internal growth, expansion into new operations and upgrading telecommunication equipment at existing locations. The Company invested $9.7 million in the purchase of equipment in 1996 compared to $3.7 million and $3.2 million in 1995 and 1994, respectively. The Company invested $225.9, net of cash, acquired in the merger of FII and had invested $5.3 million to complete two other acquisitions; Office Telephone Management in June 1995 and Access Telecommunications Group, LP in June 1994.

Financing activities were focused primarily on raising capital to provide cash for investing activities. For the year ended 1996

the company raised $125 million of bank debt of which $5 million was the amount taken down on a $25 million revolver, and $115 million in Senior Subordinated Discount Notes both in connection with the March 1996 merger with FII. Additionally, the Company received $3.2 million from the exercise of employee and director options as well as the exercise of warrants issued in conjunction with its Preferred D stock. The Company paid $9.4 million in deferred financing and debt issuance costs and $8.4 million in payments to affiliates, both of which are related directly to the merger with FII. It paid $1.5 million in preferred stock dividends and $12.7 million for repayments of debt. During 1995 the Company borrowed $2.7 million and raised $1.2 million from sales of common stock to help finance the current year's equipment purchases and the acquisition of OTM. During 1994 approximately $4.6 million was raised from sales of common and preferred stock to help the Company fund operations. In 1995 and 1994 the Company spent $4.6 million to repay notes, long-term debt and capital lease obligations.

Cash requirements for 1997 will be significant due to the merger with FII and the continued payments of its principal and interest for debt. The Company anticipates that it will continue repaying its borrowings and providing cash flow for operations and capital expenditures through cash flow from operations. As of March 1997 the Company has a credit facility available of approximately $15 million.

The initial cost of capital equipment to establish shared telecommunications services in a building typically ranges from $50,000 to $80,000 with additional start-up working capital expenditures of less than $50,000. The Company currently anticipates that capital expenditures for 1997 will be approximately $13.5 million.

Due to the Company's net operating loss carryforwards, the Company currently anticipates minimal federal income tax payments during 1997.

The Company does not anticipate inflation to materially impact its operations in 1997.

Item 8.
Financial Statements and Supplementary Data

Attached.

Item 9.
Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Shared Technologies Fairchild Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Shared Technologies Fairchild Inc. and subsidiaries (the "Company") as of December 31, 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. 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. The summarized financial data for Shared Technologies Cellular Inc., contained in Note 4 are based on the financial statements of Shared Technologies Cellular Inc., which were audited by other auditors. Their report has been furnished to us and our opinion, insofar as it relates to the data in Note 4, is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Shared Technologies Fairchild Inc. and subsidiaries as of December 31, 1996, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ Arthur Anderson LLP

Washington, D.C.
March 7, 1997

Report of Independent Public Accountants

To the Stockholders and Board of Directors of Shared Technologies Fairchild Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Shared Technologies Fairchild Inc. and Subsidiaries as of December 31, 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for the two-year period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shared Technologies Fairchild Inc. and Subsidiaries as of December 31, 1995, and the results of their operations and their cash flows for the two-year period then ended in conformity with generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, the Company changed its method of accounting for its investment in one of its subsidiaries.

ROTHSTEIN, KASS & COMPANY, P.C.

Roseland, New Jersey
March 1, 1996

SHARED TECHNOLOGIES FAIRCHILD INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1996 AND 1995
(IN THOUSANDS EXCEPT PER SHARE DATA)

	ASSETS 1996	1995
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,703	$ 476
Billed accounts receivable, less allowance for doubtfulaccounts of $611 and $410, respectively	23,752	9,855
Unbilled accounts receivable	8,811	-
Advances to affiliates	-	985
Inventories	1,976	-
Other current assets	1,853	754
Total current assets	39,095	12,070
PROPERTY AND EQUIPMENT, AT COST:		
Telecommunications	90,158	28,904
Office and data processing	5,776	6,049
	95,934	34,953
Accumulated depreciation and amortization	28,169	18,305
Property and equipment, net	67,765	16,648
OTHER ASSETS:		
Costs in excess of net assets acquired, less accumulated amortization of $6,189 and $792	253,329	10,280
Deferred financing and debt issuance costs	8,513	1,263
Investment in affiliates	457	1,581
Deferred income taxes	-	560
Other	407	461
	262,706	14,145
Total assets	$369,566	$42,863

The accompanying notes are an integral part of these consolidated balance sheets

SHARED TECHNOLOGIES FAIRCHILD INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1996 AND 1995
(IN THOUSANDS EXCEPT PER SHARE DATA)

LIABILITIES AND STOCKHOLDERS' EQUITY

	1996	1995
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$13,576	$2,870
Accounts payable	17,356	9,035
Accrued expenses	9,558	2,221
Advanced billings	6,935	1,337
Accrued dividends	435	-
Total current liabilities	47,860	15,463
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	238,261	4,128
REDEEMABLE PUT WARRANT	1,069	428
Total liabilities	287,190	20,019
REDEEMABLE CONVERTIBLE PREFERRED STOCK, $0.01 par value, authorized 250 shares, outstanding 250 shares in 1996	25,000	-
REDEEMABLE SPECIAL PREFERRED STOCK, $0.01 par value, authorized 200 shares, outstanding 200 shares in 1996	14,167	-
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value- Series C, authorized 1,500 shares, outstanding 428 and 907 shares in 1996 and 1995, respectively	4	9
Series D, authorized 1,000 shares, outstanding 441 and 457 shares in 1996 and 1995, respectively	4	5
Common stock, $0.004 par value, authorized 50,000 shares, outstanding 15,682 and 8,506 shares in 1996 and 1995, respectively	63	34
Capital in excess of par value	76,054	44,777
Accumulated deficit	(32,916)	(21,981)
Total stockholders' equity	43,209	22,844
Total liabilities and stockholders' equity	$369,566	$42,863

The accompanying notes are an integral part of these consolidated balance sheets

SHARED TECHNOLOGIES FAIRCHILD INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995, AND 1994
(IN THOUSANDS EXCEPT PER SHARE DATA)

	1996	1995	1994
REVENUES:			
Shared telecommunications services	$96,016	$35,176	$28,667
Telecommunications systems	61,225	11,910	6,483
Cellular services	-	-	10,217
Total revenues	157,241	47,086	45,367
COST OF REVENUES:			
Shared telecommunications services	45,133	19,473	15,717
Telecommunications systems	37,439	9,399	5,161
Cellular services	-	-	5,294
Total cost of revenues	82,572	28,872	26,172
Gross Margin	74,669	18,214	19,195
Selling, General And Administrative Expenses	55,329	16,188	16,909
Operating Income	19,340	2,026	2,286
OTHER (EXPENSE) INCOME:			
Gain on sale of subsidiary stock	-	1,375	-
Equity in loss of affiliates	(3,927)	(1,752)	-
Interest expense	(22,903)	(882)	(522)
Interest income	15	205	163
Minority interest in net income of subsidiaries	-	-	(128)
	(26,815)	(1,054)	(487)
(Loss) Income before income tax (provision) benefit and extraordinary item	(7,475)	972	1,799
Income tax (provision) benefit	(783)	(45)	487
(Loss) income before extraordinary item	(8,258)	927	2,286
Extraordinary item, loss on early retirement of debt	(311)	-	-
Net (loss) income	(8,569)	927	2,286
Preferred stock dividends	(2,366)	(398)	(478)
Net (loss) income applicable to common stockholders	$(10,935)	$ 529	$ 1,808
(Loss) income per common share:			
(Loss) income before extraordinary item	$ (0.77)	$ 0.06	$ 0.27
Extraordinary item	(0.02)	-	-
Net (loss) income	$ (0.79)	$ 0.06	$ 0.27
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	13,787	8,482	6,792

The accompanying notes are an integral part of these consolidated financial statements.

[illegible] AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
(IN THOUSANDS)

For the years ended December 31, (In thousands)	Series C Preferred Stock		Series D Preferred Stock		Series E Preferred Stock		Series F Preferred Stock		Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Obligations to Issue Common Stock	Total Stockholders Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, January 1, 1994	988	$ 10	453	$ 5		$		$	$ 5,190	$ 21	$ 31,759	$ (24,248)	$ 1,756	$ 9,303
Preferred Stock												(478)		(478)
Dividend accretion of redeemable put warrant												(25)		(25)
Exercise of common stock options and warrants									26		71			(71)
Proceeds from sale of Series D preferred stock			4								(1)			(1)
Issuances for acquisitions					400	4	700	7			4,989			5,000
Proceeds from sale of common stock, net of expenses of $371									1,329	$ 6	4,556			4,562
Common stock issued in lieu of compensation and conversion of Series C preferred stock and other	(81)	(1)							83		114		50	163
Net income											-	2,286	-	2,286
Balance, December 31, 1994	907	$ 9	437	$ 5	$ 400	$ 4	$ 700	$ 7	6,628	27	41,488	(22,465)	$ 1,806	20,881
Preferred stock dividends												(398)		(398)
Dividend accretion of redeemable put warrant												(45)		(45)
Exercise of common stock options and warrants									17		70			70
Issuance of common stock									405	2	1,804		$ (1,806)	-
Conversion of preferred stock					$ (400)	$ (4)	$ (700)	$ (7)	1,100	4	7			-
Proceeds from sale of common stock, net expenses of $112									300	1	1,162			1,163
Common stock issued in lieu of compensation and payment of accrued expenses									56		246			246
Net income					-	-					-	927	-	927
Balance, December 31, 1995	907	9	437	$ 5	-	-		-	8,506	34	44,777	(21,981)	-	22,844
Preferred stock dividends												(2,366)		(2,366)
Exercise of common stock options and warrants									675	3	3,210			3,213
Issuance of common stock									6,000	24	27,726			27,750
Conversion of preferred stock	(479)	(5)	(16)	$ (1)					442	1	5			-
Issuance of common stock for benefit plan									59	1	336			337
Net loss											-	(8,569)		(8,569)
Balance, December 31, 1996	428	$ 4	441	$ 4	-	$ -	-	-	$ 15,682	$ 63	$76,054	$ (32,916)	$ -	$ 43,209

The accompanying notes are an integral part of these consolidated financial statements

SHARED TECHNOLOGIES FAIRCHILD INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1996, 1995, AND 1994
(IN THOUSANDS)

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (8,569)	$ [illegible]	[illegible]
Adjustments-			
Loss on early retirement of debt	311	-	
Depreciation and amortization	15,530	3,96[illegible]	[illegible]
Provision for doubtful accounts	32	32[illegible]	[illegible]
Gain on sale of subsidiary stock	-	(1,375)	
Accretion on 12 1/4% bonds	11,526	-	
Accretion on put warrant	641	-	
Equity in loss of affiliate	3,927	1,757	
Common stock of subsidiary issued for services	-	-	[illegible]
Stock options and common stock issued in lieu of compensation and other	337	177	[illegible]
Minority interest in net income of subsidiaries	-	-	[illegible]
Gain on sale of franchise	-		[illegible]
Amortization of discount on note	-	[illegible]	[illegible]
Change in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(86)	(2,639)	[illegible]
Other current assets	483	52	[illegible]
Other assets	83	-	43[illegible]
Deferred income taxes	560	(10)	[illegible]
Accounts payable	(4,277)	2,208	[illegible]
Accrued expenses	2,261	(556)	[illegible]
Advanced billings	1,203	68	[illegible]
Other liabilities	435	-	-
Net cash provided by operating activities	24,397	4,678	[illegible]
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of	(9,702)	(3,679)	[illegible]
Acquisitions, net of cash acquired	(225,924)	(1,382)	[illegible]
Payments to affiliate	(8,407)	-	
Deferred merger costs	-	(750)	-
Other investments	(2,804)	(106)	-
Long-term deposits	-	(10)	
Net cash used in investing activities	(246,837)	(5,927)	[illegible]

Shared Technologies Fairchild Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 1996, 1995, and 1994
(In Thousands) (Continued)

	1996	1995	[illegible]
Cash flows from financing activities:			
Repayments of long-term debt and capital lease obligations	$(12,662)	$ [illegible]	[illegible]
Proceeds from borrowings-	-	[illegible]	[illegible]
Credit Facility term loans	120,000	-	
Revolving Credit Facility	10,000		
Senior Subordinated Discount Notes	114,999		
Proceeds from sales of common and preferred stock	3,213	[illegible]	[illegible]
Preferred stock dividends paid	(1,467)	398	[illegible]
Deferred financing and debt issuance costs	(9,416)	-	
Cash of subsidiary previously consolidated	-	[illegible]	
Repayment of advances to subsidiary	-	-	
Deferred registration costs	-		[illegible]
Net cash provided by financing activities	224,667	[illegible]	[illegible]
NET INCREASE (DECREASE) IN CASH	2,227	[illegible]	[illegible]
CASH, beginning of year	476	[illegible]	[illegible]
CASH, end of year	$ 2,703	$ [illegible]	$ [illegible]
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the years for-			
Interest	$ 11,377	$ [illegible]	$ [illegible]
Income taxes	223	84	
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Obligations to issue common stock in connection with acquisitions	-	-	[illegible]
Issuance of preferred stock in connection with acquisition	38,269	-	[illegible]
Issuance of common stock to acquire FII	27,750	-	
Redeemable put warrant issued in connection with bank financing	-	-	[illegible]
Capital lease obligations incurred for lease of new equipment	-	355	[illegible]
Dividend accretion on redeemable put warrant	-	45	[illegible]
Dividend accretion on preferred stock	899	-	-
Costs of intangible assets included in accounts payable	-	-	[illegible]
Note received for sale of franchise	-	-	[illegible]
Issuance of note relating to acquisition	-	[illegible]	
Issuance of common stock to settle accrued expenses	-	69	
Deferred merger costs included in accounts payable	-	513	
Reclassification of advance to subsidiary to investment in subsidiary	-	1,184	-

The accompanying notes are an integral part of these consolidated financial statements.

Shared Technologies Fairchild Inc. and Subsidiaries
Notes to Consolidated Financial Statements
As of December 31, 1996 and 1995
(In Thousands Except per Share Data)

1. BUSINESS AND ORGANIZATION:

On March 13, 1996, Shared Technologies Inc. merged with Fairchild Industries, Inc.("FII"), and changed its name to Shared Technologies Fairchild Inc. ("STFI") (see Note 3).

STFI, together with its subsidiaries (collectively the "Company") operates in the telecommunications industry by providing shared telecommunications services ("STS") and telecommunications systems (Systems") which provides telecommunications and office automation services and equipment to tenants of office buildings. One of the Company's affiliates, Shared Technologies Cellular Inc.("STC"), is a national cellular service provider, offering short-term rentals, prepaid and activation services through major retail outlets across the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries in which the Company has a controlling interest. The effects of all significant intercompany transactions have been eliminated in consolidation. Investments in companies owned between 20 and 50 percent by the Company are recorded using the equity method.

CASH EQUIVALENTS/STATEMENTS OF CASH FLOWS

For purposes of these statements, the Company considers all highly liquid investments with original dates of three months or less as cash equivalents. The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not subject to any significant credit risk on cash.

UNBILLED RECEIVABLES AND ADVANCED BILLINGS

Unbilled receivables arise from those contracts under which billings can only be rendered upon the achievement of certain contract stages or upon submission of appropriate billing detail. Advanced billings represent pre-billings for services not yet rendered. Advanced billings are generally for services to be rendered within one year.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined primarily using the weighted average method. The inventories consist of telecommunications equipment to be installed at customer sites.

PROPERTY AND EQUIPMENT

Properties are stated at cost and depreciated over estimated useful lives, generally on a straight-line basis. All telecommunications equipment is classified as equipment. No interest costs were capitalized in any of the years presented. Useful lives for property and equipment are:

Telecommunications equipment	8 years
Office and data processing	3 - 8 years

Depreciation expense related to property and equipment amounted to $10,133, $3,534 and $3,123 for 1996, 1995 and 1994, respectively.

REVENUE RECOGNITION

The majority of the Company's revenues are related to the sale and installation of telecommunications equipment and services and maintenance after the sale. Service revenues are billed and earned on a monthly basis. For systems installations, usually three to five months, the Company uses the percentage-of-completion method, measured by costs incurred versus total estimated cost at completion. The Company bills equipment rentals, local telephone access service and maintenance contracts in advance. The deferred revenue is relieved when the revenue is earned. Systems and equipment sales are recognized at time of shipment.

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 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. Actual results could differ from those estimates.

AMORTIZATION OF COST IN EXCESS OF NET ASSETS ACQUIRED

The excess of cost of purchased businesses over the fair value of their net assets at acquisition dates is being amortized on a straight-line basis primarily over 40 years. The Company recorded amortization of $5,397, $433 and $579 for the years ended 1996, 1995 and 1994, respectively.

DEFERRED FINANCING AND DEBT ISSUANCE COSTS

Costs incurred related to the issuance of debt are deferred and are being amortized over the life of the related debt. The amortization of deferred financing and debt issuance costs included in interest expense was $939 in 1996.

INCOME TAXES

The Company accounts for income taxes under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to effect taxable income. Valuation allowances are established, when necessary, to reduce the deferred income tax assets to the amount expected to be realized.

INCOME (LOSS) PER COMMON SHARE

Primary income (loss) per common share is computed by deducting preferred stock dividends from net income. The resulting net income applicable to common stock, is divided by the weighted average number of common shares outstanding, including the dilutive effect, if any, of options, warrants and obligations to issue common stock.

Fully diluted income (loss) per common share is computed by dividing net income applicable to common stock by the weighted average number of common and common equivalent shares and the effect of preferred stock conversions, if dilutive. Fully diluted income (loss) per common share is substantially the same as primary income (loss) per common share for the years ended December 31, 1996, 1995 and 1994.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company reviews its long-lived assets, including property and equipment, goodwill and identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

RECLASSIFICATIONS

Certain reclassifications to prior year financial statements were made in order to conform with the current year presentation.

3. THE MERGER AGREEMENT AND OTHER ACQUISITIONS:

On March 13, 1996, the Company's stockholders and the Company consummated its merger with FII, a subsidiary of RHI Holdings, Inc. ("RHI") for consideration of $295,191 of securities and assumed debt. Under the merger agreement, STFI issued to RHI 6,000 shares of common stock, 250 shares of convertible preferred stock with a $25,000 initial liquidation preference and 200 shares of special preferred stock with a $20,000 initial liquidation preference (see Note 8). The Company issued 12 1/4 percent Senior Subordinated Discount Notes Due 2006 with an initial accreted value of $114,999 and received $125,000 (of an available $145,000) in loans from a credit facility with financial institutions (see Note 6). The funds were used primarily for the retirement of certain liabilities assumed from FII in connection with the merger, and the retirement of the Company's existing credit facility. In connection with the merger, the Company entered into two-year employment agreements with key employees for annual compensation aggregating $1,250, and adopted the 1996 Equity Incentive Plan. The merger was accounted for using the purchase method of accounting and resulted in $248,117 cf cost in excess of net assets acquired, which is being amortized over 40 years.

On June 30, 1995, the Company purchased all of the outstanding capital stock of Office Telephone Management ("OTM"). OTM provides telecommunication management services primarily to businesses located in executive office suites. The purchase price was $2,135 of which $1,335 was paid in cash and the balance through the issuance of an $800 note, (discounted at 8.59 percent) payable June 30, 2005.

In June 1994, the Company acquired all of the partnership interests in Access Telecommunication Group, L.P. and Access Telemanagement, Inc. (collectively Access). The purchase price was $9,252 of which $4,252 was paid in cash and the balance through the issuance of 400 shares of Series E Preferred Stock valued at $3.75 per share and 700 shares of Series F Preferred Stock valued at $5.00 per share.

The following unaudited pro forma financial statements of operations for 1996 and 1995 give effect to the acquisitions as if they had occurred on January 1 of each year.

(Unaudited)	1996	1995
Revenues	$184,525	$174,852
Income before extraordinary items	(4,621)	8,528
Net income	(4,932)	8,528
Net income available to common stockholders	(8,520)	(12,246)
(Loss) income per common share:		
(Loss) income before extraordinary item	$ (0.60)	$ [illegible]
Extraordinary item	(0.02)	-
Net (loss) income	$ (0.62)	$ [illegible]

4. INVESTMENT IN AFFILIATE:

During December 1995, STC issued approximately $3,000 in voting preferred stock to third parties. The voting rights assigned to the preferred stock reduced the Company's voting interest in STC to approximately 42.7 percent, resulting in the Company's loss of voting control of STC. As a result of additional common stock issuances to third parties, partially offset by the Company's receiving 250 shares of STC Series B voting Convertible Preferred Stock, the Company's voting interest in STC was reduced to approximately 41.3 percent during 1996. Accordingly, STC has been accounted for on the equity method for 1996 and 1995.

The summarized balance sheet of STC as of December 31, 1996 and 1995, and the related summarized statement of operations of STC for the years then ended, are as follows:

	1996	[illegible]
Summarized balance sheet:		
Current assets	$ 2,070	[illegible]
Telecommunications and office equipment, net	2,131	[illegible]
Other assets	10,061	[illegible]
Total assets	$14,262	[illegible]
Current liabilities	$11,045	[illegible]
Note payable	360	[illegible]
Total liabilities	11,405	[illegible]
Stockholders' equity	2,857	[illegible]
Total liabilities and stockholders' equity	$14,262	[illegible]
Summarized statement of operations:		
Revenues		
Gross margin	$20,914	[illegible]
Operating loss	7,285	[illegible]
Net loss	6,888	[illegible]
	8,796	[illegible]

5. Accrued Expenses:

Accrued expenses at December 31, 1996 and 1995, consist of the following:

	1996	1995
State sales and excise taxes	$1,986	[illegible]
Deferred lease obligations	-	[illegible]
Property taxes	230	[illegible]
Concession fees	204	[illegible]
Salaries and wages	3,598	-
Other	3,540	[illegible]
	$9,558	[illegible]

6. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:

Long-term debt and capital lease obligations at December 31, 1996 and 1995, consist of the following:

	1996	1995
Credit Facility Term Loans	$113,250	$ -
Revolving Credit Facility	10,000	-
Senior Subordinated Discount Notes	126,525	-
Bank Revolver	-	2,174
Other long-term debt and capital leases	2,062	4,824
	251,837	6,998
Less- Current portion	13,576	2,870
	$238,261	$4,128

THE CREDIT FACILITY

The Company, through its wholly owned subsidiary, Shared Technologies Fairchild Communications Corp. ("STFCC"), entered into a Credit Facility with a consortium of banks upon the merger with FII in March 1996. The Credit Facility consists of (a) a Tranche A Senior Secured Term Loan Facility providing for term loans to the Company in a principal amount not to exceed $50.0 million (the "Tranche A Term Facility"); (b) a Tranche B Senior Secured Term Loan Facility providing for term loans to the Company in a principal amount not to exceed $70.0 million (the "Tranche B Term Facility" and, together with the Tranche A Term Facility, the "Term Facilities"); and (c) a Senior Secured Revolving Credit Facility providing for revolving loans to the Company in an aggregate principal amount at any time not to exceed $25 million (the "Revolving Facility").

The Tranche A Term Facility requires quarterly payments due over 5 years; $44,750 was outstanding at year end. The Tranche B Term Facility requires quarterly payments over 7 years; $68,500 was outstanding at year end.

The Company will be required to make mandatory prepayments of loans in amounts, at times and subject to exceptions (a) in respect of 75 percent (subject to step-down based upon a leverage ratio test) of consolidated excess cash flow of the Company and its subsidiaries, (b) in respect of 100 percent of the net proceeds of certain dispositions of assets or the stock of subsidiaries or the incurrence of certain indebtedness by the Company or any of its subsidiaries and (c) in respect of 100 percent (subject to step-down based upon a leverage ratio test) of the net proceeds of the issuance of any equity securities by the Company or any of its subsidiaries. At the Company's option, loans may be repaid, and revolving credit commitments may be permanently reduced, in whole or in part, at any time.

The obligations of the Company's wholly owned subsidiary, STFCC, under the Credit Facility are unconditionally and jointly and severally guaranteed by the Company and the subsidiary guarantors. In addition, the Credit Facility is secured by first priority security interests in all the capital stock and the tangible and intangible assets of the Company and the guarantors, including all the capital stock of, or other equity interests in, the Company and each direct or indirect domestic subsidiary of the Company. The wholly owned subsidiary, STFCC, is restricted from payment of dividends or other distributions to its parent, STFI, except to the extent necessary to pay preferred dividends and other identified items.

At the Company's option, the interest rates per annum applicable to the Credit Facility will be either Adjusted LIBOR plus a margin ranging from 2.75 to 3.50 percent, or the Adjusted Base Rate plus a margin ranging from 1.75 to 2.50 percent. The Alternate Base Rate is the higher of Credit Suisse's Prime Rate and the Federal Funds Effective Rate plus 0.5 percent. At December 31, 1996, the interest rate for the Tranche A Term Facility was 8.375 percent and the interest rate for the Tranche B Term Facility was 9.125 percent. The Revolving Facility interest rates at year end ranged from 8.125 to 10.0 percent.

As required under the Credit Agreement, the Company entered into interest rate swap agreements with two commercial banks. The three contracts, each with a $10,000 notional amount, expire from May 1999 through May 2001. In order to protect the Company from interest rate increases, the agreements require the Company to pay a fixed interest rate in lieu of a variable interest rate. The Company accounts

for the interest rate swaps as hedge agreements and recognizes interest expense based on the fixed rate.

The Credit Facility contains a number of significant covenants that, among other things, restricts the ability of the Company to dispose of assets, incur additional indebtedness, repay other indebtedness or amend other debt instruments, pay dividends, create liens on assets, enter into leases, investments or acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restrict corporate activities. In addition, under the Credit Facility, the Company is required to comply with specified financial ratios and tests, including a limitation on capital expenditures, a minimum Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") test (as defined), a fixed charge coverage ratio, an interest coverage ratio, a leverage ratio and a minimum net worth test.

SENIOR SUBORDINATED DISCOUNT NOTES

As part of the acquisition of FII, the Company also issued $163,637 of aggregate principal amount (with an initial accreted value of $114,999) of Senior Subordinated Discount Notes (the "Discount Notes"). The discount notes bear an annual interest rate of 12.25 percent with the principal fully due on March 1, 2006. Interest will begin accruing on March 1, 1999, with payments due semi-annually thereafter. The discount on the Discount Notes is being amortized to interest expense using the effective interest method over the three year accretion period, ending March 1, 1999.

The Discount Notes are not redeemable prior to March 1, 2001 except that, subject to certain limitations, until 1999, the Company may redeem, at its option, up to an aggregate of 25 percent of the principal amount of the Discount Notes at a specified redemption price plus accrued interest until the date of the redemption. On or after March 2001, the Discount Notes are redeemable at the option of the Company, in whole or in part, at the specified redemption prices plus accrued interest to the date of redemption.

Upon a change in control of the Company, as defined, the holders of the Discount Notes may require the Company to repurchase the Discount Notes at 101 percent of the accreted value plus accrued interest to the date of repurchase.

The Discount Notes of the Company's wholly owned subsidiary, STFCC, are subordinated to all existing and future senior indebtedness, as defined, of the Company. The Discount Notes are unconditionally and jointly and severely guaranteed on an unsecured senior subordinated basis by the Company and its subsidiary guarantors.

In addition to similar restrictions to the Credit Agreement, the indenture under which the Discount Notes were issued limits (i) the issuance of additional debt and preferred stock by the Company and subsidiaries, (ii) the payment of dividends on capital stock of the Company and its subsidiaries and the purchase, redemption or retirement of capital stock or indebtedness, (iii) investments and (iv) sales of assets, including capital stock of subsidiaries.

BANK REVOLVER

In May 1994, the Company entered into a $5,000 financing agreement with a bank collateralized by certain assets of the Company. The agreement provided for a revolving credit line for a maximum, as defined, of $4,000 to be used for expansion in the shared telecommunications services business and a $1,000 term loan. The Company retired this debt in 1996 and recorded an extraordinary expense of $311.

DEBT MATURITY

Scheduled maturities on long-term debt and capital lease obligations are as follows:

Year Ending December 31,	Long-Term Debt	Capital Lease Obligations
1997	$ 13,036	$ 540
1998	16,528	349
1999	11,926	88
2000	10,120	31
2001	31,370	-
Thereafter	204,961	-
Subtotal	287,941	1,008
Less - Accretion of 12-1/4% discount notes	(37,112)	-
Total debt maturities	$250,829	$1,008

If the Company is unable to generate sufficient cash flow or otherwise fails to comply with the various debt covenants, it would be in default under the terms thereof. This would permit the holders of such indebtedness to accelerate the maturity of such indebtedness and could cause default under such indebtedness of the Company. The Company's ability to meet its obligations will be dependent upon the future performance of the Company, which will be subject to prevailing economic conditions and to financial, business and other factors, including factors beyond the control of the Company.

7. **REDEEMABLE PUT WARRANT:**

In connection with the May 1994 bank financing agreement, the Company issued the bank a redeemable put warrant for a number of common shares of the Company's outstanding common stock, subject to certain anti-dilution adjustments. The warrant was redeemable at the Company's option prior to May 1996, and is redeemable at the bank's option at any time after May 1997. As defined in the agreement, the Company has guaranteed the bank a minimum of $500 in cash upon redemption of the warrant, and therefore, initially valued the warrant at the present Value of the minimum guarantee discounted at 11.25 percent. To the extent that the Company's stock price exceeds approximately $6.03 per share, the bank may elect to receive stock in lieu of the $500 cash as the value of the stock will exceed $500. At December 31, 1996, the Company's stock price was $9.125 per share. The Company has therefore accreted through interest expense the additional value due to the bank, resulting in a liability of $1,069 at year-end. The liability will continue to fluctuate until redemption based on the Company's stock price.

8. **REDEEMABLE PREFERRED STOCK:**

CONVERTIBLE PREFERRED STOCK

In connection with the Merger, the Company issued non-voting Convertible Preferred Stock to RHI with an initial liquidation preference of $25.0 million. Dividends on the Convertible Preferred Stock are payable quarterly at the rate of 6 percent per annum in cash. If for any reason a dividend is not paid in cash when scheduled, the amount of such dividend shall accrue interest at a rate of 12 percent per annum until paid.

The Convertible Preferred Stock has a liquidation preference of $25.0 million in the aggregate plus an additional amount equal to the total amount of dividends the holder would have received if dividends were paid quarterly in cash at the rate of 10 percent per annum for the life of the issue, minus the total amount of cash dividends actually paid (the "Liquidation Preference"). Each share is convertible at any time at the option of the holder into such number of Common Shares as is determined by dividing the Liquidation Preference thereof by the conversion price of $6.375. The conversion price is subject to adjustment upon occurrence of adjustment events including, but not limited to, stock dividends, stock subdivisions and reclassifications or combinations.

The Convertible Preferred Stock is not redeemable at the Company's option during the first three years after

issuance, but thereafter, upon 30 days' prior written notice, is redeemable at the Company's option at a redemption price of 100 percent of the Liquidation Preference. In March 2008, the Company is required to redeem 100 percent of the outstanding shares of Convertible Preferred Stock at the Liquidation Preference.

SPECIAL PREFERRED STOCK

In connection with the Merger, the Company issued non-voting Special Preferred Stock to RHI with an initial Liquidation Preference of $20.0 million and recorded at an initial fair value of $13,269. No dividends are payable on the Special Preferred Stock until 2007 when the outstanding Special Preferred Stock
will receive a dividend at a rate equal to the interest rate on the Discount Notes and calculated on the then outstanding Liquidation Preference. The Special Preferred Stock's initial liquidation preference of $20.0 million will increase by $1.0 million each year after 1996 to a maximum liquidation preference of $30.0 million in 2007. The Company is accreting the Special Preferred Stock to $30.0 million using the effective interest method and records the accretion as preferred dividends.

Shares are redeemable at the Company's option at any time upon 30 days' prior written notice, at a redemption price of 100 percent of the Liquidation Preference. All outstanding Special Preferred Stock is mandatorily redeemable in its entirety at 100 percent of the Liquidation Preference upon a change of control of the Company and, in any event, in 2008. In addition, in March of each year, commencing with March 31, 1997, the Company is required to redeem, at a price equal to 100 percent of the liquidation preference in effect from time to time, an amount of Special Preferred Stock equal to 50 percent of the amount, if any, by which the consolidated EBITDA, as defined, of the Company
and its subsidiaries exceeds a specified amount for the immediately preceding year ended December 31. At December 31, 1996, the threshold was $47,000; therefore, no amounts were due.

9. STOCKHOLDERS' EQUITY:

SHAREHOLDERS AGREEMENT

RHI and the Company are parties to a Shareholders Agreement pursuant to which they have agreed to cause the Board of Directors to consist at all times of eleven directors, with RHI having the ability to nominate three or four and the Chairman and Chief Executive Officer of the Company having the ability to
nominate seven. Each party agrees to vote for the other party's nominees. Under the terms of the Shareholders

Agreement, the Chairman and Chief Executive Officer of the Company and RHI have agreed to certain restrictions with respect to the resale of securities, other than the Special Preferred Stock, of the Company owned by them as of the date of the Merger.

The Shareholders Agreement terminates at such time as either the Chairman and Chief Executive Officer of the Company or RHI owns less than 25 percent of the shares of Common Stock owned respectively by such Stockholders on the date of the Merger or the current individual ceases to be Chief Executive Officer of the Company.

COMMON STOCK

The Company has authorized 50,000 shares of common stock at $0.004 par value per share with equal voting rights.

During January 1995, the Company completed a private placement to sell to a certain investor 300 shares of common stock at $4.25 per share, pursuant to Regulation S of the Securities Act of 1933. The Company received $1,163, after deducting expenses of $112, including an underwriter commission of $102 paid to a firm in which one of the principals is a director and stockholder of the Company. In addition, the underwriter was granted a five year common stock purchase warrant to acquire 30 shares of the Company's common stock for $5.00 per share.

In May and June 1994, the Company sold, through a private placement to certain investors, 1,329 shares of common stock and an equal number of warrants, for net proceeds of $4,562, after deducting expenses of $371. The warrants are exercisable prior to June 26, 1999 at a per share price of $4.25, subject to certain anti-dilution protection. As of December 31, 1995, no warrants had been exercised.

SERIES C PREFERRED STOCK

Series C Preferred Stock is non-voting and is entitled to a liquidation value of $4 per share and dividends of $.32 per share per annum, payable quarterly in arrears. These shares are convertible into common stock, at the holder's option, on a one share of common stock for two shares of Series C Preferred Stock basis, at any time, subject to certain anti-dilution protection for the Preferred Stockholders. At the Company's option, the Series C Preferred Stock is redeemable, in whole or in part, at any time after June 30, 1993, at $6 per share plus all accrued dividends.

SERIES D PREFERRED STOCK

In December 1993, the Company commenced a private placement to sell to certain investors units consisting of one share

of Series D Preferred Stock and one warrant to purchase one share of common stock. As of December 31, 1995, the Company had sold 457 units for net proceeds of $1,740, after deducting expenses of $430. Series D Preferred Stock is entitled to dividends of 5 percent per annum, payable quarterly, and may be redeemed for $7 per share, plus all accrued dividends, at the option of the Company. The shares are non-voting and are convertible into shares of the Company's common stock on a one-for-one basis at the holder's option. The shares are senior to all shares of the Company's common stock and junior to Series C Preferred Stock. The common stock purchase warrants are exercisable at a per share price of $5.75. In connection with the offering, an investment banking firm received warrants to purchase 16 shares of the Company's common stock at an exercise price of $5.75 per share. As of December 31, 1996, 428 warrants had been exercised.

SERIES E PREFERRED STOCK

The Series E Preferred Stock was converted into 400 shares of common stock in January 1995. The holders also received warrants, which expire on December 31, 1999, to purchase 175 shares of the Company's common stock, at an exercise price of $4.25 per share, subject to certain anti-dilutive provisions.

SERIES F PREFERRED STOCK

These shares were converted on August 1, 1995 into 700 shares of common stock. In 1996, an additional 111 shares of the Company's common stock were issued in connection with the provisions of conversion of the Series F Preferred Stock, as defined.

Additionally, the Company issued warrants to the sellers of Access to purchase 225 shares of the Company's common stock at an exercise price of $4.25 per share, subject to certain anti-dilution adjustments.

10. GAIN ON SALE OF SUBSIDIARY COMMON STOCK:

In April 1995, STC completed its SB-2 filing with the Securities and Exchange Commission and became a public company. Prior to this date, STC was approximately an 86 percent owned subsidiary of the Company. STC sold 950 shares of common stock at $5.25 per share, which generated net proceeds of approximately $3,274 after underwriters' commissions and offering expenses. The net effect of the public offering on the consolidated financial statements was a gain of approximately $1,375.

11. STOCK OPTION PLANS:

1987 STOCK OPTION PLAN

Under the 1987 Stock Option Plan (the "1987 Plan"), the Company is authorized to issue options to purchase an aggregate of 1,200 shares of Common Stock of the Company. All options granted are exercisable at the date of grant, with a term of five to ten years and are exercisable in accordance with vesting schedules set individually by the Board of Directors. As of December 31, 1996, approximately 131 options were available for grant. Options to purchase 556 shares of common stock were outstanding at December 31, 1996.

BOARD OF DIRECTORS STOCK OPTION PLAN

The Board of Directors Stock Option Plan (the "Directors' Plan"), was adopted by the Board of Directors in 1994 and accepted by the stockholders of the Company in 1995. Under the Directors' Plan, an "independent director" is a director of the Company who is neither an employee nor a principal stockholder of the Company. The Directors' Plan provided for a one-time grant of an option to purchase 15 shares of common stock to all independent directors who served during the 1994-95 term.

Each independent director who received the initial one-time option grant in 1994, and who was elected to a new term as a director in 1995 or is reelected in 1996, shall receive upon such reelection a grant of an option for 5 or 10 options, respectively. Reelection after 1996 of any independent director in service as of September 22, 1994, shall entitle such director to a grant of 15 options.

All options issued under the Directors' Plan are exercisable at the closing bid price for the date preceding the date of grant. The options vest over three years and are exercisable for so long as the optionee continues as an independent director and for a period of 90 days after the optionee ceases to be a director of the Company. The maximum term of the option is ten years from the date of grant. The maximum number of shares of common stock which may be issued under the Directors' Plan is 250 shares, of which options to purchase 145 are outstanding as of December 31, 1996.

1996 EQUITY INCENTIVE PLAN

In connection with the acquisition of FII, the Company adopted the 1996 Equity Incentive Plan (the "1996 Plan"), pursuant to which the Company will offer shares, and share-based compensation, to key employees. The 1996 Plan provides for the grant to eligible employees of stock

options, stock appreciation rights, restricted stock, performance shares, and performance units (the "Awards"). The 1996 Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"). The 1996 Plan provides that not more than 1,500 shares of common stock will be granted under the 1996 Plan, subject to certain anti-dilutive adjustments. The exercise price will be set by the Compensation Committee, but can not be less than the market value of the stock at date of issuance. Stock appreciation rights may be granted only in tandem with stock options. Options to purchase 1,478 shares of common stock were outstanding at December 31, 1996.

SUMMARY ACTIVITY

	NUMBER OF OPTIONS	RANGE	WEIGHTED AVERAGE
Balance outstanding, January 1, 1994	464	$1.72 - 11.00	$4.06
Granted	317	3.25 - 4.50	3.60
Expired	(59)	4.00 - 5.50	5.43
Exercised	(25)	2.84	2.84
Balance outstanding, December 31, 1994	697	1.72 - 11.00	3.78
Granted	40	4.13	4.13
Expired	(2)	5.00 - 5.72	5.16
Exercised	(2)	2.28 - 2.84	2.58
Balance outstanding, December 31, 1995	733	1.72 - 11.00	3.79
Granted	1,716	4.13 - 7.75	4.50
Expired	(32)	4.38	4.38
Exercised	(238)	1.72 - 5.50	3.48
Balance outstanding, December 31, 1996	2,179	$1.72 - $11.00	$ 4.37

At December 31, 1996, there were 440 options immediately exercisable at prices ranging from $2 to $11.

The Company adopted the disclosure requirements of SFAS No.123, "Accounting for Stock-Based Compensation," effective for the Company's December 31,1996, financial statements. The Company applies APB Opinion No.25 and related interpretations in accounting for its plans. Accordingly, compensation cost has been recognized for its stock plans based on the intrinsic value of the stock option at date of grant (i.e., the difference between the exercise price and the fair value of the Company's stock). Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net (loss) income and (loss) earnings per share would have been reduced to the pro forma amounts indicated below.

	1996	1995
Net (loss) inccme available to common shareholders:		
As reported	$(10,935)	$ 529
Pro forma	(12,364)	507
(Loss) earnings per share:		
As reported	(0.79)	0.04
Pro forma	(0.90)	0.04

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The fair value of each option granted was $3.26 per option and was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1996 and 1995: risk-free interest rates of 6.0 percent; no dividend yields; expected lives of 5 to 10 years; and expected volatilities of 52 percent.

12. RETIREMENT AND SAVINGS PLAN:

On March 3, 1989, the Company adopted a savings and retirement plan (the "Plan"), which covers substantially all of the Company's employees. Participants in the Plan may elect to make contributions up to a maximum of 20 percent of their compensation. For each participant, the Company will make a matching contribution of one-half of the participant's contributions, up to 5 percent of the participant's compensation. Matching contributions may be made in the form of the Company's common stock and are vested at the rate of 33 percent per year. The Company's expense relating to the matching contributions was approximately $609, $199 and $163 for 1996, 1995 and 1994, respectively. At December 31, 1996 and 1995, the Plan owned 148 and 134 shares, respectively, of the Company's common stock.

13. INCOME TAXES:

Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Income tax (expense) benefit consists of the following:

	1996	1995	1994
Current:			
Federal	$ -	$(10)	$ -
State and local	(223)	(45)	(63)
	(223)	(55)	(63)
Deferred:			
Federal	(560)	10	550
State and local	-	-	-
	(560)	10	550
Total (expense) benefit	$(783)	$(45)	$487

The income tax provision for continuing operations differs from that computed using the statutory Federal income tax rate of 35 percent in 1996, 1995 and 1994 for the following reasons.

	1996	1995	1994
Computed statutory amount	$2,616	$(340)	$(630)
Effect of net operating losses	-	285	567
Valuation allowance on net operating loss tax benefits	(3,004)	10	550
Other	(395)	-	-
	$ (783)	$ (45)	$ 487

The following table is a summary of the significant components of the continuing operations portion of the Company's deferred tax assets and liabilities as of December 31, 1996 and 1995.

	DEFERRED(PROVISION) BENEFIT	
	1996	1995
Deferred tax assets:		
Equity in loss of subsidiary	$1,588	104
Accrued expenses not yet tax deductible	5,581	164
NOL carryforwards	9,156	8,641
	16,325	8,909
Deferred tax liabilities:		
Asset basis differences-fixed assets	(11,008)	(1,218)
Asset basis differences-intangible assets (Goodwill and other intangibles)	(1,373)	(183)
	(12,381)	(1,401)

Deferred tax asset, net	3,944	7,508
Less- Valuation allowance	(3,944)	(6,948)
Net deferred tax asset	$ -	$ 560

At December 31, 1996 and 1995, the Company recorded net deferred tax assets of $0 and $560, respectively, and corresponding valuation allowances of $3,944 and $6,948, respectively. The valuation allowances were decreased by $3,004, $439 and $1,418 respectively, for the years ended December 31, 1996, 1995 and 1994.

At December 31, 1996, the Company's NOL carryforward for federal income tax purposes is approximately $23,100, expiring between 2001 and 2011. NOL's available for state income tax purposes are less than those for federal purposes and generally expire earlier. Limitations apply to the use of NOL's.

14. COMMITMENTS AND CONTINGENCIES:

COMMITMENTS

The Company has entered into operating leases for the use of office facilities and equipment, which expire through 2007. Certain of the leases are subject to escalations for increases in real estate taxes and other operating expenses. Rent expense amounted to approximately $6,093, $2,200 and $1,856 for the years ended December 31, 1996, 1995 and 1994, respectively.

Aggregate approximate future minimum lease payments are as follows:

	OPERATING LEASES
1997	$5,278
1998	4,807
1999	4,156
2000	3,345
2001	2,674
Thereafter	3,230
	$23,490

CONTINGENCIES

As a result of the acquisition of FII (the "Merger"), the Company became liable for all liabilities of FII with respect to the operations of the former businesses of FII, including the FII Telecommunications Business and its

aerospace and industrial fasteners business up to the effective date of the Merger as well as operations of FII disposed of prior to the Merger, including its injection molding business. As a matter of law, the Company will not be released from FII's obligations with respect to such liabilities.

As a pre-condition of the Merger: (a) FII, its parent RHI, and RHI's parent, Fairchild and certain other subsidiaries of Fairchild underwent a recapitalization pursuant to which FII divested itself of all assets unrelated to the FII Telecommunications Business; (b) RHI assumed all liabilities of FII unrelated to the FII Telecommunications Business (other than the Retained Liabilities), including but not limited to the following (collectively, the "Non-communications Liabilities"): (i) contingent liabilities related to a dispute with the United States Government under Government Contract Accounts rules concerning potential liability arising out of the use of and accounting, for approximately $50.0 million in excess pension funds relating to certain government contracts in the discontinued aerospace business of FII; (ii) all environmental liabilities except those related to the FII Telecommunications Business; (iii) approximately $50.0 million (at June 30,1995)of costs associated with post-retirement healthcare benefits; and (iv) all other accrued liabilities and any and all other unasserted liabilities unrelated to the FII Telecommunications Business; and (c) pursuant to certain indemnification agreements (the "Indemnification Agreements"), the Company is indemnified (i) by Fairchild and RHI jointly and severally with respect to all Non-communications Liabilities and all tax liabilities of FII and STFTI resulting from the FII Recapitalization or otherwise attributable to periods prior to the Merger and (ii) by Fairchild Holding Corp. (a company formed in connection with the FII Recapitalization) with respect to the liabilities that are indemnified for being herein collectively referred to as the "Indemnified Liabilities"). The Company believes no taxable gain or loss was recognized by FII or any of its affiliates on the transfer of the FII assets and liabilities pursuant to the FII recapitalization.

In December 1995, a suit was filed against the Company in U.S. District Court for the Southern District of New York alleging breach of a letter agreement and seeking an amount in excess of $2.25 million for a commission allegedly owed to a vendor as a result of a vendor initiating negotiations between the Company and FII and negotiating the Merger. A vendor has alleged that the Company entered into a fee agreement, whereby the Company agreed to pay to the vendor 0.75 percent of the value of the transaction as a fee. FII has denied that FII at any time engaged the vendor for this transaction. The Company filed an answer in January 1996,

denying that any commission is owed. This litigation is in the discovery process. Management believes, however, that an adverse outcome, if any, will not have a material adverse effect on the Company's consolidated financial statements.

In January 1994, the Company entered into a consulting agreement for financial and marketing services, which expires in November 1996. The agreement provides for the following compensation; $30 upon signing, $6 per month retainer, and $150 upon the attainment of a specific financial ratio, which as of December 31, 1995 had been attained. In addition, the consultant was issued a three year warrant to purchase 300 shares of the Company's common stock at a purchase price of $5.75 per share and a five year warrant to purchase 250 shares of the Company's common stock at a purchase price of $7.00 per share. The consultant may not compete with the Company during the term of this agreement and for two years thereafter.

In November 1995, the Company entered into a three year consulting agreement with a financial advisor requiring annual compensation of $250.

In December 1995, the Company granted options to employees of the Company, STC and certain members of the Board of Directors of the Company and STC, to purchase an aggregate of 350 shares of STC common stock, held by the Company. The options are exercisable for five years, at $2.50 per share.

The Company's sales and use tax returns in certain jurisdictions are currently under examination. Management believes these examinations will not result in a material change from liabilities provided.

In addition to the above matters, the Company is a party to various legal actions, the outcome of which, in the opinion of management, will not have a material adverse effect on results of operations, cash flows or financial position of the Company.

15. RELATED PARTY TRANSACTIONS:

As of December 31, 1993, the company had paid approximately $288 of life insurance premiums on behalf of an officer of the Company, which was to be repaid from the proceeds of a $2,500 face value life insurance policy owned by the president. In January 1994, the beneficiary on the policy was changed to the Company in order to reduce the premium payments required by the Company. As of December 31, 1996, the amount due to the Company for premiums paid exceeded the cash surrender value of the policy by approximately $130. Accordingly, the officer has agreed to reimburse the Company for this amount. The receivable and cash surrender

value are reflected in other assets in the accompanying consolidated balance sheets.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS:

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Financial instruments are defined as cash, evidence of an ownership interest in an entity or a contract that imposes a contractual obligation to deliver cash or other financial instruments to the second party. In cases where quoted market prices are not available, fair values are based on estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

CURRENT ASSETS AND LIABILITIES

The carrying amount reported in the balance sheet approximates the fair value for cash and cash equivalents, accounts receivable, accounts payable, advanced billings, deferred revenue, accrued liabilities and capital lease obligations.

LONG-TERM DEBT

There is no active market for the Company's long-term debt securities, and consequently, no quoted market prices are available. The Company's long-term debt securities can be segregated into two distinct categories: variable rate long-term debt that reprices frequently and fixed rate long-term debt.

VARIABLE RATE LONG-TERM DEBT - The Company's Credit Facility Term Loans, Credit Revolving Facility and Bank Revolver carry a rate of interest which varies in relation to LIBOR or prime, a common market interest rate. Because these loans reprice within one to six months, fluctuations in market interest rates do not materially impact the fair market value of these obligations. Therefore, the carrying value of these financial instruments approximate fair market value.

FIXED RATE LONG-TERM DEBT - The fair value of the Company's Senior Subordinated Discount Notes is estimated using a discounted cash flow analysis based on the Company's borrowing cost for similar credit facilities, at December 31, 1996. As minimal changes in the market level of interest rates occurred since issuance in March 1996, the Company estimates that carrying value approximates fair market value, at December 31, 1996.

INTEREST RATE SWAP AGREEMENTS

The Company holds interest rate swap agreements with two commercial banks in order to reduce the impact of potential interest rate increases on its variable rate debt. At December 31, 1996, it would have cost approximately $1,059 to break the Company's interest rate swap agreements. The Company is exposed to credit loss in the event of non-performance by the banks, however, such non-performance is not anticipated.

REDEEMABLE PUT WARRANT

The carrying amount of the redeemable put warrant approximates fair market value as it is adjusted quarterly to reflect the Company's liability due to the holder.

REDEEMABLE PREFERRED STOCK

The Company estimates the fair market value of the Redeemable Convertible Preferred Stock at carrying value based on the conversion feature and underlying value of common stock at year end.

The fair market value of the Redeemable Special Preferred Stock is estimated at carrying cost. Carrying cost reflects a discount to face value.

This disclosure relates to financial instruments only. The fair value assumptions were based upon subjective estimates of market conditions and perceived risks of the financial instruments at a certain point in time.

17. CONSOLIDATING FINANCIAL STATEMENTS:

The following unaudited statements separately show Shared Technologies Fairchild Inc. and the subsidiaries of Shared Technologies Fairchild Inc. (representing Shared Technologies Fairchild Communications Corp., and Shared Technologies Fairchild Telecommunications Inc., or "STFTI"). These statements are provided to fulfill reporting requirements and represent guarantors of the Senior Subordinated Discount Notes issued by STFCC.

	STFTI	STFCC	STFI	Eliminating Entries	Consolidated STFI
Assets					
Current assets-					
Cash and cash equivalents	$ 2,377	$ -	$ 326	$ -	[illegible]
Accounts receivable, net	32,520	-	43	-	[illegible]
Other current assets	3,829	-	-	-	[illegible]
Total current assets	38,726	-	369	-	[illegible]
Equipment-					
Property and equipment	95,934	-	-	-	[illegible]
Accumulated depreciation	(28,169)	-	-	-	[illegible]
	67,765	-	-	-	[illegible]
Other assets-					
Costs in excess of net assets acquired, net	253,329	-	-	253,329	
Deferred financing and debt issuance costs	-	8,513	-	-	[illegible]
Investments in affiliates	-	-	12,053	(11,596)	[illegible]
Investment in Subsidiaries	-	95,421	84,905	(180,326)	
Other	407	-	-	-	[illegible]
Note receivable	-	134,461	-	(134,461)	
	253,736	238,395	96,958	(326,383)	[illegible]
Total assets	$360,227	$238,395	$97,327	$(326,383)	[illegible]
Liabilities and stockholders' equity					
Current liabilities-					
Current portion of long-term debt and capital lease obligations	$ -	$ 13,576	$ -	$ -	[illegible]
Accounts payable	17,356	-	-	-	17,356
Accrued expenses	9,553	-	5	-	9,558
Advanced billings	6,935	-	-	-	6,935
Accrued dividends	-	-	435	-	435
Total current liabilities	33,844	13,576	440	-	[illegible]
Long-term debt, less current portion	134,461	238,261	-	(134,461)	[illegible]
Redeemable put warrant	-	-	1,069	-	[illegible]
Redeemable convertible preferred stock	-	-	25,000	-	[illegible]
Redeemable special preferred stock	-	-	14,167	-	[illegible]
Stockholders' equity-					
Preferred stock Series C	-	-	4	-	4

Preferred stock Series D	-	-	4	-	4
Common stock	-	-	63	-	[illegible]
Capital in excess of par value	-	-	76,054		[illegible]
Accumulated deficit	11,596	(13,442)	(19,474)	(11,596)	[illegible]
Intercompany	180,326	-	-	(180,326)	
Total stockholders' equity	191,922	(13,442)	56,651	(191,922)	[illegible]
Total liabilities and stockholders' equity	$360,227	$238,395	97,327	$(326,383)	$[illegible]

	STFPTI	STFCC	Eliminating STFI	Consolidated Entries	STFI
Revenues	$ 152,241	$ -	$ 5,000	$ -	$[illegible]
Cost of revenues	81,616	-	956	-	82,572
Gross margin	70,625	-	4,044	-	[illegible]
Selling, general and administrative expenses	55,329	-	-		[illegible]
Operating income	15,296	-	4,044	-	[illegible]
Other (expense) income					
Equity in (loss) earnings of subsidiary and affiliates	-	-	(11,986)	8,059	[illegible]
Interest expense, net	(9,461)	(13,442)	15	-	22,888
	(9,461)	(13,442)	(11,971)	8,059	[illegible]
Income (loss) before income tax provision and extraordinary item	5,835	(13,442)	(7,927)	8,059	[illegible]
Income tax provision	(783)	-	-		[illegible]
Income (loss) before extraordinary item	5,052	(13,442)	(7,927)	8,059	[illegible]
Extraordinary item, loss on early retirement	(311)	-	-	-	311
Net income (loss)	4,741	(13,442)	(7,927)	8,059	[illegible]
Preferred stock dividends	-	-	(2,366)	-	[illegible]
Net income (loss) applicable to common stock	$ 4,741	$(13,442)	$(10,293)	$ 8,059	$ [illegible]

	STFPTI	STFCC	Eliminating STFI	Consolidated Entries	STFI
Cash flows from operating activities					
Net (loss) income	$ 4,741	$(13,442)	$ (7,927)	$ 8,059	$[illegible]
Adjustments-					
Loss on early retirement of debt	311	-	-	-	311
Depreciation and amortization	15,530	-	-	-	[illegible]
Provision for doubtful accounts	32	-	-		32
Accretion on 12 1/4% bonds	-	11,526	-	-	[illegible]
Accretion on put warrant	-	-	641	-	641

Equity in earnings (loss) of affiliate	-	-	11,986	(8,059)	3,927
Stock options and common stock issued in lieu of compensation and other	-	-	337	-	337
Changes in assets and liabilities, net of effect of acquisitions:					
Accounts receivable	(44)	-	(42)	-	(86)
Other current assets	483	-	-	-	483
Other assets	83	-	-	-	83
Deferred income taxes	-	-	560	-	560
Accounts payable	(4,277)	-	-	-	(4,277)
Accrued expenses	2,261	-	-	-	2,261
Advanced billings	1,203	-	-	-	1,203
Other liabilities	-	-	435	-	435
Net cash provided by operating activities	20,323	(1,916)	5,990	-	24,397
Cash flows from investing activities:					
Purchases of equipment	(9,702)	-	-	-	(9,702)
Acquisition, net of cash acquired	(225,924)	-	-	-	(225,924)
Payments to affiliate	(8,407)	-	-	-	(8,407)
Investments in affiliates	-	-	(2,804)		(2,804)
Net cash used in investing activities	(244,033)	-	(2,804)		(246,837)
Cash flows from financing activities:					
Repayments of long-term debt and capital lease obligations	(4,912)	(7,750)	-	-	(12,662)
Proceeds from borrowings-					
Credit facility term loans	-	120,000	-	-	120,000
Revolving credit facility	-	10,000	-	-	10,000
Senior subordinated discount notes	-	114,999	-	-	114,999
Proceeds from sales of common and preferred stock	-	-	3,213	-	3,213
Preferred stock dividends paid	-	-	(1,467)	-	(1,467)
Deferred financing and debt issuance costs	-	(9,416)	-	-	(9,416)
(Advances to) amounts received from affiliates	230,523	(225,917)	(4,606)	-	-
Net cash provided by financing activities	225,611	1,916	(2,860)	-	224,667
Net increase (decrease) in cash	1,901	-	326	-	2,227
Cash, beginning of year	476	-	-	-	476
Cash, end of year	$ 2,377	$ -	$ 326	$ -	$ 2,703

PART III

Item 10.
Directors and Executive Officers of the Registrant

Item 11.
Executive Compensation

Item 12.
Security Ownership of Certain Beneficial Owners and Management

Item 13.
Certain Relationships and related Transactions

The Company incorporates by reference items 10, 11, 12 and 13 in its Proxy Statement for its Annual Meeting of Stockholders to be held on April 30, 1997 (to be filed with the Securities and Exchange Commission on or before April 15, 1997).

PART IV

Item 14.
Exhibits, Financial Statement Schedules and Reports on Form 10-K

(a) Financial Statements

Report of Independent Public Accountants

Consolidated Balance Sheets as of December 31, 1996 and 1995.

Consolidated Statements of Operations for the years ended December 31, 1996, 1995 and 1994.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 1996, 1995 and 1994.

Consolidated Statements of Cash Flow for the years ended December 31, 1996, 1995 and 1994.

Notes to Consolidated Financial Statements

Financial Statements Schedules: Schedule VIII

(b) Reports on Form 8-K

On March 28, 1996 the Company files a Form 8-K Item 2 and 7 detailing the completion of the merger of Fairchild Industries, Inc., with and into the Company effective March 13, 1996.

On May 9, 1996 the Company filed a Form 8-K Item 2 and 7 detailing that on April 27, 1996 the Company, through its subsidiary Shared Technologies Cellular, Inc. completed its acquisition of certain assets of Cellular Global Investments of Northern California, Inc., Access Cellular Corp., Summit Assurance Cellular, Inc., Road and Show Cellular Arizona, Road and Show Cellular West, Northstar Cellular Corp. and Craig A. Marlar.

On May 28, 1996 the Company filed a Form 8-K Item 7 in which it included audited financial statements of Fairchild Industries, Inc. and consolidated subsidiaries pursuant to its March 13, 1996 merger.

On November 22, 1996 the Company filed a Form 8-K Item 4 concerning its change in public accountants from Rothstein, Kass & Company, P.C. to Arthur Andersen LLP.

(c) Exhibits

Exhibit No.	Description of Exhibit
1.0	Purchase Agreement dated March 8, 1996 among the Company, the guarantors named therein and CS First Boston Corporation and Citicorp USA, Inc. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
2.1	Agreement and Plan of Merger dated as of November 9, 1995 among Shared Technologies Fairchild Inc.(formerly Shared Technologies Inc.) ("STFI"), Fairchild Industries, Inc. ("FII"), RHI Holdings, Inc. ("RHI") and The Fairchild Corporation ("TFA"). Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
2.2	First Amendment to Agreement and Plan of Merger dated as of February 2, 1996 among STFI, FII, RHI and TFC. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
2.3	Second Amendment to Agreement and Plan of Merger dated as of february 24, 1996 among STFI, RHI and TFC. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
2.4	Third Amendment to Agreement and Plan of Merger dated as of March 1, 1996 among STFI. FII, RHI and TFC. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
3(I).1	Restated Certificate of Incorporation of the Company. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
3(I).2	Certificate of Merger of STI and FII. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
3(I).3	Certificate of Incorporation of Shared Technologies Fairchild Communications Corp. ("STAFF"). Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
3(ii).1	Amended and Restated By-laws of STI. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.

3(ii).2	Amendment to Amended and Restated By-laws of STI. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
3(ii).3	By-laws of the Company. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
4.1	Certificate of Designations of Series G 6% Cumulative convertible Preferred Stock of STFI. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
4.2	Certificate of Designations of Series H Special Preferred Stock of STFI. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
4.3	Certificate of Designations of Series I 6% Cumulative Convertible Preferred Stock of STFI. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
4.4	Certificate of Designations of Series J Special Preferred Stock of STFI. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
4.5	Indenture dated as of March 1, 1996 among the Company, the guarantors named therein and United States Trust Company of New York, as trustee. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
4.6	First Supplemental Indenture dated as of March 13,1996 among the Company, the guarantors named therein and United States Trust Company of New York, as trustee. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.1	Registration Rights Agreement dated March 8, 1996 among the Company, STFI, the guarantors named therein and CS First Boston Corporation and Citicorp USA, Inc. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.2	Registration Rights Agreement dated March 13, 1996 among STI, RHI and TFC. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.3	Credit Agreement dated as of March 12, 1996 among the Company, STFI, Credit Suisse,

Citicorp USA, Inc., NationsBank and the other lenders named therein. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.

10.4	Security Agreement dated as of March 13, 1996 among STAFF, STFI, each subsidiary of STAFF named therein and Credit Suisse, as collateral agent for the secured parties. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.5	Pledge Agreement dated as of March 13, 1996 among STFCC, STFI, each subsidiary of STFCC named therein and Credit Suisse, as collateral agent for the secured parties Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.6	Parent Guarantee Agreement dated as March 12, 1996 between STI and Credit Suisse, as collateral agent for the secured parties. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.7	Subsidiary Guarantee Agreement dated as of March 12, 1996 among the subsidiaries of STFCC and STFI named therein and Credit Suisse,as collateral agent for the secured parties. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.8	Agreement to Exchange 6% Cumulative Convertible Preferred Stock and Special Preferred Stock dated as of March 1, 1996 among STI FII, RHI and TFC. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.9	Shareholders' Agreement dated as of March 13, 1996 among STI, RHI and Anthony D. Autorino. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.10	Tax Sharing Agreement dated as of March 13, 1996 between STI and RHI. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.11	Indemnification Agreement dated as of March 13, 1996 between STI and Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.

10.12	Indemnification Agreement dated as of March 13, 1996 among STI, TFC and RHI. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.13	Indemnity Subrogation and Contribution Agreement dated as of March 12, 1996 between STFCC and Credit Suisse as collateral agent for the secured parties. Incorporated by reference to the Company's Form 8-K filed on March 27, 1996.
10.14	Management Agreement dated August 1996 by and among Shared Technologies Fairchild Inc., ICS Communications, Inc., Interactive Cable Systems, Inc. and MCI Telecommunications Corporation.
10.15	Interim Management Agreement dated February 24, 1997 by and among Shared Technologies Fairchild Inc., GE Capital-ResCom, L.P., ResCom, Inc. and POTS, Inc.
21	List of subsidiaries of the Registrant.
27	Financial Data Schedule
99	Pursuant to Regulation S-X Rule 3-09 the Company is incorporated by reference. The audited consolidated financial statements for Shared Technologies Cellular, Inc. ("STC") included as part of STC's Form 10-K filed on or before March 31, 1997.

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.

SHARED TECHNOLOGIES FAIRCHILD INC.
(Registrant)

By /s/ Anthony D. Autorino
Anthony D. Autorino
Chairman, Chief Executive Officer and Director
Date: March 27, 1997

By /s/ Vincent DiVincenzo
Vincent DiVincenzo
Senior Vice President - Finance and Administration, Treasurer, Chief Financial Officer and Director
Date: March 27, 1997

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.

By /s/ Anthony D. Autorino
Anthony D. Autorino
Chairman, Chief Executive Officer and Director
Date: March 27, 1997

By /s/ Jeffrey J. Steiner
Jeffrey J. Steiner
Vice Chairman and Director
March 27, 1997

By /s/ Mel D. Borer
Mel D. Borer, President, Chief Operating Officer and Director
Date: March 27 1997

By /s/ Jo McKenzie
Jo McKenzie, Director
March 27, 1997

By /s/ Natalia Hercot
Natalia Hercot, Director
Date: March 27, 1997

By /s/ Thomas H. Decker
Thomas H. Decker,Director
Date: March 27, 1997

By /s/ Ajit G. Hutheesing
Ajit G. Hutheesing, Director
Date: March 27, 1997

By /s/ Donald E. Miller
Donald E. Miller,Director
Date: March 27, 1997

By /s/ Vincent DiVincenzo
Vincent DiVincenzo, Director
Date: March 27, 1997

By /s/ William A. DiBella
William A. DiBella
Director
Date: March 27, 1997

ATTACHMENT B

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

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15d OF THE SECURITIES AND EXCHANGE ACT OF 1934

For Quarterly Period Ended September 30, 1997

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

For the transition period from ________ to ________

Commission File Number 0-17366

SHARED TECHNOLOGIES FAIRCHILD INC.
(exact name of registrant as specified in its charter)

Delaware	87-0424558
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

100 Great Meadow Road, Suite 104 Wethersfield, CT 06109
(Address of principal executive offices)

(860) 258-2400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X   No ______

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the latest practicable date.

Class	Outstanding at November 14, 1997
Common Stock, $.004 par value	17,174,622 shares

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	Consolidated Statements of Operations for the three months ended September 30, 1997 and 1996	6
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Item 1. Financial Statements

Shared Technologies Fairchild Inc.
Consolidated Balance Sheets
September 30, 1997 and December 31, 1996
(In thousands)

	September 30, 1997 (unaudited)	December 31, 1996
Assets		
Current Assets:		
Cash	$ 178	$ 2,703
Accounts receivable, less allowance for doubtful accounts of $300 in 1997 and $611 in 1996	34,155	32,563
Inventories	4,735	1,976
Other current assets	3,961	1,853
Total current assets	43,029	39,095
Equipment:		
Property & Equipment	105,302	95,934
Accumulated depreciation	(37,234)	(28,169)
	68,068	67,765
Other Assets:		
Investment in affiliates	754	457
Intangible assets	258,075	261,842
Deferred income taxes	-	-
Other	316	407
	259,145	262,706
Total assets	$ 370,242	$ 369,566

The accompanying notes are an integral part of these financial statements.

Shared Technologies Fairchild Inc.
Consolidated Balance Sheets
September 30, 1997 and December 31, 1996
(In thousands)

	September 30, 1997 (unaudited)	December 31, 1996
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long term debt and capital lease obligations	$ 16,083	$ 13,576
Accounts payable	18,394	17,356
Accrued expenses	7,948	9,558
Accrued dividends	1,555	435
Advanced billings	7,079	6,935
Total current liabilities	51,059	47,860
Long-term debt and capital lease obligations, less current portion	239,633	238,261
Redeemable put warrant	887	1,069
Convertible preferred stock $.01 par value, authorized 250 shares, outstanding 250 shares in 1997 and 1996	25,000	25,000
Special preferred stock $.01 par value, authorized 200 shares, outstanding 200 shares in 1997 and 1996	15,061	14,167
Stockholders' equity:		
Preferred Stock, $.01 par value, authorized 25,000 shares:		
Series C, outstanding, no shares in 1997 and 428 shares in 1996	-	4
Series D, outstanding, 58 shares in 1997 and 441 shares in 1996	1	4
Common Stock; $.004 par value, 50,000 shares authorized, outstanding 17,186 shares in 1997 and 15,682 shares in 1996	69	63
Additional paid-in capital	78,137	76,054
Accumulated deficit	(39,605)	(32,916)
Total stockholders' equity	38,602	43,209
Total liabilities and stockholders' equity	$ 370,242	$ 369,566

The accompanying notes are an integral part of these financial statements.

Shared Technologies Fairchild Inc.
Consolidated Statements of Operations
For the Nine Months Ended
September 30, 1997 and 1996
(In thousands except per share data)
(unaudited)

	September 30, 1997	September 30, 1996
Revenue:		
Shared telecommunications services	$ 82,539	$ 69,310
Telecommunications systems	59,240	41,585
Total Revenue	141,779	110,895
Cost of Revenue:		
Shared telecommunications services	39,272	34,233
Telecommunications systems	31,853	25,019
Total Cost of Revenue	71,125	59,252
Gross margin	70,654	51,643
Selling, general & administrative expenses	51,536	39,118
Operating Income	19,118	12,525
Other Income (expense):		
Equity in loss of affiliate	(210)	(2,009)
Net interest expense	(21,694)	(15,246)
	(21,904)	(17,255)
Income (loss) before income taxes and extraordinary item	(2,786)	(4,730)
Income tax	(214)	(74)
Income (loss) before extraordinary item	(3,000)	(4,804)
Extraordinary item, loss on early retirement of debt	-	(310)
Net income (loss)	(3,000)	(5,114)
Preferred stock dividends	(3,689)	(1,682)
Net income (loss) applicable to common stock	$ (6,689)	$ (6,796)
Income (loss) per common share:		
Income (loss) before extraordinary item	$ (0.42)	$ (0.49)
Extraordinary item	-	(0.02)
Net income (loss)	$ (0.42)	$ (0.52)
Weighted Average Shares Outstanding	16,039	13,316

The accompanying notes are an integral part of these financial statements.

Shared Technologies Fairchild Inc.
Consolidated Statements of Operations
For the Three Months Ended
September 30, 1997 and 1996
(In thousands except per share data)
(unaudited)

	September 30, 1997	September 30, 1996
Revenue:		
Shared telecommunications services	$ 26,937	$ 27,384
Telecommunications systems	19,224	19,739
Total Revenue	46,161	47,123
Cost of Revenue:		
Shared telecommunications services	13,061	13,143
Telecommunications systems	11,434	11,301
Total Cost of Revenue	24,495	24,444
Gross margin	21,666	22,679
Selling, general & administrative expenses	17,202	16,262
Operating Income	4,464	6,417
Other income (expense):		
Equity in loss of affiliate	(24)	(310)
Net interest expense	(7,214)	(6,995)
	(7,238)	(7,305)
Income (loss) before income taxes and extraordinary item	(2,774)	(888)
Income tax	(6)	(34)
Income (loss) before extraordinary item	(2,780)	(922)
Extraordinary item, loss on early retirement of debt	-	-
Net income (loss)	(2,780)	(922)
Preferred stock dividends	(1,390)	(1,081)
Net income (loss) applicable to common stock	$ (4,170)	$ (2,003)
Income (loss) per common share:		
Income (loss) before extraordinary item	$ (0.25)	$ (0.13)
Extraordinary item	-	-
Net income (loss)	$ (0.25)	$ (0.13)
Weighted Average Shares Outstanding	16,531	15,066

The accompanying notes are an integral part of these financial statements.

Shared Technologies Fairchild Inc.
Consolidated Statements of Cash Flows
For the Nine Months Ended
September 30, 1997 and 1996
(In thousands)
(unaudited)

	September 30, 1997	September 30, 1996
Cash Flows Used In Operating Activities:		
Net Income (loss)	$ (3,000)	$ (5,114)
Adjustments:		
Extraordinary loss on early retirement of debt -	-	310
Depreciation & amortization	14,294	11,525
Accretion of put warrant	(182)	-
Equity in loss of affiliate	210	2,009
Accretion on 12 1/4% bonds	11,782	7,803
Amortization of discount on note		14
Change in Assets and Liabilities:		
Accounts receivable	(1,592)	(1,031)
Inventory	(2,759)	-
Other current assets	(2,369)	(627)
Other assets	1,016	1,732
Accounts payable	1,038	646
Accrued expenses	(490)	2,039
Advanced billings	144	(472)
Net cash provided by operating activities	18,092	18,834
Cash Flows Used in Investing Activities:		
Purchases of equipment	(9,368)	(7,092)
Investments in affiliates	(507)	(1,494)
Aquisitions, net of cash aquired	(1,240)	(4,011)
Net cash used in investing activities	(11,115)	(12,597)
Cash Flows From Financing Activities:		
Preferred stock dividends	(3,689)	(1,007)
Repayments of notes payable, long-term debt and capital lease obligations	(9,903)	(192,004)
Borrowings under notes payable and long-term debt	2,000	244,999
Payments to affliate	-	(8,407)
Deferred finance costs	(886)	(9,416)
Proceeds from sales of common stock	2,082	373
Repayment of FII preferred stock	894	(40,706)
Net cash provided by (used in) financing activities	(9,502)	(6,168)
Net increase (decrease) in cash	(2,525)	69
Cash, Beginning of Period	2,703	476
Cash, End of Period	$ 178	$ 545
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for -		
Interest	$ 12,098	6,300
Income taxes	214	119
Non cash transactions -		
Issuance of common stock to acquire FII	-	27,750
Issuance of preferred stock to acquire FII	-	38,269

The accompanying notes are an integral part of these financial statements.

Shared Technologies Fairchild Inc.
Consolidated Statement of Stockholders' Equity
For the period ended September 30, 1997
(in thousands)

	Series C Preferred Stock		Series D Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance, January 1, 1997	428	$ 4	441	$ 4	15,682	$ 63	$ 76,054	$ (32,916)	$ 43,209
Preferred stock dividends								(2,795)	(2,795)
Dividend accretion of special preferred stock								(894)	(894)
Excercise of common stock options and warrants					724	3	1,498		1,501
Issuance of common stock for 401k plan match					82	-	580		580
Preferred stock converted to common sto	(428)	(4)	(383)	(3)	698	3	5		1
Net Loss								(3,000)	(3,000)
Balance, September 30, 1997	0	$ -	58	$ 1	17,186	$ 69	$ 78,137	($39,606)	$ 38,602

The accompanying notes are an integral part of these financial statements

Shared Technologies Fairchild Inc.
Notes to Consolidated Financial Statements
September 30, 1997
(In thousands)
(Unaudited)

1. Basis of Presentation:

The consolidated financial statements included herein have been prepared by Shared Technologies Fairchild Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary to present a fair statement of the results for interim periods. Certain information and footnote disclosures have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's December 31, 1996 report on Form 10-K.

2. Investment in Unconsolidated Subsidiary

The Company's investment in its unconsolidated subsidiary, Shared Technologies Cellular, Inc. (STC), is accounted for under the equity method. Prior to December 1995, STC was a majority-owned subsidiary and was included on a consolidated basis. During December 1995, STC issued approximately $3,000 in voting preferred stock to third parties. Although the Company's ownership percentage of approximately 58% did not change, the voting rights assigned to the preferred stock reduced the Company's voting interest in STC, resulting in the Company's loss of voting control of STC. Accordingly, STC has been accounted for on the equity method since 1996. At September 30, 1997 the Company had an ownership interest of approximately 25.4% in STC. Summarized balance sheet and statement of operations information for STC as of, and for the nine months ended, September 30, 1997 is as follows:

Summarized Balance Sheet

Current assets	$	3,379
Property and equipment, net		1,844
Other assets		9,614
Total assets	$	14,837
Current liabilities	$	9,457
Note payable		1,193
Total liabilities		10,650
Stockholders' equity		4,187
Total liabilities and stockholders' equity	$	14,837

Summarized Statement of Operations

Revenues	$	19,089
Gross margin		8,430
Operating loss		(471)
Net loss		(670)

In August 1996 the Company reached an agreement with STC to purchase $2,500 in STC preferred stock. This investment was financed through the conversion of existing advances owed by STC to the Company in the amount of $1,200 and a cash payment of $1,300. The STC preferred stock was convertible into 833 shares of common stock at the Company's option. In addition, upon conversion of such STC preferred stock, the Company would receive a warrant to purchase an additional 833 shares of STC common stock, subject to adjustment

Subsequently, in August 1997, the Company sold such preferred stock to a third party investor for $250 and recorded a gain of $20.

3. Acquisitions:

On March 13, 1996, the Company's stockholders approved and the Company consummated its merger with Fairchild Industries, Inc.("FII"), following a reorganization transferring all non-communication assets to FII's parent, RHI Holding, Inc. ("RHI"). The Company changed its name to Shared Technologies Fairchild Inc.("STFI"). Pursuant to the merger agreement, STFI issued to RHI, 6,000 shares of common stock, 250 shares of convertible preferred stock with a $25,000 liquidation preference and 20 shares of special preferred stock with a $20,000 initial liquidation preference. In addition the Company raised in the capital market approximately $111,000 after offering expenses, through the issuance of 12 1/4% Senior Subordinated Notes Due 2006 and approximately $125,000 (of an available $145,000 in loans from a credit facility with financial institutions. The funds were used primarily for the retirement of certain liabilities assumed from FII in connection with the merger, and the retirement of the Company's existing credit facility. In connection with the merger, the Company entered into two year employment agreements with key employees for initial annual compensation aggregating $1,250, and adopted the 1996 Equity Incentive Plan. The merger was accounted for using the purchase method of accounting. The total purchase consideration of approximately $71,581 was allocated to the net tangible and intangible assets of FII based upon their respective fair market values as follows:

Assets		
Cash	$	1,551
Accounts receivable		24,747
Other current assets		2,572
Equipment		51,532
Goodwill		248,008
Total Assets		328,410
Liabilities and stockholders' equity		
Capital lease obligations	$	(262)
Accounts payable		(11,577)
Accrued expenses		(6,981)
Advanced billings		(6,102)
Due to affiliated company		(8,407)
Long term debt		(182,794)
FII preferred stock		(40,706)
Net purchase price	$	71,581

The following unaudited pro forma statements of operations for the nine months ended September 30, 1996 give effect to the above acquisitions and the change in reporting of STC to the equity method (Note 2) and the pro forma effect of STC acquisitions, as if they occurred on January 1, 1996:

		1996
Revenues	$	138,178
Cost of revenues		70,968
Gross margin		67,211
Selling, general and administrative expenses		50,310
Operating income		16,901
Equity in loss of subsidiary		(2,009)
Interest expense, net		(20,594)
Loss before income tax expense and extraordinary item		(5,702)
Income taxes		(64)
Extraordinary item, loss on early retirement of debt		(332)
Net Loss		(6,098)

Preferred stock dividends		(2,196)
Loss applicable to common stock	$	(8,294)
Net loss per common share	$	(.56)
Weighted average number of common shares outstanding		14,849

4. Contingencies:

In December 1995, a suit was filed against the Company alleging a breach of a letter agreement and seeking an amount in excess of $2,250 for a commission allegedly owed in connection with the merger with FII (Note 3). The Company denies that the claimant at any time was engaged in connection with the merger. The Company filed an answer in January 1996, denying that any commission is owed. This litigation is schedules for trial in December 1997. While any litigation contains an element of uncertainty, management is of the opinion that the ultimate resolution of this matter should not have a material adverse effect upon results of operations, cash flows or financial position of the Company.

On July 31, 1997 the Company was served with a purported shareholder class action complaint in an action commenced in the Delaware Chancery Court in New Castle County. The Company and its directors are named as defendants. The complaint seeks injunctive relief, costs and attorneys' fees with respect to the proposed merger of the Company and Tel-Save Holdings, Inc. which was announced on July 17, 1997 (See Note 9).

As of October 27, 1997, an agreement in principal had been reached between the Company and counsel for the plaintiff class, which agreement, subject to court approval, would result in dismissal of the Complaint with prejudice and release of all claims of the plaintiff class relating to the merger.

The Company's sales and use tax returns in certain jurisdictions are currently under examination. Management believes these examinations will not result in a material change from liabilities provided.

In addition to the above matters, the Company is a party to various legal actions, the outcome of which, in the opinion of management, will not have a material adverse effect on results of operations, cash flows or financial position of the Company.

5. Income Taxes:

The Company accounts for income taxes under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to effect taxable income. Valuation allowances are established, when necessary, to reduce the deferred income tax assets to the amount expected to be realized.

6. Extraordinary Item:

At June 30, 1996, the Company recorded an extraordinary loss of $310 relating to the early retirement of a $5,000 credit facility. The early retirement took place as a result of requirements in the merger agreement with FII (Note 3).

7. Earnings per Share:

Statement of Financial Accounting Standards No. 128, "Earnings per Share" changes the reporting requirements for earnings per share ("EPS") for publicly traded companies by

replacing primary EPS with basic EPS and changing the disclosures associated with this change. The Company is required to adopt this standard for its December 31, 1997 year-end and is currently evaluating the impact of this standard.

8. Consolidating Financial Statements:

The following unaudited statements separately show Shared Technologies Fairchild Inc. and the subsidiaries of Shared Technologies Fairchild Inc. These statements are provided to fulfill SEC reporting requirements. All of Shared Technologies Fairchild Inc.'s subsidiaries are wholly owned and are full guarantors on the 12 1/4% Senior Subordinated Notes due 2006.

Shared Technologies Fairchild Inc.
September 30, 1997

	STFTI	STFCC	STFI	Eliminating Entries	Consolidated STFI
Assets					
Current Assets:					
Cash and cash equivalents	$ 150		$ 28		178
Accounts receivable, net	33,766		389		34,155
Inventories	4,735				4,735
Other current assets	3,961				3,961
Total current assets	42,612	0	417	0	43,029
Equipment:					
Property & Equipment	105,302				105,302
Accumulated depreciation	(37,234				(34,112)
Net Property & Equipment	68,068	0	0	0	68,068
Other Assets:					
Investment in affiliates	382	47,540	55,174	(102,342)	754
Intangible assets		7,627	250,448		258,075
Note Receivable		144,173		(144,173)	-
Intercompany Receivable	143,322	228,866		(372,188)	-
Deferred income taxes					-
Other	316				316
Total Other Assets	144,020	428,206	305,622	(618,703)	259,145
Total assets	$ 254,700	$ 428,206	$ 306,039	$ (618,703)	$ 370,242
Liabilities and Stockholders' Equity					
Current Liabilities:					
Current portion of long term debt and capital lease obligations		$ 16,083			16,083
Accounts payable	18,394				18,394
Accrued expenses	7,488		460		7,948
Accrued dividends			1,555		1,555
Advanced billings	7,079				7,079
Total current liabilities	32,961	16,083	2,015	0	51,059
Long-term debt, and current lease obligations less current portion	144,173	239,633		(144,173)	239,633
Redeemable put warrant			887		887
Convertible preferred stock			25,000		25,000
Special preferred stock			15,061		15,061
Stockholders' equity:					
Preferred Stock, Series C			-		-
Preferred Stock, Series D			1		1
Common Stock	1	1	69	(2)	69
Additional paid-in capital	47,538	54,802	78,137	(102,340)	78,137
Accumulated deficit	30,027	(25,635)	(43,997)		(39,605)
Intercompany		143,322	228,866	(372,188)	-
Total stockholders' equity	77,566	172,490	263,076	(474,530)	38,602
Total liabilities and stockholders' equity	$ 254,700	$ 428,206	$ 306,039	$ (618,703)	$ 370,242

Shared Technologies Fairchild Inc.
Consolidated Financial Statements
(continued)

	STFTI	STFCC	STFI	Entries	STFI
REVENUE					
Total revenue	131,980		9,799		141,779
Total cost of revenue	71,125				71,125
Gross margin	60,855	-	9,799	-	70,654
Gross margin %	46.11%		100%		49.83%
Selling, general & administrative expenses	45,941		5,595		51,536
Operating Income	14,914	-	4,204	-	19,118
Other income (expense):					
Equity in loss of affiliate			(11,806)	11,596	(210)
interest expense, net	(9,712)	(12,192)	210		(21,694)
	(9,712)	(12,192)	(11,596)	11,596	(21,904)
Income (loss) before income taxes and extraordinary item	5,202	(12,192)	(7,392)	11,596	(2,786)
Income tax	(214)				(214)
Income (loss) before extraordinary item	4,988	(12,192)	(7,392))	11,596	(3,000)
Extraordinary item, loss on early retirement of debt	-	-	-	-	-
Net income (loss)	4,988	(12,192)	(7,392)	11,596	(3,000)
Preferred stock dividends			(3,689)		(3,689)
Income (loss) applicable to common stock	4,988	(12,192)	(11,081)	11,596	6,689

9. Merger Agreement. On July 16, 1997, the Company, Tel-Save Holdings Inc. ("Tel-Save"), and TSHCo, Inc. ("Merger Sub"), a wholly owned subsidiary of Tel-Save, entered into an Agreement and Plan of Merger (the "Merger Agreement"). Pursuant to the Merger Agreement the Company shall be merged (the "Merger") with and into Merger Sub and each common stock holder of the Company shall receive for each share of the Company's common stock $11.25 worth of shares of common stock of Tel-Save based upon the average closing price of Tel-Save common stock for the 15 trading days ending on the third business day prior to the closing of the Merger. Holders of Series C and Series D preferred stock of the Company will receive preferred stock in Tel-Save with substantially identical terms to the series C and D preferred stock of the Company. The Merger is intended to be a tax-free exchange of shares and is expected to qualify for pooling of interests accounting treatment. The Merger is subject to approval of stockholders of both companies and other customary closing conditions.

In connection with the Merger Agreement, the Company has entered into a Stock Option Agreement with Tel-Save pursuant to which Tel-Save has the option (the "Option") to acquire 3,000,000 shares of common stock of the Company upon the termination of the Merger Agreement under certain circumstances (a "Purchase Event"). The Option expires on the earlier of (a) consummation of the Merger, (b) January 15, 1998 or (c) the termination of the Merger Agreement other than pursuant to a Purchase Event (as such term is defined in the Stock Option Agreement). In addition, the Company has entered into a Voting Agreement with Daniel Borislow, the Chairman and Chief Executive Officer of Tel-Save, pursuant to which Mr. Borislow has agreed to vote his shares of Tel-Save common stock in favor of the Merger and the Merger Agreement.

On October 30, 1997, the Tel-Save Holdings, Inc. and Shared Technologies Fairchild Inc. Joint Proxy Statement was filed with the Securities and Exchange Commission giving notice of each company's special meeting of stockholders to be held on December 1, 1997.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations:

Nine Months Ended September 30, 1997 compared to September 30, 1996

Revenues

STFI's revenues rose to $141.8 million in 1997, an increase of 27.8% over 1996 revenues of $110.9 million. This increase was principally due to the March 13, 1996 merger with Fairchild Industries, Inc. ("FII"). Shared Telecommunications Service ("STS") revenue increased $13.2 million, or 19.1%, and Telecommunications Systems ("Systems") revenue increased $17.6 million, or 42.5%.

pproximately $7.0 million of the increase in the Systems revenue was due to the inclusion of management fees from ICS Communications, Inc. ("ICS") and GE Capital-ResCom, L.P. ("ResCom"). During this period, the Company operated as the manager of each of these businesses. These management agreements terminated during the third quarter of 1997.

Gross Margin

Gross margin increased to 49.8% of revenues for 1997, from 46.6% for 1996. The change in gross margin was mainly the result of changes in sales mix and the merger with FII. In addition, the revenues generated from the management agreements with ICS and ResCom were included in Systems revenue. Since the associated cost for this revenue of approximately $9.0 million was in selling, general and administrative expense, it had no material adverse effect on Systems gross margin. The following table sets forth the components of the Company's overall gross margin (GM) for the nine months ended September 30, 1997 as a factor of sales percentage and gross margin percentage per line of business:

Division	Sales	GM	Weighted GM
STS	58.2%	52.4%	30.5%
Systems	41.8%	46.2%	19.3%
Company Total	100.0%		49.8%

As shown above, the 1997 gross margin was a mix of STS gross margin of 52.4% and Systems gross margin of 46.2%. In 1996, the Company's gross margin was a combination of STS gross margin of 31.1% and Systems gross margin of 14.9%.

Selling, general and administrative Expenses

Selling, general and administrative (SG&A) expenses increased $12.4 million to $51.5 million, due entirely to the merger with FII and the associated increased headcount, goodwill amortization and other general overhead expenses. SG&A as a percentage of revenue increased from 35.3% in 1996 to 36.3% in 1997.

Operating Income

Operating income increased by $6.6 million to $19.1 million in 1997 from $12.5 million in 1996. The increase was mainly the result of the FII merger mentioned earlier.

Interest Expense

Interest expense net of interest income increased by $6.5 million for the nine months ended September 30, 1997 over the nine months ended September 30, 1996. This was attributable to the addition of approximately $245 million in new debt on March 13, 1996 in connection with the FII merger.

Net Income (Loss)

As a result of the factors listed above, net loss for the nine months ended September 30, 1997 decreased $2.1 million to $3.0 million, compared to a net loss of $5.1 million in the nine months ended September 30, 1996.

Three Months Ended September 30, 1997 Compared to September 30, 1996

Revenues

STFI's revenues decreased to $46.2 million in 1997, a decrease of 2.0% compared to 1996 revenues of $47.1 million. STS revenue decreased $.5 million from $27.4 million in the three months ended September 30, 1996 to $26.9 in the three months ended September 30, 1997. This slight decrease was due to the increasing competition in the telecommunications marketplace. Systems revenue decreased $.5 million in 1997 over 1996.

Gross Margin

Gross margin decreased to 46.9% of revenues for 1997, from 48.1% for 1996. The following table sets forth the components of the Company's overall gross margin ("GM") for the three months ended September 30, 1997 as a factor of sales percentage and gross margin percentage per line of business:

Division	Sales	GM	Weighted GM
STS	58.4%	51.5%	30.1%
Systems	41.6%	40.5%	16.8%
Company Total	100.0%		46.9%

As shown above, the 1997 gross margin was a mix of the STS gross margin of 51.5% and Systems gross margin of 40.5%. In 1996, the Company's gross margin was a combination of STS gross margin of 30.2%, and Systems gross margin of 17.9%. The gross margin decrease was due to the increasing competition in the telecommunications market place.

Selling, General and Administrative Expenses

SG&A as a percentage of revenue increased to 37.3% in the three months ended September 30, 1997 compared to 34.5% for the three months ended September 30, 1996.

Operating Income

Operating income decreased to $4.5 million in 1997 from $6.4 million in 1996.

Interest Expense

Interest expense net of interest income had a slight increase of $.2 million for the three months ended September 30, 1997 over the three months ended September 30, 1996.

Net Income

As a result of the factors listed above, a net loss for the three months ended September 30, 1997 of $2.8 million was recorded, compared to a net loss of $.9 million for the three months ended September 30, 1996.

Liquidity and Capital Resources

Due to the merger with FII and the associated borrowings of $245 million, the Company's liquidity and capital resources were significantly changed. At September 30, 1997 the Company had $370 million in assets, $256 million in various long and short-term debt and capital lease obligations, and $40.1 million in recently issued preferred stock. The balance sheet at September 30, 1997 showed a working capital deficit of $8.0 million, compared to a deficit of $22.7 million at September 30, 1996. As of September 30, 1997 the Company had available for future borrowings approximately $11 million on a credit facility. Cash provided by operations was $18.1 million for the nine months ended September 30, 1997, compared to $12.1 million for the nine months ended September 30, 1996.

The Company invested $9.4 million in equipment purchases in the nine months ended September 30, 1997, compared to $7.1 million in the nine months ended September 30, 1996. These expenditures were used to grow additional business and sustain the Company's underlying revenue stream.

Financing activities for the period ended September 30, 1997 involved principal payments on the Company's debt of $9.9 million, offset by a $2.0 million take down on the Company's revolver availability. Subsequent to quarter end, the Company has drawn down an additional $5 million on its revolver bringing it to $17 million and leaving $6 million still available (net of cash set aside for letters of credit).

Cash requirements for 1997 have been significant due to the acquisition of FII and associated new debt mentioned earlier. The Company anticipates to continue repaying these borrowings and providing cash for operations and capital expenditures through cash from operations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In December 1995, a suit was filed against the Company alleging a breach of a letter agreement and seeking an amount in excess of $2,250 for a commission allegedly owed in connection with the merger with FII (Note 3). The Company denies that the claimant at any time was engaged in connection with the merger. The Company filed an answer in January 1996, denying that any commission is owed. This litigation is scheduled for trial in December 1997. While any litigation contains an element of uncertainty, management is of the opinion that the ultimate resolution of this matter should not have a material adverse effect upon results of operations, cash flows or financial position of the Company.

On July 31, 1997 the Company was served with a purported shareholder class action complaint in an action commenced in the Delaware Chancery Court in New Castle County. The Company and its directors are named as defendants. The complaint seeks injunctive relief, costs and attorneys' fees with respect to the proposed merger of the Company and Tel-Save Holdings, Inc. which was announced on July 17, 1997.

As of October 27, 1997, an agreement in principal had been reached between the Company and counsel for the plaintiff class, which agreement, subject to court approval, would result in dismissal of the Complaint with prejudice and release of all claims of the plaintiff class relating to the Merger.

The Company's sales and use tax returns in certain jurisdictions are currently under examination. Management believes these examinations will not result in a material change from liabilities provided.

In addition to the above matters, the Company is a party to various legal actions, the outcome of which, in the opinion of management, will not have a material adverse effect on results of operations, cash flows or financial position of the Company.

Item 5. Other Information

On November 13, 1997 the Company signed an agreement whereby Tel-Save Holdings, Inc. will become the exclusive provider of its long-distance services. The rates to be paid by the Company under this contract are significantly lower than rates currently paid to its existing long-distance providers.

Item 6. Exhibits and Reports on Form 8-K:

(a) Exhibits

10.1 Agreement and Plan of Merger by and among Shared Technologies Fairchild Inc., Tel-Save Holdings Inc., and TSHCo, Inc., dated July 16, 1997. Incorporated by reference to the Company's Form 8-K filed on July 21, 1997.

10.2 Stock Option Agreement between Shared Technologies Fairchild Inc. and Tel-Save Holdings Inc. dated July 16, 1997. Incorporated by reference to the Company's Form 8-K filed on July 21, 1997.

10.3 Voting Agreement between Shared Technologies Fairchild Inc. and Daniel Borislow dated July 16, 1997. Incorporated by reference to the Company's Form 8-K filed on July 21, 1997.

10.4 Tel-Save Holdings, Inc. and Shared Technologies Fairchild Inc. Joint Proxy Statement filed as part of S-4 registration of Tel-Save Holdings, Inc. (Reg # 333-38943) incorporated hereby by reference.

27 Financial Data Schedule

99 Press Release dated July 17, 1997. Incorporated by reference to the Company's Form 8-K filed July 21, 1997.

99 Complaint filed by Bernard Licherman dated July 1997. Incorporated by reference to the Company's Form 8-K filed on August 4, 1997.

99 Press Release dated August 1, 1997. Incorporated by reference to the Company's Form 8-K filed on August 4, 1997.

(b) Reports on Form 8-K

On July 21, 1997 the Company filed a Form 8-K, date of report July 16, 1997, in which the Company disclosed that the Company, , Tel-Save Holdings, Inc. and TSHCo, Inc., a wholly owned subsidiary of Tel-Save Holdings, Inc. had entered into an Agreement and Plan of Merger.

On August 4, 1997, the Company filed a Form 8-K, date of report July 31, 1997, in which the Company disclosed that is was served with a purported shareholder class action complaint in an action commenced in the Delaware Chancery Court in New Castle County.

SIGNATURE

Pursuant to the requirements 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.

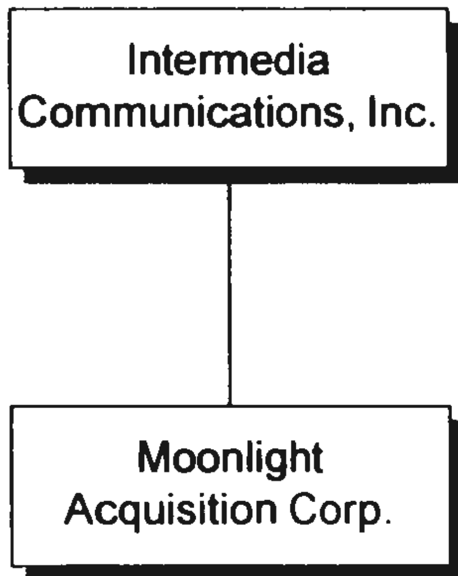
SHARED TECHNOLOGIES FAIRCHILD INC.

By: /s/ Vincent DiVincenzo
Vincent DiVincenzo
Senior Vice President-Finance
and Administration, Treasurer,
Chief Financial Officer

Date: November 14, 1997

ATTACHMENT C

PRE-TRANSFER OF CONTROL

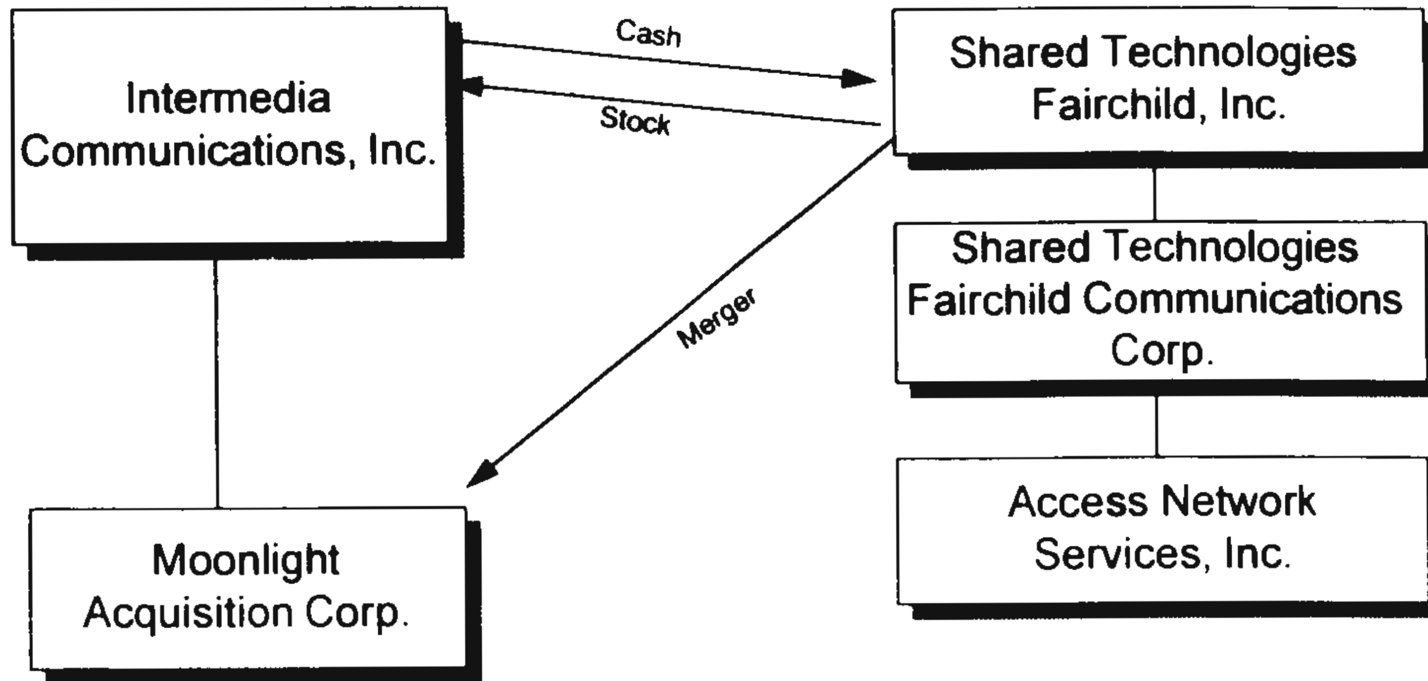


Shared Technologies Fairchild, Inc.

Shared Technologies Fairchild Communications Corp

Access Network Services, Inc.

TRANSFER OF CONTROL



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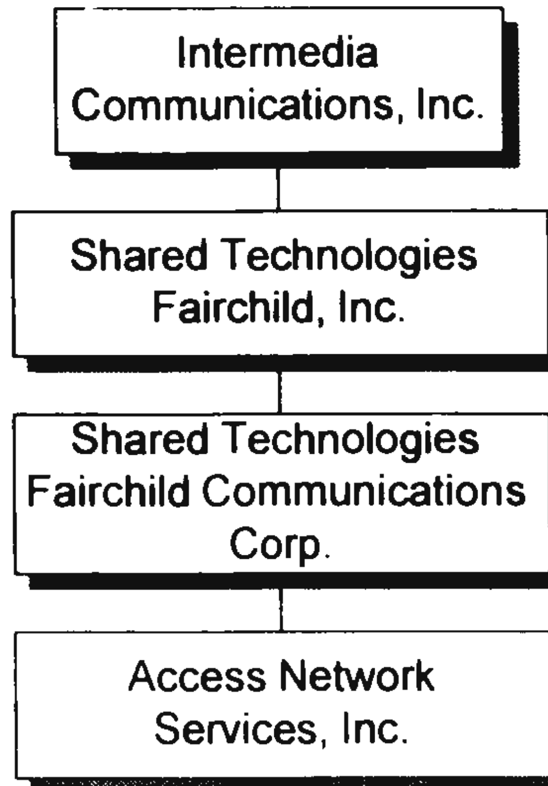
POST-TRANSFER OF CONTROL



ATTACHMENT D

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the Year Ended	Commission File Number
December 31, 1996	**0-20135**

INTERMEDIA COMMUNICATIONS INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**59-291-3586**
(State or other jurisdiction of incorporation or organization)	(Employer Identification Number)

3625 Queen Palm Drive
Tampa, Florida 33619
(Address of principal executive offices)

Registrant's telephone number, including area code: (813) 829-0011

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $.01 per share, Rights to purchase units of Series C Preferred Stock

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

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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment in this Form 10-K. ☐

Aggregate market value of the voting stock held by non-affiliates[1] of the registrant on March 6, 1997: $178,469,223

As of March 6, 1997, there were 16,307,577 shares of the Registrant's Common Stock outstanding.

Documents Incorporated by Reference

Document	Part of 10-K into which incorporated
Proxy Statement relating to registrant's Annual Meeting of Stockholders to be held on May 22, 1997	Part III

[1] As used herein, "voting stock held by non-affiliates" means shares of Common Stock held by persons other than executive officers, directors and persons holding in excess of 5% of the registrant's Common Stock. The determination of market value of the Common Stock is based on the last reported sale price as reported by the Nasdaq National Market on the date indicated. The determination of the "affiliate" status for purposes of this report on Form 10-K shall not be deemed a determination as to whether an individual is an "affiliate" of the registrant for any other purpose.

INTERMEDIA COMMUNICATIONS INC.

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References in this report to the "Company" or "ICI" means Intermedia Communications Inc. together with its subsidiaries, except where the context otherwise requires. Certain terms used herein are defined in the Glossary which begins on page 35. This report contains certain "forward-looking statements" concerning the Company's operations, economic performance and financial condition, which are subject to inherent uncertainties and risks. Actual results could differ materially from those anticipated in this report. When used in this report, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements.

Item 1. *Description of Business*

The Company

ICI is a rapidly growing integrated communications services provider ("ICP"), offering a full suite of local, long distance and enhanced data telecommunications services to business and government end user customers, long distance carriers, Internet Service Providers ("ISPs"), resellers and wireless communications companies. Founded in 1987, the Company is currently the third largest (based on annualized telecommunications services revenues) among providers generally referred to as competitive local exchange carriers ("CLECs") after MFS Communications Company, Inc. and Teleport Communications Group Inc. The Company has sales offices in 23 cities throughout the eastern half of the United States and offers a full product package of telecommunications services in 15 metropolitan statistical areas. In April 1996, ICI became one of the first ICPs in the United States to provide integrated switched local and long distance service and now has five local/long distance voice switches in service. The Company provides enhanced data services, including frame relay, asynchronous transfer mode ("ATM") and Internet access services, primarily to business and government customers (including over 100 ISPs), in approximately 2,200 cities nationwide, utilizing 89 Company-owned data switches. ICI also serves as a facilities-based interexchange carrier to approximately 12,000 customers nationwide. ICI continues to increase its customer base and network density in the eastern half of the United States and is pursuing attractive opportunities to add additional services and expand into complementary geographic markets. The total United States annual market for the Company's local, long distance and enhanced data services is estimated to be approximately $165 billion, of which approximately $25 billion is estimated to be addressable by the Company.

The Company's annualized revenue based on the fourth quarter of 1996 (giving pro forma effect to two recent acquisitions) was $173.7 million. The Company's revenues have grown from $14.3 million in 1994 to $103.4 million in 1996, representing a compound annual growth rate of 169%. During the same period, the Company has increased its sales force from approximately 45 to approximately 175, increased the number of sales offices from four to 21 and grown its customer base from 8,148 to 14,133. In 1996, the Company achieved a significant milestone by introducing local exchange services in its product portfolio and positioned itself as a provider of integrated telecommunications services to its customers by (i) obtaining CLEC certification in 13 states and the District of Columbia (with 22 applications pending), (ii) completing interconnection co-carrier agreements with six incumbent local exchange carriers ("ILECs"), (iii) deploying four local/long distance voice switches and (iv) deploying 37 data switches bringing its total data switches to 89.

Management believes that a well trained team of direct sales and engineering support professionals, offering customers a full suite of telecommunications services, is critical to achieving its goal of capturing meaningful market share in the newly competitive local telecommunications market. By initiating local switched services in markets where its sales and engineering support team is already in place, ICI reached a significant milestone toward attaining this goal. Management believes that being one of the few ICPs offering integrated local, long distance and enhanced data services to its customers provides the Company with a competitive advantage in pursuing the estimated $99 billion national market for local exchange services. The Company's strategy is to systematically secure a growing portion of a customer's telecommunications business and through the provision of additional integrated services, increase the customer's reliance on, and sense of partnership with, the Company.

The Company believes that a significant portion of business and government customers prefer a single source telecommunications provider that delivers a full range of efficient and cost effective solutions to their telecommunications needs. These customers require maximum reliability, high quality, broad geographic coverage, end-to-end service, solutions-oriented customer service and the timely introduction of new and innovative services. The Company is well positioned to satisfy such customer requirements due to (i) its specialized sales and service approach employing engineering and sales professionals who design and implement cost-effective telecommunications solutions, (ii) the ongoing development and integration of new telecommunications services, (iii) its local/long distance voice switch and transmission network deployment program, (iv) the implementation of 89 enhanced data switches and over 200 network to network interfaces ("NNIs") for frame relay data transmission throughout the continental United States and (v) its interconnection co-carrier agreements with six ILECs.

The Company is certified as a CLEC in 13 states and the District of Columbia, allowing the Company to provide local exchange services in those markets, and has CLEC certification applications pending in 22 states. In addition, ICI is certified as a long distance carrier in 41 states and the District of Columbia. The Company has nine digital, fiber optic networks in service and one under development. As of December 31, 1996, this infrastructure was comprised of 24,122 fiber miles and 655 route miles and was connected to 487 buildings. As of December 31, 1996, ICI had invested $241.5 million (or 67% of its total invested capital) in gross plant, property and equipment, principally telecommunications equipment. ICI expects to continue to grow its networks and has identified expansion opportunities in other selected markets. Management believes that this expansion will enable the Company to (i) increase the size of its addressable market and reach a significant number of new potential customers, (ii) achieve economies of scale in network operations and sales and marketing and (iii) more effectively service customers that have a presence in multiple metropolitan areas. The Company has also undertaken a major expansion of its intercity network, principally to satisfy the growing demand for interexchange services, including enhanced data services such as frame relay networking services. As a result, frame relay nodes have grown from approximately 2,300 nodes, serving customer locations in 600 cities as of December 31, 1995, to approximately 9,500 nodes, serving customer locations in 2,200 cities as of December 31, 1996.

Enhanced data services (such as those provided on the Company's frame relay network) are specialized services for customers that need to transport large amounts of data among multiple locations. According to industry sources, the frame relay services market is projected to grow from $753 million in 1995 to $2.7 billion in 1999; however, there can be no assurance that such market growth will be realized or that the assumptions underlying such projections are reliable. While the Company has concentrated its frame relay sales in the eastern half of the United States, ICI is currently the fifth largest national provider of frame relay networking services (based on number of nodes) after AT&T, Inc. ("AT&T"), MCI Communications Corporation ("MCI"), Sprint Corporation ("Sprint") and WorldCom, Inc. ("WorldCom"). In order to satisfy its customers' desire for end to end frame relay services from a single provider, the Company has deployed its network and made arrangements with other frame relay service providers to offer national and international service.

ICI founded the UniSPAN(C) consortium in 1994 with three other carriers to enable the Company to provide end to end frame relay services throughout the United States and Canada. Because of the high volume of telecommunications traffic between ICI's target markets and certain Latin American markets, the Company has entered into international frame relay operating agreements with ImpSat of Columbia S.A., TresCom International, Telecom Holdings Panama and Americatel Corporation for the provision of frame relay services to and from Columbia, Puerto Rico, Panama, Chile & Costa Rica. ICI plans to pursue similar arrangements to enter other Latin American markets. The Company has pioneered the interconnection of its frame relay network with those of the ILECs, allowing pervasive, cost-efficient termination for its customers. Over 200 such NNIs have been implemented with BellSouth Telecommunications Inc. ("BellSouth"), Sprint, GTE Corporation ("GTE"), NYNEX, Bell Atlantic Inc. ("Bell Atlantic") and Southern New England Telecommunications Corp. ("SNET")

The Company believes that it can effectively utilize its competitive advantages as a provider of enhanced data services to communications intensive customers in order to acquire and retain these customers as local exchange and long distance customers throughout its markets. As ICI continues the deployment of local/long distance voice switches, it will make more efficient use of its intercity network. Combining long distance voice traffic between such switches with the intercity data traffic increases the overall amount of voice and data traffic that remains completely on the Company's network. The Company is developing additional applications and deploying technologies that will provide even greater efficiencies in the use of its intercity network.

The Company has developed and intends to introduce a voice product over its enhanced data network which will provide a competitive service offering to customers seeking a lower cost alternative to voice services currently provided over traditional circuit switched telecommunications networks. The Company believes that packet switched data networks, such as the Company's, will displace a significant portion of the estimated $130 billion telecommunications market which is currently provided over traditional circuit switched networks. The Company believes this proposed new service offering will accelerate its penetration of the traditional voice services market.

The Company has developed operating strategies, important components of which are described below, to increase market share and operating margins.

Customer Strategy

Provide Single-Source Telecommunications Services. The Company's service portfolio includes local exchange, enhanced data (i.e., frame relay and ATM, Internet and Intranet), interexchange long distance, integration and private line services. Management believes that its ability to deliver all of these services provides significant advantages for both the customer and for the Company. Not only does this capability address customers' complex requirements associated with integration of diverse networks and technologies at various locations, but it also reduces customers' administrative burdens associated with service charges, billing, network monitoring, implementation, coordination and maintenance. ICI also believes that by offering expanded single-source services through existing networks and customer connections, it can leverage the significant capacity inherent in its digital networks.

Focus on Business and Government Customers. The Company's portfolio of service offerings, customer service approach, highly reliable networks, broad geographic coverage and integration capabilities are well suited to serve the demands of telecommunications-intensive business and government customers. The Company's existing business customer base represents a broad range of industries, including firms in the retail, financial services, Internet, healthcare, merchandising, manufacturing and other industry segments. ICI has a dedicated sales and engineering support group focused exclusively on providing service to government agencies. The Company has long term contracts with the States of Florida and New York pursuant to which the Company provides various telecommunications services, including frame relay and other data services (as well as certain voice services under the New York contract).

Develop Interexchange Carrier and Value-Added Reseller Relationships. As a result of recent changes at state and federal regulation which have provided ILECs with mandates that foster local exchange competition, ICI has accelerated its entry into the local exchange services market. As interexchange carriers ("IXCs") enter the local exchange business, the Company believes that they will seek to gain access to the local exchange services market by either developing local network capacity or by purchasing such capacity from alternative service providers. The Company believes that these developments are likely to make ICI a candidate for joint ventures and preferred vendor arrangements with IXCs, ILECs and other telecommunications related companies. Such arrangements would benefit the Company by enabling ICI to more rapidly recover its capital investment in switches and other network infrastructure by increasing the traffic through its networks. These IXC relationships typically began with the Company providing special access services on behalf of these IXCs and have recently evolved to include local access transport and local exchange services. These arrangements should enable ICI to achieve greater market share and reach new market segments more rapidly than it could otherwise. The Company

has also begun soliciting these IXCs, out of region ILECs, cable companies and other value added resellers to resell the Company's local exchange and other services. ICI has recently established a preferred vendor relationship with Cable & Wireless, Inc., which includes the resale of ICI's local exchange service by Cable & Wireless, Inc.

Maintain and Develop Long-Term Relationships. By providing customized telecommunications solutions to its customers, the Company develops a sense of partnership with its cus[illegible]. This, together with the provision of an integrated package of services (local, long distance and enhanced data services) fosters the development of long-term customer relationships. As an example, the group of ICI's top 42 customers as of December 31, 1994 (representing approximately 68% of ICI's billings for the month of December 1994) had increased their aggregate billings in excess of 100% for the month of December 31, 1996. At December 31, 1996, 37 of these 42 customers were still customers of ICI and, in the aggregate, represented approximately 17% of ICI's monthly billings for December 1996.

Provide Cost-Effective Service Offerings. The Company believes that the introduction of its services at competitive market rates has stimulated demand from small to medium-sized customers, thereby broadening the market for ICI's services. Each of the Company's individually packaged services is competitively priced and, when integrated into a comprehensive telecommunications package, typically provides significant savings to such customers over a combination of ILEC and IXC service offerings.

Expand Solutions-Oriented Sales Effort. The Company has rapidly expanded, and intends to continue to expand, its direct sales and support team consisting of engineering and sales professionals. The sales and support teams have complete product knowledge and technical, integration and program or project management skills. This team approach promotes a close working relationship between the Company and the customer's telecommunications, information services and user constituencies. The Company believes such relationships improve its ability to sell more of its services and maintain longer relationships with its customers. During 1996, ICI increased the number of its sales offices by nine and substantially increased its engineering support personnel and sales representatives. The Company believes that the continued deployment of its skilled end-user engineering support and sales team will allow ICI to establish service in new markets and maintain a competitive position in existing markets. By focusing first on establishing customer relationships in both new and existing markets, the Company believes it can efficiently deploy capital in response to actual customer demand.

Network Strategy

Control Franchise Points of the Networks. Connections to customers and building entries represent an important component of ICI's network strategy. These connections provide the Company with the platform to sell a variety of services to existing and additional potential customers within a building, analogous to those provided by traditional shared tenant services providers. ICI believes that the deployment of switching technology and advanced network electronics enables the Company to better configure its networks to provide cost effective and customized solutions to its customers.

Extend Coverage to Provide End-to-End Service. The Company believes that an important aspect of satisfying its customers is its ability to provide and support services from end to end. This requires network interconnection with other carriers and operational support systems and tools to "manage" the customer's total service. The Company has entered into interconnection co-carrier agreements with BellSouth, Sprint, GTE, NYNEX, SBC Communications, Inc. ("SBC") and Bell Atlantic. This will allow the Company to access a large number of business and government telephones in its service territory. The Company anticipates entering into similar arrangements with ILECs in other markets. The Company has also interconnected its frame relay network to various ILECs, thereby substantially expanding the reach of its networks. ICI now provides originating and terminating transport services in 45 states and maintains points of presence ("POPs") for interexchange and enhanced data services in most major cities in the United States. The Company has deployed, and continues to integrate, network monitoring and control tools to insure high levels of service quality and reliability.

Utilize ILEC Resale and Unbundled Network Elements. Recent regulatory changes have enabled the Company to resell ILEC services and to utilize unbundled ILEC network elements at discounted rates. The Company intends to use resold services and unbundled network elements to provide rapid market entry and develop its customer base in advance of capital deployment. Once thresholds of customer density have been achieved, the Company intends to systematically replace these resold and unbundled elements with its own facilities, where economical.

Deploy Capital Cost Effectively on a Demand Driven Basis. In addition to the use of ILEC resale and unbundling, the Company has the ability to lease network capacity from other carriers at competitive rates. This has led the Company to lease network capacity in various areas prior to, or as an economic alternative to, building additional capacity. As a result of its most favored nation pricing from Advanced Radio Telecom Corp. ("ART") in the Northeast, the Company from time to time leases 38 GHz wireless services as one such economic alternative. Utilizing leased facilities enables the Company to (i) meet customers' needs more rapidly, (ii) improve the utilization of ICI's existing networks, (iii) add revenue producing customers before building networks, thereby reducing the risks associated with speculative network construction and (iv) subsequently focus its capital expenditures in geographic areas where network construction or acquisition will provide a competitive advantage. The Company focuses its capital deployment on the segments of its networks that the Company believes will provide it with the highest revenue and cash flow potential and the greatest long term competitive advantage. For the 12 months ended September 30, 1996, the Company recorded $.54 in revenue for each average dollar of plant, property and equipment invested.

Growth Strategy

Accelerate Internal Growth. By focusing on business and government customers and maintaining high quality and cost-effective services, the Company has generated a compound annual internal revenue growth rate of 63% for the two year period ended December 31, 1996. The Company believes that its customer and network strategies will continue to enable ICI to expand its services and markets, increase its revenue base and effectively compete in a dynamic marketplace. In order to achieve such growth, it is essential to continue to add to the Company's highly skilled, broadly deployed end user sales and engineering support team.

Accelerate Provision of Local Exchange Services. The Telecommunications Act of 1996 (the "1996 Act") significantly improved the opportunity for competition in the local exchange market by mandating that ILECs enter into arrangements with competitors such as the Company for central office collocation and unbundling of local services. The Company believes that implementation of such pro-competitive policies creates favorable opportunities to more aggressively pursue the provision of local exchange services. The Company has a total of five local/long distance voice switches in operation and is currently marketing, to existing and new customers, local dial tone, switched access termination and origination services, centrex and desktop products bundled with the Company's other service offerings. The Company expects to offer such services in all of its fiber optic-based markets by mid 1997, with the exception of Huntsville, Alabama.

Selectively Acquire Existing Networks and Services. Over the past few years, a portion of the Company's growth has been accomplished through acquisitions and joint ventures or selling relationships. The Company continues to examine various acquisition and joint venture proposals to accelerate its rate of growth. In addition to the usual financial considerations, ICI assesses each opportunity to determine if either (i) current network traffic into and out of the geographic areas served by the potential joint venture or acquisition candidate warrants developing a presence in those geographic areas or (ii) such candidate offers services consistent with the Company's strategy. While management does not believe that acquisitions are necessary to achieve the Company's strategic goals, strategic alliances with or acquisitions of appropriate companies may accelerate achievement of certain goals by creating operating synergies and providing for a more rapid expansion of the Company's networks and services. The Company is currently evaluating various acquisition opportunities. No assurance can be given that any potential acquisition will be consummated.

1996 Acquisitions

During 1996, the Company completed three corporate acquisitions. In June 1996, the Company acquired the telecommunications division of EMI Communications Corp. ("EMI"), a company serving customers primarily in the Northeast with aggregate telecommunications revenues of approximately $53.7 million for the year ended December 31, 1996, of which $27.8 million was included in the Company's revenue for 1996. ICI purchased EMI's telecommunications division in exchange for 937,500 newly issued shares of ICI's common stock, par value $.01 per share (the "Common Stock"), issued to Newhouse Broadcasting Corporation, the parent corporation of EMI ("Newhouse"). The number of shares of Common Stock payable to Newhouse was based upon a purchase price of $15,000,000 divided by the average trading price per share of the Common Stock during the twenty-one day period ending on February 14, 1996 (which was equal to $16.00). As of June 28, 1996, the closing date of the acquisition, the EMI Shares were valued at approximately $16.9 million. With this acquisition, the Company substantially expanded its frame relay presence into the Northeast and acquired both additional customers (including a major contract with the State of New York) and a number of highly skilled personnel.

In December 1996, the Company acquired Universal Telecom Inc. ("UTT"), a provider of interexchange services to approximately 1,000 business customers in the St. Louis area with annualized monthly telecommunications revenues of approximately $5.4 million. The purchase price was $2.9 million, including assumed liabilities and shares of Common Stock. The UTT acquisition was strategically significant because of the near completion of construction of ICI's St. Louis metropolitan area fiber optic network.

In December 1996, the Company also acquired the network transport business of NetSolve Incorporated ("NetSolve") for approximately $12.8 million in cash. With this acquisition the Company gained 600 multi-site business customers and network facilities (transport and switching) which extended the Company's intercity network into Texas and provided facilities into incremental markets in the eastern half of the United States. NetSolve's network transport business generated approximately $16.0 million of annualized monthly telecommunications revenues for December 1996.

ICI was incorporated in the State of Delaware on November 9, 1987, as the successor to a Florida corporation that was founded in 1986. The Company's principal offices are located at 3625 Queen Palm Drive, Tampa, Florida 33619, and its telephone number is (813) 829-0011.

Services Provided and Markets

Local Exchange Services. Telephone services that connect a customer's telephone or PBX to the public network. These local services also provide the customer with access to long distance services, operator and directory assistance services, 911 service and enhanced local features, which are described by example below

Service or Feature	Description	Typical Application
PBX Trunk	Connects a customer PBX to the public network, shared by multiple users connected to the PBX, for making or receiving local (and long distance) calls	24 trunks for both incoming and outgoing calls — allow a call to be directed to a specific user connected to the PBX (known as direct inward dial, or DID service).
Business Access Line	Connects a business customer's telephone to the public network, for making and completing local (and long distance) calls.	A small sales office utilizes 5 business lines, each with a unique telephone number, connected to five telephones in the office
ISDN	A specialized digital switching technology that allows voice and data to share a digital channel	A small office utilizes a single ISDN line to simultaneously transport data at 64 kbps and talk to another location with a similar service
Voice Mail	A service offered by ICI's switch, providing full, personalized answering service for a business customer	A business customer uses ICI's voicemail service to avoid the cost and upkeep on an answering machine in their office

Enhanced Data Services. Switching and transport of digitized data (or voice) over a seamless network designed to provide highly reliable, flexible service and support of many data transmission protocols. ICI's enhanced data services are provided over its network of frame relay and ATM data switches, located throughout its service territory. Examples of these services are listed below

Service or Feature	Description	Typical Application
Frame Relay Network	Connection of data communications devices at numerous locations over ICI's enhanced data network.	A firm has several data networks (one for point of sale, one for finance and accounting, one for LAN to LAN connection) that all consist of a large "host" site and numerous remote sites currently connected by a large number of dedicated private lines. It is converted to ICI's frame relay network, with a single connection to each location, and the multiple networks operating over this single connection A small, multi-location firm has LANs at each location, but has not been able to provide company-wide email and file access, without using dial up connections. The establishment of a frame relay network allows an affordable means to interconnect all offices, for full time access to company-wide email and shared files

Internet and Intranet Services. ICI offers access to the Internet and provides additional services that utilize the Internet via its frame relay network. Examples of these services are listed below:

Service or Feature	Description	Typical Application
Dedicated Internet Access	Connection to the Internet via ICI's frame relay network.	An existing ICI frame relay customer utilizes an existing physical connection to access other computers on the Internet, using a "web browser."
Hosted Internet Service	ICI provides a World Wide Web presence for a customer, establishing and maintaining the customer's web page on ICI's platform.	A business wishes to have a world wide web presence, but lacks the expertise, computing platform, and technical resources to design, implement, and maintain their web presence. ICI provides the turnkey service.
Intranet Service	Private equivalent of the Internet	ICI provides a large corporation with "private" equivalents of the Internet allowing secure, closed user access to the company's private web sites, file transfer capabilities, etc.

Long Distance Services. The origination and termination of telephone calls between users in different cities or exchanges. The Company provides these services on a usage basis, utilizing its local/long distance switches its intercity network and services provided by other carriers. Examples are listed below:

Service or Feature	Description	Typical Application
Outbound Long Distance	Completion of long distance calls originated by ICI customers	An ICI customer of local exchange services makes a "1+" call, domestic or international, which is processed and delivered to its destination by the ICI network as part of an integrated local/long distance service package.
Inbound Long Distance	"800" or "888" number service	An ICI customer receives "toll free" calls, handled over ICI-provided dedicated lines to the customer, or over the customer's ICI local exchange service lines.
Calling Card	Nationwide long distance calling without cash	An ICI customer dials a nationwide 800 number, and completes a long distance call using the ICI calling card; billing is aggregated with the customer's other services.

Private Line Services Dedicated channels connecting discreet end points. These non-switched services can be provided to two locations within the same city, or between locations in different cities (interexchange private lines). Examples are listed below:

Service or Feature	Description	Typical Application
Special Access	An intra-city private line that connects a customer to an IXC for the purpose of delivering long distance calls to the IXC—does not carry local traffic	An IXC customer of ICI orders a special access circuit to one of its customers in an ICI city.
Interexchange Private Line	An inter-city private line, for voice or data, of a fixed bandwidth, connecting to two locations of the same customer	An ICI customer needs a 1.544 Mbps connection between two computers in Miami and Boston. The full 1.544 Mbps is used constantly
IXC End Office Transport	Connecting an IXC to the End Office of an ILEC or CLEC	An IXC customer of ICI needs circuits to the end office of a LEC, to allow the IXC's customers to obtain "1+" long distance dialing from that IXC

Integration Services Provision and custom configuration of network devices, normally located at the customer's location, which may include any special engineering, installation, or service function provided by ICI. Examples are listed below:

Service or Feature	Description	Typical Application
CPE Integration	Provision, configuration, installation, and monitoring of specialized telecom equipment	ICI designs a router based data network for a customer, procures, configures, installs and maintains both hardware and software for the customer, packaged into a single service invoice
Campus LAN	Construction of a private fiber network	ICI designs, constructs and optionally monitors a private fiber "loop" built on a campus of buildings
Design Service	Provision of engineering services in support of a customer application	ICI provides hardware and software engineering services to support a customer's Internet "web" site

The following table sets forth the Company's estimates, based upon an analysis of industry sources including industry projections, and FCC data, of the market size nationally of the services described above. Only a limited amount of direct information is currently available and therefore a significant portion of the information set forth below is based upon estimates and assumptions made by the Company. The Company believes that its estimates are based upon reliable information and that its assumptions are reasonable. There can be no assurance however, that the estimates will not vary from the actual market data and that these variances will not be substantial.

	United States Competitive Telecommunications Market Opportunity 1996 Company Estimates (Dollars in millions)
Local Network Services	
Special Access and Private Line Services	$ 7,800
Switched Access Services	19,700
Local Exchange Services(1)	47,200
Other(2)	23,800
Total Local Network Services	98,500
Enhanced Data Services	1,300
Interexchange Services	65,200
Total Additional Services	66,500
Total Market Size	$165,000

(1) The Company is currently permitted to offer these services in Florida, Alabama, Washington, D.C., Georgia, Illinois, Iowa, Kentucky, Maryland, Mississippi, New York, North Carolina, South Carolina, Tennessee and Massachusetts and has applied for certification to offer these services in 22 additional states.

(2) Other includes revenue from pay phones, billing services and intraLATA calling services.

The market sizes set forth in the above table are not intended to provide an indication of the Company's total addressable market or the revenue potential for the Company's services. ICI has obtained all certifications necessary to permit the Company to provide local exchange service in 13 states and the District of Columbia and is in the process of obtaining the necessary certifications in 22 other states where the Company operates or plans to operate. In addition, the Company's ability to offer services in its territory is limited by the size and coverage of the Company's networks and competitive factors. The Company derives its addressable market estimates by multiplying the total national market size estimated above by the percentage of the population (as derived from U.S. Census Bureau information) residing in the Company's market areas. This estimate assumes that per capita telecommunications services usage is the same in various regions of the United States. The Company estimates that its 1997 addressable market, computed under this methodology, is approximately $34 billion.

ICI's services generally fall into three categories: (i) local network services, which include local exchange services, special and switched access services and local private line services, (ii) enhanced data services, which include frame relay based data transport, ATM and Internet and Intranet services and (iii) interexchange (long distance) services.

The Company's local network services consist of local private line services, which the Company has been offering since 1987, and local exchange service, which the Company began offering in 1996. The Company provides customers local private line services either by building network facilities or leasing extended network facilities to the customer's premises. In the markets where the Company has digital fiber optic networks, the addition of local exchange services allows the Company to increase its revenue generating products with[illegible]

having to acquire additional transport facilities and allows a more integrated service to be offered to the customer. The initial circuit used to reach the customer establishes a platform that can be utilized to offer additional services. Due to the significant bandwidth inherent in fiber optic cable, a single connection can support a large number of service types and a large number of customers.

The Company has built its base of local network service customers by offering highly reliable, high quality services that compete primarily with the ILECs. In 1996, local network services accounted for approximately 13% (or approximately $13.5 million) of the Company's total revenues. The Company believes that the market for these services will grow through the introduction of local exchange services, expansion of networks within existing markets, addition of new markets, and increased penetration of existing customers through provision of new incremental services.

Enhanced data services consist of interexchange data networks utilizing frame relay technology and application services, such as Internet, which utilize the frame relay network. Enhanced data services enable customers to economically and securely transmit large volumes of data typically sent in large bursts from one site to another. Previously, customers had to utilize low speed dedicated private lines or dial up circuits for interconnecting remote LANs and other customer locations. These methods had numerous disadvantages including (i) low transmission speeds, (ii) systems that required the utilization of complementary protocols and line speeds which significantly increased the cost of implementing networks, (iii) limited security, placing customers' entire networks at risk to tampering from outside sources and (iv) high costs due to the necessity to pay for a full time dedicated line despite infrequent use. Enhanced data services are utilized for LAN interconnection, remote site, point of sale and branch office communications solutions.

The typical ICI customer for enhanced data services has multiple business locations and requires communication for one or more data applications among these locations. The customer may also have a number of locations served by ICI's fiber optic networks; however, provision of enhanced data services is not dependent on the provision of local network services at any specific location. All of the customers' locations, whether domestic or international, are monitored by the Company and can be served through the Company's own operations or through the use of partner networks (e.g., UniSPAN(C)).

As a consequence of a significantly increased volume of traffic and number of Internet customers connected to ICI's network, many of these customers connect to other users or Internet hosts without ever leaving ICI's network. Over 100 ISPs utilize ICI's network for access to their customers and other Internet sites.

In 1996, the Company's enhanced data services accounted for approximately 31% of the Company's total revenue. The market for enhanced data services, according to industry sources, is expected to grow from $1.3 billion in 1996 to $2.7 billion in 1999. There can be no assurance, however, that such market growth will be realized or that the assumptions underlying such projections are reliable.

Long distance services have been offered by the Company since December 1994. Long distance services include inbound (800) service, outbound service and calling card telephone service. The Company currently provides interLATA long distance services in 41 states, interstate long distance services nationwide and international termination worldwide.

The Company's integration services are applicable to all three categories of service described above and are made available to end user and carrier customers. A team of sales professionals and engineers develop specialized solutions for a customer's specific telecommunications needs. Some of these integration services include the sale, configuration and installation of third party equipment to handle certain telecommunications and monitoring functions and the development of private networks. The Company believes that such services increase the level of linkage between the Company's and the customer's operations thereby increasing the customer's reliance on the Company.

The Company plans to continue to expand its domestic geographic reach by acquiring and integrating high quality, value added companies. In addition, the Company, through the pursuit of strategic alliances, plans to expand its ability to originate and terminate voice and data traffic in certain Latin American markets beyond those recently established in Panama, Columbia, Puerto Rico, Chile and Costa Rica. ICI believes these markets are important to its business because, not only is there a significant community of interest between many of these countries and certain key cities in ICI's service territory as a result of the large Spanish speaking populations in these cities, but there are also a number of businesses that have operations in both Latin America and in the Company's southeastern markets.

Sales, Marketing and Service Delivery

ICI's marketing activities are primarily directed to business and government customers with a presence in the Company's service territory. The Company's customers include large corporations, financial services companies, government departments and agencies, and academic, scientific and other major institutions as well as small and medium sized businesses and IXCs.

The Company's sales and marketing approach is to build long-term business relationships with its customers, with the intent of becoming the single source provider of all of their telecommunications services. In an effort to leverage its recent success in obtaining government contracts, the Company has created a sales group whose focus is the marketing of ICI's telecommunications services to government departments and agencies. The Company has also established a sales group that focuses exclusively on obtaining building entry agreements with owners of multiple office building complexes. The ICI sales force includes specialized professionals who focus on sales to retail, wholesale and alternate channel (agents and value added resellers) consumers of the Company's telecommunications services. The Company's sales staff works to gain a better understanding of the customer's operations in order to develop innovative, application-specific solutions to each customer's needs. Sales personnel locate potential business customers by several methods, including customer referral, market research, cold calling and other networking alliances, including customer demand information from certain IXCs.

Enhanced data services, like all other ICI services, are sold through the Company's existing sales force supported by sales engineers, and often in cooperation with agents and value added resellers (independent providers of communications hardware to customers) and other business associates. This approach enables the Company to (i) emphasize the applications solutions aspects of enhanced data services and (ii) utilize the expertise and resources of other vendors. The Company intends to continue expanding its sales and engineering support staff and other technical specialists in order to meet the growing demand for enhanced data services. Since these services are also sold to extended network customers of the Company, this sales effort offers the Company a means of expanding its network. See "—Network."

New customer relationships are typically established by providing services from one of the three major categories (local, enhanced and long distance), then following up with additional services from the other two categories. For instance, during 1996, the Company established approximately 2,800 new customer relationships through the sale of long distance services.

The Company's service delivery staff is primarily responsible for coordinating service and installation activities. Service delivery activities include surveying the site to assess ambient conditions and power and space requirements, as well as coordinating installation dates and equipment delivery and testing. ICI's customer service and technical staff plans, engineers, monitors and maintains the integrity, quality and availability of the Company's networks. ICI's customer service and technical staff are available to customers 24 hours every day.

To support all of its network based services, the Company has implemented an automated ordering, provisioning and billing system similar to that used by the ILECs. This automated system makes it easy for the Company's IXC customers to track their orders with ICI, and similarly allows ICI to track its orders with the ILECs. ICI has also implemented an integrated network management system which enhances the Company's ability to monitor, test, track trouble and dispatch repair resources. This system monitors the performance of ICI's networks and services 24 hours every day.

Network

The Company has deployed its network infrastructure selecting the most economical alternative of constructing or leasing facilities or a combination thereof. The Company generally chooses to own facilities where (i) there is no fiber optic network alternative and the Company can be the incumbent network provider (ii) ownership creates strategic value for the Company, (iii) large concentrations of telecommunications traffic are accessible, or have been secured, to justify network construction and (iv) network construction can create significant barriers to entry for subsequent competitors who may wish to enter the Company's markets.

In addition to the "build" vs. "lease" decision for network deployment, the Company also considers potential network acquisitions from time to time. The Company believes that acquisitions will generally provide it with (i) immediate access to incremental customers, (ii) reduction of network construction and implementation risks, (iii) elimination of an incumbent competitor, (iv) immediate access to additional qualified management, sales and technical personnel and (v) a network platform for the provision of incremental value added services. The Company has demonstrated such strategy with its acquisition of FiberNet, EMI and NetSolve.

In those markets where ICI chooses to deploy broadband fiber networks, the Company's strategy is to first develop the "carrier ring" portion of its network, a high capacity network designed to be accessible to all the major long distance carriers and key ILEC central offices in the area. This portion of the network allows the Company to provide access to these long distance carriers, provide connectivity to the ILEC network for interconnection and use of unbundled ILEC network elements, and over time, to connect business and government customers to such long distance carriers. Second, the Company designs a larger "backbone ring" extending from the carrier ring, with a view toward making the network accessible to the largest concentration of telecommunications-intensive business and government customers in the area. Hubs are strategically located on the backbone rings to allow for the collection and distribution of telecommunications traffic onto and off the backbone ring. Third, the Company concentrates its sales and marketing efforts on adding business and government customers located on or very near its backbone network and hub locations. Once ICI determines that there is sufficient customer demand in a particular area, it extends "distribution rings" from the backbone ring to reach specific business customers in that area. The Company's emphasis is on the building and expansion of these city-based networks to reach end user customers in buildings or office parks with substantial telecommunications opportunity. The establishment of a "franchise point" at a customer's location is a key strategic design element of these networks.

ICI's city-based networks are comprised of fiber optic cables, integrated switching facilities, advanced electronics, data switching equipment (e.g. frame relay and ATM), transmission equipment and associated wiring and equipment. By virtue of its state-of-the-art equipment and ring-like architecture, the Company's networks offer electronic redundancy and diverse access routing. Through automatic protection switching, if any electrical component or fiber optic strand fails, the signal is instantaneously switched to a "hot standby" component or fiber. Since network outages and transmission errors can be very disruptive and costly to long distance carriers and other customers, consistent reliability is critical to customers.

The Company currently has fiber optic networks in service in the Orlando, Tampa, Miami, St. Petersburg, Jacksonville and West Palm Beach, Florida, Cincinnati, Ohio, Raleigh-Durham, North Carolina, and Huntsville, Alabama metropolitan areas and one under development in St. Louis, Missouri. ICI continues to expand these networks and has identified similar network expansion opportunities in other selected markets.

As a result of its acquisition of EMI in 1996, ICI also utilizes certain wireless technologies as a part of its provision of services. ICI owns a long-haul microwave transmission system comprising approximately 5,000 route miles in the Northeast, which is principally used for transporting digital interexchange trunking and analog video signals. Additionally, as a part of a 1995 Asset Purchase Agreement between EMI and ART, ICI has access to 38 GHz licenses in most metropolitan areas in the Northeast at the lowest rate charged by ART for such services. The Company uses this technology from time to time to connect its customers to its network, allowing rapid initiation of service.

In addition, the Company has undertaken a significant network expansion to satisfy the demands of the Company's market driven growth in interexchange data and voice offerings. The Company has deployed resources, primarily switching equipment, to develop an extensive network to provide these services. Excess capacity on this primarily leased network can be used to provide incremental telecommunications services such as interexchange long distance services.

The Company has recently undertaken the deployment of ATM networking technology in its intercity network, allowing the network capacity to be efficiently shared between multiple platforms. Often, the Company offers interexchange services in geographic markets where it has not deployed its own fiber optic network by leasing facilities from a variety of entities, including ILECs, utilities, IXCs, local governments, cable companies and various transit/highway authorities. In many cases, such capacity is obtained through the capital lease or purchase of "dark fiber." The combination of the Company's city-based networks and its intercity capacity comprise the seamless network platform which the Company utilizes to offer its broad array of telecommunications services to its customers. The Company also has agreements with certain third parties and the carriers in the UniSPAN(C) consortium to deliver enhanced data services nationwide or internationally through a seamless data network.

The Company's telecommunications equipment vendors actively participate in planning and developing electronic equipment for use in ICI's networks. The Company does not believe it is dependent on any single vendor for equipment. Because the Company uses existing telecommunications technology rather than developing it, ICI's research and development expenditures are not material.

Competition

The Company faces intense competition in each of its three service categories—local services, enhanced services and long distance services.

The Company believes that various legislative initiatives, including the recently enacted 1996 Act and certain state initiatives, will result in the removal of the remaining regulatory barriers to local exchange competition. While the Company currently competes with AT&T, MCI and others in the interexchange services market, the 1996 Act also permits the RBOCs to provide interexchange services upon meeting certain requirements described in the 1996 Act. When the RBOCs begin to provide such services, they will be in a position to offer single source service similar to that being offered by ICI. In addition, Sprint and GTE offer, and various ILECs and IXCs, including BellSouth, have announced their intent to offer, integrated telecommunication services in areas currently served by ICI. AT&T and MCI have begun to enter the local exchange services market. The Company cannot predict the number of competitors that will emerge as a result of existing and any new federal and state regulatory or legislative actions. Competition from integrated telecommunications services provided by the RBOCs, AT&T, MCI, Sprint, WorldCom and others could have a material adverse effect on the Company's business.

Competition in each of the service categories provided by the Company, as well as for systems integration which is common to all market segments, is discussed below.

Local Services. In each of its geographic markets, the Company faces significant competition for the local services it offers from RBOCs and other ILECs, which currently dominate their local telecommunications markets. These companies all have long-standing relationships with their customers and have financial, personnel and technical resources substantially greater than those of ICI.

The Company also faces competition in most markets in which it operates from one or more CLECs or ICPs operating fiber optic networks. Other local service providers have operations or are initiating operations within one or more of the Company's service areas. ICI expects WorldCom, MCI, Teleport Communications Group Inc. ("Teleport") and certain cable television providers, many of which are substantially larger and have substantially greater financial resources than the Company, to enter some or all of the markets that the Company

presently serves. At least two of these competitors, WorldCom and Teleport, have entered or announced plans to enter a number of ICI's service areas. ICI also understands that other entities have indicated their desire to enter the local exchange services market within specific metropolitan areas served or targeted by ICI.

In addition, a continuing trend toward consolidation and strategic alliances within the telecommunications industry could result in significant new competition for the Company. AT&T and MCI have begun to enter the local services market. Other potential competitors of the Company include utility companies, long distance carriers, wireless telephone systems and private networks built by individual business customers. The Company cannot predict the number of competitors that will emerge as a result of existing or any new federal and state regulatory or legislative actions.

Competition in all of the Company's geographic market areas is based on quality, reliability, customer service and responsiveness, service features and price. The Company has kept its prices at levels competitive with those of the ILECs while providing, in the opinion of the Company, a higher level of service and responsiveness to its customers.

Although the ILECs are generally subject to greater pricing and regulatory constraints than other local network service providers, ILECs are achieving increasing pricing flexibility for their local services as a result of recent legislative and regulatory developments. The ILECs have continued to lower rates, resulting in downward pressure on certain dedicated and switched access transport rates. This price erosion has decreased operating margins for these services. However, the Company believes this effect will be more than offset by the increased revenues available as a result of access to customers provided through interconnection co-carrier agreements and the opening of local exchange service to competition. In addition, the Company believes that lower rates for dedicated access will benefit other services offered by the Company.

Enhanced Data Services. The Company faces competition in its enhanced data services business from ILECs, IXCs, VSAT providers and others. Many of the Company's existing and potential competitors have financial and other resources significantly greater than those of the Company.

The Company competes with the larger IXCs on the basis of service responsiveness, rapid response to technology and service trends, and a regional focus borne of early market successes. All of the major IXCs, including AT&T, MCI, Sprint and WorldCom offer frame relay services and several of the major IXCs have announced plans to provide Internet services. The Company believes it competes favorably with these providers in its markets, based on the features and functions of its services, the high density of its networks, relatively greater experience and in-house expertise. Continued aggressive pricing is expected to support continued rapid growth, but will place increasing pressure on operating margins.

The Company also competes with VSAT services on the basis of price and data capacity. The Company believes that the relatively low bandwidth of each VSAT terminal and the cost of purchasing and installing VSAT equipment limits the ability of VSAT to compete with the frame relay services provided by the Company.

Many of the ILECs now offer services similar to ICI's enhanced data services, but offer them only on an intraLATA basis. While the ILECs generally cannot interconnect their frame relay networks with each other, ICI has interconnected its frame relay network with those of various ILECs. As a result, ICI can use certain ILEC services to keep its own costs down when distributing into areas that cannot be more economically serviced on its own network. ICI expects the ILECs to aggressively expand their enhanced data services as regulatory developments permit them to deploy interLATA long distance networks. When the ILECs are permitted to provide such services, they will be in a position to offer single source service similar to that being offered by ICI. As part of its various interconnection agreements, ICI has negotiated favorable rates for unbundled ILEC frame relay service elements. The Company expects such negotiations to decrease its costs, positively impacting margins for this service.

Interexchange Services. The Company currently competes with AT&T, MCI and others in the interexchange services market. Many of the Company's competitors have longstanding relationships with their customers and have financial, personnel and technical resources substantially greater than those of ICI. In providing interexchange services, the Company focuses on quality service and economy to distinguish itself in a very competitive marketplace. ICI has built a loyal customer base by emphasizing its customer service. The additional new services that are offered as the Company implements its local exchange services should further support this position by allowing the Company to market a wide array of fully integrated telecommunications services. While these services are subject to highly competitive pricing pressures, the Company's cost to provide these services is decreasing as it deploys more local/long distance voice switches and interexchange network facilities.

Systems Integration. The Company faces competition in its systems integration business from equipment manufacturers, the RBOCs and other ILECs, long distance carriers and systems integrators, many of which have financial, and other resources significantly greater than those of the Company. Because the Company is not highly dependent on system integration revenues and because the Company typically provides system integration services to customers who purchase other services of the Company, ICI's systems integration competitors should not pose a significant threat to ICI's overall business.

Government Regulation

Overview. The Company's services are subject to varying degrees of federal, state and local regulation. The FCC exercises jurisdiction over all facilities of, and services offered by, telecommunications common carriers to the extent those facilities are used to provide, originate or terminate interstate or international communications. The state regulatory commissions retain jurisdiction over most of the same facilities and services to the extent they are used to originate or terminate intrastate communications. In addition, many of the regulations issued by these regulatory bodies may be subject to judicial review, the result of which ICI is unable to predict.

Federal Regulation. The Company must comply with the requirements of common carriage under the Communications Act of 1934 (the "Communications Act"), as amended. Comprehensive amendments to the Communications Act were made by the 1996 Act, which was signed into law on February 8, 1996. The 1996 Act effected plenary changes in regulation at both the federal and state levels that affect virtually every segment of the telecommunications industry. The stated purpose of the 1996 Act is to promote competition in all areas of telecommunications and to reduce unnecessary regulation to the greatest extent possible. While it will take years for the industry to feel the full impact of the 1996 Act, it is already clear that the legislation provides the Company with both new opportunities and new challenges.

The 1996 Act gives the FCC the authority to forebear from regulating companies if it finds that such regulation does not serve the public interest, and directs the FCC to review its regulations for continued relevance on a regular basis. As a result of this directive, a number of the regulations that historically applied to the Company have been and may continue to be eliminated in the future. While it is therefore expected that a number of regulations that were developed prior to the 1996 Act will be eliminated in time, those which still apply to the Company at present are discussed below.

The FCC has established different levels of regulation for dominant and non dominant carriers. Of domestic common carrier service providers, only GTE and the RBOCs are classified as dominant carriers, and all other providers of domestic common carrier services, including the Company, are classified as non dominant carriers. The 1996 Act provides the FCC with the authority to forebear from imposing any regulations it deems unnecessary, including requiring non-dominant carriers to file tariffs. On November 1, 1996, in its first major exercise of regulatory forbearance authority granted by the 1996 Act, the FCC issued an order detariffing domestic interexchange services. The order requires mandatory detariffing and gives carriers such as ICI nine months to withdraw federal tariffs and move to contractual relationships with its customers. This order subsequently was stayed by a federal appeals court and it is unclear at this time whether the detariffing order will be implemented.

The 1996 Act greatly expands the FCC's interconnection requirements on the ILECs. The 1996 Act requires the ILECs to (i) provide physical collocation, which allows companies such as ICI and other interconnectors to install and maintain their own network termination equipment in ILEC central offices, and virtual collocation only if requested or if physical collocation is demonstrated to be technically infeasible, (ii) unbundle components of their local service networks so that other providers of local service can compete for a wider range of local services customers, (iii) establish "wholesale" rates for their services to promote resale by CLECs and other competitors, (iv) establish number portability, which will allow a customer to retain its existing phone number if it switches from the ILEC to a competitive local service provider, (v) establish dialing parity, which ensures that customers will not detect a quality difference in dialing telephone numbers or accessing operators or emergency services, and (vi) provide nondiscriminatory access to telephone poles, ducts, conduits and rights-of-way. In addition, the 1996 Act requires ILECs to compensate competitive carriers for traffic originated by the ILECs and terminated on the competitive carriers' networks. The FCC is charged with establishing national guidelines to implement the 1996 Act. The FCC issued its Interconnection Order on August 8, 1996, after which, six separate motions were filed with the Eighth Circuit Court of Appeals in St. Louis for a stay of the FCC's Interconnection Order. On October 15, 1996, the court stayed the pricing and "most favored nation" provisions contained in the Interconnection Order while leaving in place the structural aspects of the order. The Eighth Circuit Court is expected to render a decision by June 1997 on the merits of the FCC's interconnection rules and that decision is expected to be appealed to the United States Supreme Court.

As part of its pro-competitive policies, the 1996 Act frees the RBOCs from the judicial orders that prohibited their provision of interLATA services. Specifically, the Act permits RBOCs to provide long distance services outside their local service regions immediately, and will permit them to provide in-region interLATA service upon demonstrating to the FCC and state regulatory agencies that they have adhered to the FCC's interconnection regulations. BellSouth in Georgia and North Carolina and Ameritech Corporation ("Ameritech") in Michigan have asked their respective state regulatory agencies to review their applications and to recommend approval by the FCC. These RBOCs are expected to file their applications with the FCC by June 1997. The FCC is expected to scrutinize these and future applications to ensure that the interconnection requirements have been met.

As a result of these provisions of the 1996 Act, the Company has taken the steps necessary to be a provider of local exchange services and has positioned itself as a full service, integrated telecommunications services provider. ICI has obtained local certification in 13 states and the District of Columbia and has applications pending for local certification in 22 additional states. In addition, the Company has successfully negotiated interconnection agreements that meet the interconnection provisions contained in the 1996 Act with six ILECs. At the same time, the 1996 Act also makes competitive entry more attractive to RBOCs, other ILECs, interexchange carriers and other companies, and likely will increase the level of competition that the Company faces.

The 1996 Act also repeals the telecommunications/cable television cross-ownership prohibition which generally had prohibited ILECs from providing in-region cable television service.

The 1996 Act's interconnection requirements also apply to interexchange carriers and all other providers of telecommunications services, although the terms and conditions for interconnection provided by these carriers are not regulated as strictly as interconnection provided by the ILECs. This may provide the Company with the ability to reduce its own access costs by interconnecting directly with non-ILECs, but may also cause the Company to incur additional administrative and regulatory expenses in replying to interconnection requests.

While the 1996 Act reduces regulation to which non-dominant local exchange carriers are subject, it also reduces the level of regulation that applies to the ILECs, and increases their ability to respond quickly to competition from the Company and others. For example, in accordance with the 1996 Act, the FCC has proposed to subject the ILECs to "streamlined" tariff regulation, which greatly accelerates the time in which tariffs that change service rates take effect, and eliminates the requirement that ILECs obtain FCC authorization before constructing new domestic facilities. These actions will allow ILECs to change service rates more quickly in

response to competition. The FCC initiated a proceeding on December 24, 1996 that addresses these issues and is expected to issue an order on these issues in May 1997. Similarly, the FCC has initiated a proceeding to review its price cap rules that may permit significant new pricing flexibility to ILECs. To the extent that such increased pricing flexibility is provided, the Company's ability to compete with ILECs for certain services may be adversely affected.

The 1996 Act directs the FCC, in cooperation with state regulators, to establish a Universal Service Fund that will provide subsidies to carriers that provide service to under-served individuals and high cost areas. These proceedings, which must be concluded in May 1997, may require the Company to contribute to the Universal Service Fund, but may also allow the Company to receive payments from the Fund if it is deemed eligible. The Company also may provide service to under-served customers in lieu of making Universal Service Fund payments. The net revenue effect of these regulations on the Company cannot be determined at this time.

In an order released on October 18, 1995, the FCC found that the transport of frame relay service should be classified as a "basic" service. Previously, it was common practice in the industry for many carriers to consider frame relay an "enhanced" service. This decision was significant because the FCC requires that basic services be tariffed, but permits enhanced services to be offered on an off-tariff basis. As a result of the FCC's decision, all carriers that provide frame relay transport were required to include the service in their federal tariffs by May 6, 1996. The Company has included its frame relay service in its federal tariff. The "basic" and "enhanced" terminology used by the FCC is a regulatory term of art denoting the classification of services for tariffing purposes. This regulatory use of the term should not be confused with the Company's description of a class of services (frame relay, ATM and Internet services) as "enhanced" elsewhere in this document.

State Regulation. To the extent that the Company provides intrastate service, it is subject to the jurisdiction of the relevant state public service commissions. The Company currently provides some intrastate services in [illegible] states and is subject to regulation by the public service commissions of those states. The Company is currently certificated (or certification is not required) in 41 states and the District of Columbia to provide toll services and is currently seeking certification in the nine remaining states. The Company is certified as a CLEC in [illegible] states and the District of Columbia and is currently seeking CLEC certification in 22 additional states. The Company is constantly evaluating the competitive environment and may seek to further expand its intrastate certifications into additional jurisdictions.

The 1996 Act preempts state statutes and regulations that restrict the provision of competitive local services. As a result of this sweeping legislation, the Company will be free to provide the full range of intrastate local and long distance services in all states in which it currently operates, and any states into which it may expand. While this action greatly increases the Company's addressable customer base, it also increases the amount of competition to which the Company may be subject.

Many of the states in which the Company operates have also enacted legislation or regulations that have permitted, or will permit, local service competition. The 1996 Act will require most of the states to modify these policies to bring them into conformity with federal standards. The 1996 Act also authorizes the states to adopt additional regulations to the extent that they do not conflict with federal standards. This aspect of the FCC order has been challenged and is awaiting resolution in court. It is unclear at this time how the states will respond to the new federal legislation, and what additional regulations they may adopt.

While the 1996 Act's prohibition of state barriers to competitive entry took effect on February 8, 1996, there have been numerous procedural delays which must be resolved before the 1996 Act's policies are fully implemented. The Company continues to support efforts at the state government level to encourage competition in their markets under the federal law and to permit ICPs and CLECs to operate on the same basis and with the same rights as the ILECs. In addition, the Company has been successful in its pursuit of local certificates from state Commissions and negotiated interconnection agreements with the ILECs, which permit the Company to meet its business objectives despite the uncertain regulatory environment.

In most states, the Company is required to file tariffs setting forth the terms, conditions and prices for services that are classified as intrastate (local, toll and enhanced). Most states require the Company to list the services provided and the specific rate for each service. Under different forms of regulatory flexibility, the Company may be allowed to set price ranges for specific services, and in some cases, prices may be set on an individual customer basis. The Company is not subject to price cap or rate of return regulation in any state in which it is currently certificated to provide local exchange service.

As the Company expands its operations into other states, it may become subject to the jurisdiction of their respective public service commissions for certain services offered by ICI. The Company does not believe that its relationship with Latin American or other international service providers currently subjects it to (or will subject it to) regulation outside the United States.

Local Government Authorizations. The Company may be required to obtain from municipal authorities street opening and construction permits to install and expand its fiber optic networks in certain cities. In some cities, local partners or subcontractors may already possess the requisite authorizations to construct or expand the Company's networks.

In some of the areas where the Company provides service, it may be subject to municipal franchise requirements and may be required to pay license or franchise fees based on a percent of gross revenue. There are no assurances that certain municipalities that do not currently impose fees will not seek to impose fees in the future, nor is there any assurance that, following the expiration of existing franchises, fees will remain at their current levels. In many markets, other companies providing local telecommunications services, particularly the ILECs, currently are excused from paying license or franchise fees or pay fees that are materially lower than those required to be paid by the Company. The 1996 Act requires municipalities to charge nondiscriminatory fees to all telecommunications providers, but it is uncertain how quickly this requirement will be implemented by particular municipalities in which the Company operates or plans to operate or whether it will be implemented without a legal challenge initiated by the Company or another ICP or CLEC.

If any of the Company's existing network agreements were terminated prior to their expiration date and the Company was forced to remove its fiber optic cables from the streets or abandon its network in place, even with compensation, such termination could have a material adverse effect on the Company.

The Company also must obtain licenses to attach facilities to utility poles in order to build and expand facilities. Because utilities that are owned by cooperatives or municipalities are not subject to federal pole attachment regulation, there is no assurance that the Company will be able to obtain pole attachment from these utilities at reasonable rates, terms and conditions.

Agreements

Interconnection Co-carrier Agreements. The Company has recently entered into interconnection co-carrier agreements with BellSouth, NYNEX, SBC, GTE, Sprint and Bell Atlantic, and is in the process of negotiating a similar agreement with Ameritech. Each of these agreements, among other things, provides for mutual and reciprocal compensation, local interconnection, resale of local exchange services, access to unbundled network elements, service provider number portability and access to operator service, directory service and 911 service as provided for in the 1996 Act. The agreements further provide that additional terms and conditions will be set by negotiation between the parties relating to issues which arise that were not originally contemplated by the agreements. These agreements were executed within the past year and have terms ranging from two to three years.

Network Agreements. The Company has built its digital fiber optic networks pursuant to various rights of way, conduit and dark fiber leases, utility pole attachment agreements and purchase arrangements (collectively, the "Network Agreements"). Substantially all of the Network Agreements (other than utility pole attachment agreements, which typically can be terminated on 90 days notice) are for a long-term and include renewal options.

Although none of the Network Agreements are exclusive, the Company believes that conduit space, fiber availability and other physical constraints make it unlikely that the lessors under the various Network Agreements could easily make similar arrangements available to others. The Company believes that it

relationships with its lessors are satisfactory. Certain of the Network Agreements require ICI to make revenue sharing payments or, in some cases, to provide a fixed price alternative or dark fiber to the lessor without an additional charge. In addition, the Company has various other performance obligations under its Network Agreements, the breach of which could result in the termination of such agreements. Further, actions by governmental regulatory bodies could, in certain instances, also result in the termination of certain Network Agreements. The cancellation of any of the material Network Agreements could materially adversely affect the Company's business in the affected metropolitan area. See "Risk Factors—Risk of Cancellation or Non-Renewal of Network Agreements, Licenses and Permits."

Interexchange Agreements. ICI, from time to time, enters into purchase agreements with interexchange carriers for the transport and/or termination of long distance calls outside of its territory. These contracts are typically two years in duration and customarily include minimum purchase amounts.

UniSPAN(C). In order to provide end-to-end connectivity and interoperability throughout the United States to its enhanced data services customers, ICI entered into a frame relay service agreement (the "UniSPAN Agreement") in September 1994 with EMI (since acquired by ICI), PacNet, Inc., Integrated Network Services, Inc. and MRC Telecommunications, Inc. In September 1995, Telemedia International, Inc., an international telecommunications company, became a party to the UniSPAN Agreement. Pursuant to the UniSPAN Agreement, each of the parties agreed to (i) provide frame relay services on its networks to each of the other parties, subject to available capacity and agreement as to certain terms including price and access to facilities, and (ii) use reasonable efforts to utilize the services of the other parties in the event that such party requires frame relay services in a geographic location not served by its own networks. The UniSPAN Agreement has an initial three year term with successive one year renewal periods until terminated by a majority vote of the parties. However, any party may withdraw from the agreement as of the expiration of any term by giving 60 days prior written notice thereof. Throughout the term of the UniSPAN Agreement and for one year thereafter, or for a period of one year after the withdrawal of any party, none of the parties may solicit provision of frame relay services to customers which were brought in to the UniSPAN(C) program by another party or for which frame relay services were requested by another party.

Employees

As of December 31, 1996, ICI employed a total of 874 full-time employees. The Company anticipates that the number of employees will increase significantly throughout 1997. The Company believes that its future success will depend in large part on its continued ability to attract and retain highly skilled and qualified personnel. ICI has nondisclosure agreements with all of its employees. The Company also regularly uses the services of contract technicians for the installation and maintenance of its networks. None of ICI's employees is represented by a collective bargaining agreement. ICI believes that its relations with its employees are good.

Risk Factors

Limited Operations of Certain Services; History of Net Losses. The Company's business commenced in 1987. Substantially all of the Company's revenues are derived from local exchange services, enhanced data services, long distance services, integration services and certain local network services. Many of these services have only recently been initiated or their availability only recently expanded in new market areas. The Company is expecting to substantially increase the size of its operations in the near future. Given the Company's limited operating history, there is no assurance that it will be able to compete successfully in the telecommunications business.

The development of the Company's business and the expansion of its networks require significant capital, operational and administrative expenditures, a substantial portion of which are incurred before the realization of revenues. These capital expenditures will result in negative cash flow until an adequate customer base is established. Although its revenues have increased in each of the last three years, ICI has incurred significant increases in expenses associated with the installation of local/long distance voice switches and expansion of its fiber optic networks, services and customer base. ICI reported net losses of approximately $3.1 million, $20.7

million and $57.2 million for the years ended December 31, 1994, 1995 and 1996, respectively. The Company anticipates having a significant net loss in 1997 that is expected to be substantially greater than the loss in 1996 and expects net losses to continue for the next several years. In addition, the Company expects to have negative EBITDA in 1997. There can be no assurance that ICI will achieve or sustain profitability or positive EBITDA in the future.

Significant Capital Requirements and Need for Additional Financing. Expansion of the Company's existing networks and services and the development of new networks and services require significant capital expenditures. ICI expects to fund its capital requirements through existing resources, joint ventures, debt or equity financing, and internally generated funds. The Company expects that to continue to expand its business will require raising substantial additional equity and/or debt capital after 1998. The Company's outstanding debt instruments do not permit the incurrence of an amount of indebtedness sufficient to fund its anticipated future capital requirements. Accordingly, the Company will need to obtain waivers or consents from its debtholders or raise equity capital. There can be no assurance, however, that ICI will be successful in raising sufficient debt or equity capital on terms that it will consider acceptable. In addition, the Company's future capital requirements will depend upon a number of factors, including marketing expenses, staffing levels and customer growth, as well as other factors that are not within the Company's control, such as competitive conditions, government regulation and capital costs. Failure to generate sufficient funds may require ICI to delay or abandon some of its foreign expansion or expenditure, which would have a material adverse effect on its growth and its ability to compete in the telecommunications industry.

Expansion Risk. The Company is experiencing a period of rapid expansion which management expects will increase in the near future. This growth has increased the operating complexity of the Company as well as the level of responsibility for both existing and new management personnel. The Company's ability to manage its expansion effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The Company's inability to effectively manage its expansion could have a material adverse effect on its business.

A portion of the Company's expansion may occur through acquisitions as an alternative to direct investments in the assets required to implement the expansion. No assurance can be given that suitable acquisitions can be identified, financed and completed on acceptable terms, or that the Company's future acquisitions, if any, will be successful or will not impair the Company's ability to service its outstanding obligations.

Risks of Implementation, Need to Obtain Permits and Rights of Way. The Company is continuing to expand its existing networks. The Company has identified other expansion opportunities in the eastern half of the United States and is currently extending the reach of its networks to pursue such opportunities. There can be no assurance that the Company will be able to expand its existing networks or construct or acquire new networks as currently planned on a timely basis. The expansion of the Company's existing networks and its construction or acquisition of new networks will be dependent, among other things, on its ability to acquire rights-of-way and any required permits on satisfactory terms and conditions and on its ability to finance such expansion, acquisition and construction. In addition, the Company may require pole attachment agreements with utilities and ILECs to operate existing and future networks, and there can be no assurance that such agreements will be obtained or obtainable on reasonable terms. These factors and others could adversely affect the expansion of the Company's customer base on its existing networks and commencement of operations on new networks. If the Company is not able to expand, acquire or construct its networks in accordance with its plans, the growth of its business would be materially adversely affected.

Competition. In each of its markets, the Company faces significant competition for the local network services, including local exchange services, it offers from ILECs, which currently dominate their local telecommunications markets. ILECs have long-standing relationships with their customers which relationships

may create competitive barriers. Furthermore, ILECs may have the potential to subsidize competitive service from monopoly service revenues. In addition, a continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors to the Company. The Company also faces competition in most markets in which it operates from one or more ICPs and CLECs operating fiber optic networks. In addition, the Company faces competition in its network systems integration business from equipment manufacturers, the RBOCs and other ILECs, long distance carriers and systems integrators, and in its enhance data services business from local telephone companies, long distance carriers, very small aperture terminal ("VSAT") providers and others. Many of the Company's existing and potential competitors have financial, personnel and other resources significantly greater than those of the Company.

The Company believes that various legislative initiatives, including the recently enacted 1996 Act, have removed remaining legislative barriers to local exchange competition. Nevertheless, in light of the passage of the 1996 Act, regulators are also likely to provide ILECs with increased pricing flexibility as competition increases. If ILECs are permitted to lower their rates substantially or engage in excessive volume or term discount pricing practices for their customers, the net income or cash flow of ICPs and CLECs, including the Company, could be materially adversely affected. In addition, while the Company currently competes with AT&T, MCI and others in the interexchange services market, the recent federal legislation permits the RBOCs to provide interexchange services once certain criteria are met. Once the RBOCs begin to provide such services, they will be in a position to offer single source service similar to that being offered by ICI. In addition, AT&T and MCI have entered and other interexchange carriers have announced their intent to enter into the local exchange services market, which is facilitated by the 1996 Act's resale and unbundled network element provisions. The Company cannot predict the number of competitors that will emerge as a result of existing or new federal and state regulatory or legislative actions. Competition from the RBOCs with respect to interexchange services or from AT&T, MCI or others with respect to local exchange services could have a material adverse effect on the Company's business.

Regulation. The Company is subject to varying degrees of federal, state and local regulation. The Company is not currently subject to price cap or rate of return regulation, nor is it currently required to obtain FCC authorization for the installation, acquisition or operation of its network facilities. Further, the FCC has issued an order holding that non-dominant carriers, such as the Company, are not required to file interstate tariffs for domestic long distance service on an ongoing basis. That order has been stayed by a federal appeals court and it is not clear at this time whether the detariffing order will be implemented. Until further action is taken by the court, the Company will continue to maintain tariffs for these services. The FCC also requires the Company to file interstate tariffs on an ongoing basis for international traffic and access services. The Company is generally subject to certification and tariff or price list filing requirements for intrastate services by state regulators. Although passage of the 1996 Act should result in increased opportunities for companies that are competing with the ILECs, no assurance can be given that changes in current or future regulations adopted by the FCC or state regulators or other legislative or judicial initiatives relating to the telecommunications industry would not have a material adverse effect on the Company. In addition, although the 1996 Act provides incentives to the ILECs that are subsidiaries of RBOCs to enter the long distance service market by requiring ILECs to negotiate interconnection agreements with local competitors, there can be no assurance that these ILECs will negotiate quickly with competitors such as the Company for the required interconnection of the competitor's networks with those of the ILECs.

Potential Diminishing Rate of Growth. During the period from 1994 to 1996, the Company's revenues have grown at a compound annual growth rate of 169%. While the Company expects to continue to grow, as its size increases it is likely that its rate of growth will diminish.

Risk of New Service Acceptance by Customers. The Company has recently introduced a number of services, primarily local exchange services, that the Company believes are important to its long term growth. The success of these services will be dependent upon, among other things, the willingness of customers to accept

the Company as the provider of such new telecommunications technology. No assurance can be given that such acceptance will occur; the lack of such acceptance could have a material adverse effect on the Company.

Rapid Technological Changes. The telecommunications industry is subject to rapid and significant changes in technology. While ICI believes that, for the foreseeable future, these changes will neither materially affect the continued use of its fiber optic networks nor materially hinder its ability to acquire necessary technologies, the effect on the business of ICI of technological changes such as changes relating to emerging wireline and wireless transmission technologies, including software protocols, cannot be predicted.

Dependence on Key Personnel. The Company's business is managed by a small number of key management and operating personnel, the loss of certain of whom could have a material adverse impact on the Company's business. The Company believes that its future success will depend in large part on its continued ability to attract and attain highly skilled and qualified personnel. None of the Company's key executives, other than David C. Ruberg, President, Chief Executive Officer and Chairman of the Board, is a party to a long-term employment agreement with the Company.

Risk of Cancellation or Non-Renewal of Network Agreements, Licenses and Permits. The Company has lease and/or purchase agreements for rights-of-way, utility pole attachments, conduit and dark fiber for its fiber optic networks. Although the Company does not believe that any of these agreements will be cancelled in the near future, cancellation or non-renewal of certain of such agreements could materially adversely affect the Company's business in the affected metropolitan area. In addition, the Company has certain licenses and permits from local government authorities. The 1996 Act requires that local government authorities treat telecommunications carriers in a competitively neutral, non-discriminatory manner, and that most utilities, including most ILECs and electric companies, afford alternative carriers access to their poles, conduits and rights-of-way at reasonable rates on non-discriminatory terms and conditions. There can be no assurance that the Company will be able to maintain its existing franchises, permits and rights or will be able to obtain and maintain the other franchises, permits and rights needed to implement its strategy on acceptable terms.

Dependence on Business from IXCs. For the year ended December 31, 1996, approximately 10% of the Company's consolidated revenues were attributable to access services provided to IXCs. The loss of access revenues from IXCs in general could have a material adverse effect on the Company's business. See "Business—Customer Strategy."

In addition, the Company's growth strategy assumes increased revenues from IXCs from the deployment of local/long distance voice switches on its networks and the provision of switched access origination and termination services. There is no assurance that the IXCs will continue to increase their utilization of the Company's services, or will not reduce or cease their utilization of the Company's services, which would have a material adverse effect on the Company.

Business Combinations; Change of Control. The Company has from time to time held, and continues to hold, preliminary discussions with (i) potential strategic investors who have expressed an interest in making an investment in or acquiring the Company and (ii) potential joint venture partners looking toward the formation of strategic alliances that would expand the reach of the Company's networks or services without necessarily requiring an additional investment in the Company. In addition to providing additional growth capital, management believes that an alliance with an appropriate strategic investor would provide operating synergy to and enhance the competitive positions of, both ICI and the investor within the rapidly consolidating telecommunications industry. There can be no assurance that agreements for any of the foregoing will be reached. An investment, business combination or strategic alliance could constitute a change of control. The terms of the Company's Existing Senior Notes (as defined) and Series A Preferred Stock (as defined) provide that a change of control would require the Company to repay the indebtedness and redeem the Series A Preferred Stock outstanding under such instruments. If a change of control does occur, there is no assurance that the

Company would have sufficient funds to make such repayments and redemption or could obtain any additional debt or equity financing that could be necessary in order to repay the Existing Senior Notes (as defined) and to redeem the Series A Preferred Stock.

Forward Looking Statements. The statements contained in this report that are not historical facts are "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 "estimates," "projects," "anticipates," "expects," "intends," "believes," or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Management wishes to caution the reader that these forward-looking statements, such as the Company's plans to expand its existing networks or to build and acquire networks in new areas, the market opportunity presented by larger metropolitan areas, its anticipation of installation of switches or the provision of local exchange services and revenues from designated markets during 1997, and statements regarding development of the Company's businesses, the estimate of market sizes and addressable markets for the Company's services and products, the Company's anticipated capital expenditures, regulatory reform and other statements contained in this report regarding matters that are not historical facts, are only estimates or predictions. No assurance can be given that future results will be achieved, actual events or results may differ materially as a result of risks facing the Company or actual results differing from the assumptions underlying such statements. Such risks and assumptions include, but are not limited to, the Company's ability to successfully market its services to current and new customers, generate customer demand for its services in the particular markets where it plans to market services, access markets, identify, finance and complete suitable acquisitions, design and construct fiber optic networks, install cable and facilities, including switching electronics, and obtain rights-of-way, building access rights and any required governmental authorizations, franchises and permits, all in a timely manner, at reasonable costs and on satisfactory terms and conditions, as well as regulatory, legislative and judicial developments that could cause actual results to vary materially from the future results indicated, expressed or implied, in such forward-looking statements.

Moreover, the Company presents certain data contained herein on an annualized basis, based on quarterly or monthly data, because the Company believes that such annualized data is a standard method to present certain data in the telecommunications industry. However, actual annual results could differ materially from annualized data because annualized data does not account for factors such as seasonality, cyclicability, growth or decline. Consequently, readers should not place undue reliance on the annualized data.

Item 2. *Description of Properties*

The Company leases its principal administrative, marketing, warehouse and service development facilities in Tampa, Florida and leases other space for storage of its electronics equipment and for administrative, sales and engineering functions in other cities where the Company operates networks and/or performs sales functions. The Company believes that its properties are adequate and suitable for their intended purposes.

As of December 31, 1996, the Company's total telecommunications and equipment in service consisted of fiber optic telecommunications equipment (53%), fiber optic cable (16%), furniture and fixtures (8%), leasehold improvements (2%) and construction in progress (21%). Such properties do not lend themselves to description by character and location of principal units. Fiber optic cable plant used in providing service is primarily on or under public roads, highways or streets, with the remainder being on or under private property. Substantially all of the Company's telecommunications equipment is housed in multiple leased facilities in various locations throughout the metropolitan areas served by the Company.

Equipment additions over the past five years include gross additions to telecommunications equipment having an estimated service life of one year or more. Additions, including capital leases and excluding equipment

acquired and capital leases assumed in business acquisitions, since January 1, 1992 were as follows (in thousands):

Year Ended December 31,	Amount
1992	$ 9,687
1993	10,767
1994	18,289
1995	34,873
1996	131,466

Item 3. *Legal Proceedings*

Legal Proceedings

The Company is not a party to any pending legal proceedings except for various claims and lawsuits arising in the normal course of business. The Company does not believe that these normal course of business claims or lawsuits will have a material effect on the Company's financial condition or results of operations.

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

None.

PART II

Item 5. *Market Price for Registrant's Common Equity and Related Stockholder Matters*

The Common Stock is listed for trading on the Nasdaq National Market under the symbol "ICIX." As of March 19, 1997, based upon 77 holders of record of the Common Stock and an estimate of the number of individual participants represented by security position listings, there are approximately 3,200 beneficial holders of the Common Stock. The approximate high and low bid prices for the Common Stock tabulated below are as reported by the Nasdaq National Market and represent inter-dealer quotations which do not include retail mark-ups, mark-downs or commissions. Such prices do not necessarily represent actual transactions.

Quarter	Bid Price	
	High	Low
1995		
First	15	11
Second	13	8½
Third	17½	10½
Fourth	17½	11
1996		
First	19¾	13⅞
Second	38½	17¾
Third	34¾	22
Fourth	35	21

Holders of shares of Common Stock are entitled to dividends, when and if declared by the Board of Directors out of funds legally available therefor. ICI has never declared or paid cash dividends on its Common Stock. ICI intends to retain its earnings, if any, to finance the development and expansion of its business, and therefore does not anticipate paying any dividends in the foreseeable future. In addition, the terms of (i) the Company's 13½% Series B Senior Notes due 2005 (the "Senior Notes"), (ii) the Company's 12½% Senior Discount Notes due 2006 (the "Discount Notes" and together with the Senior Notes, the "Existing Senior Notes") and (iii) the Company's Series A Preferred Stock restrict the payment of dividends. When such restrictions no longer exist, the decision whether to pay dividends will be made by the Board of Directors in

light of conditions then existing, including the Company's results of operations, financial condition and capital requirements, business conditions and other factors. The payment of dividends on the Common Stock is also subject to the preference applicable to the outstanding shares of the Company's Series A Preferred Stock and to the preference that may be applicable to any additional outstanding shares of the Company's Preferred Stock.

On June 28, 1996, ICI purchased EMI's telecommunications division in exchange for 937,500 newly and validly issued, fully paid and nonassessable shares of Common Stock (the "EMI Shares"), issued by ICI to Newhouse, the parent corporation of EMI. The number of EMI Shares payable to Newhouse was based upon a purchase price of $15,000,000 divided by the average trading price per share of the Common Stock during the twenty-one day period ending on February 14, 1996 (which was equal to $16.00). As of June 28, 1996, the closing date of acquisition, the EMI Shares were valued at approximately $16.9 million. The EMI Shares were transferred to Newhouse pursuant to an exemption from registration provided for under Section 4(2) of the Securities Act of 1933, as amended (the "Act"). Prior to the issuance of the EMI Shares, Newhouse represented to ICI, among other things, that: (i) it is acquiring the EMI Shares for its own account for investment and without any view to any distribution thereof, (ii) it understands that it must bear the economic risk of its investment in the EMI Shares for an indefinite period of time; and (iii) it is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the EMI Shares.

On December 6, 1996, the Company acquired certain assets of UTT for a purchase price of $2.9 million, including assumed liabilities and 31,380 unregistered shares of Common Stock (the "UTT Shares"). The UTT Shares were issued by ICI to UTT pursuant to an exemption from registration provided for under Section 4(2) of the Act. Prior to the issuance of the UTT Shares, UTT represented to ICI, among other things, that: (i) it is acquiring the UTT Shares for its own account for investment purposes and without any view to distribution of thereof, (ii) it understands that it must bear the economic risk of its investment in the UTT Shares for an indefinite period of time, and (iii) it is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the UTT Shares.

On March 7, 1997, ICI consummated a private placement (the "Private Placement") of 30,000 shares of its 13 1/2% Series A Redeemable Exchangeable Preferred Stock due 2009, liquidation preference $10,000 per share (the "Series A Preferred Stock"), to "qualified insitutional buyers" (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Act")) (the "Purchasers") to generate gross proceeds to the Company of $300,000,000, including an aggregate of $11,125,000 of underwriting discounts and commissions. The shares of Series A Preferred Stock were issued to the Purchasers pursuant to an exemption from registration provided by Rule 144A under the Act. In connection with the Private Placement, the Purchasers and the Company entered into a Registration Rights Agreements, whereby the Company agreed to file a registration statement with respect to an offer to exchange the Series A Preferred Stock for a new issue of preferred stock of the Company registered under the Act, with terms substantially identical to those of the Series A Preferred Stock. Each of the Purchasers represented to the Company, among other things, that it is a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A, and that it is acquiring the Series A Preferred Stock for its own account or for the account of another qualified institutional buyer.

Item 6. *Selected Financial and Other Operating Data*

The selected financial data and balance sheet data presented below as of and for the five years in the period ended December 31, 1996 have been derived from the consolidated financial statements of the Company, which financial statements have been audited by Ernst & Young LLP, independent certified public accountants.

The operating results of EMI are included in the Company's consolidated operating results commencing July 1, 1996. The operating results of UTT and NetSolve are included in the Company's consolidated operating results commencing December 1, 1996. The pro forma operating information gives effect to the EMI, UTT and NetSolve acquisitions as if they occurred on January 1, 1996. The following financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and the Consolidated Financial Statements of the Company and the Notes thereto included elsewhere in this report.

(Amounts in thousands, except per share and statistical data)

	Year Ended December 31,					Pro Forma(1) Year Ended December 31,
	1992	1993	1994	1995	1996	1996
Selected Financial Data:						
Revenue	$ 7,030	$ 8,292	$14,272	$ 38,631	$103,397	$152,[illegible]
Expenses						
Facilities administration and maintenance and line costs	1,760	2,843	5,396	22,989	81,105	121,803
Selling, general and administrative	2,607	3,893	6,412	14,993	36,610	40,663
Depreciation and amortization	2,190	3,020	5,132	10,196	19,836	23,022
	6,557	9,756	16,940	48,178	137,551	185,488
Operating income (loss)	473	(1,464)	(2,668)	(9,547)	(34,154)	(33,417)
Other income (expense)						
Interest expense	(1,031)	(844)	(1,218)	(13,767)	(35,213)	(35,213)
Interest and other income	323	234	819	4,060	12,168	[illegible]
Income tax benefit	—	—	—	97		
Loss before extraordinary item	(235)	(2,074)	(3,067)	(19,157)	(57,199)	[illegible]
Extraordinary loss on early extinguishment of debt		—		(1,592)		
Net loss	$ (235)	$(2,074)	$(3,067)	$(20,749)	$(57,199)	$(57,202)
Net loss per share (2)						
Loss before extraordinary item	$ (.10)	$ (.29)	$ (.34)	$ (1.91)	$ (4.08)	$ (3.94)
Extraordinary loss	—	—	—	(.16)		
Net loss	$ (.10)	$ (.29)	$ (.34)	$ (2.07)	$ (4.08)	$ (3.94)
Weighted average number of shares outstanding	4,797	7,077	8,956	10,036	14,018	[illegible]

	Year Ended December 31,					Pro Forma(1) Year Ended December 31,
	1992	1993	1994	1995	1996	1996
Other Data:						
Earnings before interest, income taxes, depreciation and amortization ("EBITDA")(3)	$2,663	$ 1,556	$ 2,464	$ 649	$(14,318)	$ [illegible]
Capital expenditures, including acquisitions of businesses, net of cash acquired	$8,818	$10,486	$13,731	$31,915	$[illegible]	$[illegible]

	December 31,				
	1992	1993	1994	1995	1996
Network Data:(4)					
Buildings connected	161	234	293	380	487
Route miles	240	335	378	504	655
Fiber miles	6,184	10,239	11,227	17,128	24,122
Number of city-based networks in service	4	5	6	9	9
Enhanced Data Services(4)					
Nodes(5)	—	100	900	2,300	9,500
Cities(6)	—	37	336	600	2,200
Switches	—	4	12	31	[illegible]
Employees(4)	49	58	146	287	[illegible]

	December 31,				
	1992	1993	1994	1995	1996
Balance Sheet Data					
Cash and cash equivalents(7)	$ 1,775	$27,954	$10,208	$ 50,997	$[illegible]
Working capital(8)	8,999	25,712	9,588	20,353	[illegible]
Total assets	36,174	61,219	74,086	216,018	[illegible]
Long term obligations and redeemable preferred stock (including current maturities)	11,742	11,614	16,527	165,545	[illegible]
Total stockholders' equity	21,257	45,987	52,033	40,254	[illegible]

(1) The pro forma operating information gives effect to the EMI, CTT and NetSolve acquisitions, which occurred effective June 30, 1996, December 1, 1996 and December [illegible], 1996, respectively, as if they occurred on January 1, 1996.

(2) Net loss per share in 1992 has been increased to reflect preferred stock dividends.

(3) EBITDA consists of earnings before interest, income taxes, depreciation and amortization. In addition, 1995 EBITDA excludes an extraordinary charge of $1,592 related to the early extinguishment of debt. EBITDA is provided in the Summary of Financial and Other Operating Data since it is a measure commonly used in the telecommunications industry to measure operating performance, asset value and financial leverage. It is presented to enhance the reader's understanding of the Company's operating results and is not intended to present cash flow for the periods presented. See the Consolidated [illegible] of Cash Flows included in the Company's Consolidated Financial Statements and the Notes thereto included elsewhere in this report.

4 Amounts as reflected in the table are based upon information contained in the Company's operating records

5 Amount represents an individual point of origin and termination of data served by the Company's enhanced network. In the opinion of management of the Company, all node numbers are appropriate

6 Represents the number of discrete postal cities to which enhanced data services are provided by the Company

7 Cash and cash equivalents excludes investments of $20,954 and $26,675 in 1995 and 1996, respectively, restricted under the terms of various notes and other agreements

8 Working capital includes the restricted investments referred to in Note 7, above

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and the Notes thereto appearing elsewhere in this report.

Overview

Since its inception in 1987, the Company has experienced substantial growth. Building from its original base in Florida, ICI is now a provider of integrated telecommunications services to customers that have a presence in the eastern half of the United States. The Company currently has nine digital, fiber optic networks in service and one under development. In addition, the Company's frame relay network serves customers in approximately 2,200 cities and provides end-to-end connectivity throughout the United States and many international markets. As its networks and service offerings have expanded, the Company has experienced significant year to year growth in revenues and customers.

ICI competes with the ILECs and IXCs in its service territory and offers a full range of voice and data telecommunications services. ICI's customers include a broad range of business and government end users and IXCs. The Company delivers local network services, including local exchange service, primarily over digital fiber optic telecommunications networks that it either owns or leases. In some circumstances, leasing facilities enables the Company to more rapidly initiate service to customers, reduces the risk of network construction or acquisition and potentially improves cash flow due to the reduction or deferment of capital expenditures. The Company also offers enhanced data services to its customers on an extensive intercity network that connects its customers, either through its own network or through other carriers, to locations throughout the country and internationally. This intercity network combined with the Company's local/long distance voice switches allows the Company to provide interexchange long distance service domestically and internationally.

At its inception, ICI provided special access and private line services to IXC's. In 1988, ICI was the first telecommunications service provider in Florida to begin providing special access and private line services to business customers. In 1991, ICI began offering integration services in response to customers' needs and in 1992 ICI introduced its first enhanced data services to provide flexible capacity and highly reliable end-to-end data service for its business and government customers. The Company began offering interexchange long distance service in December 1994, Internet services in 1995 and local exchange services in 1996. The pace with which the Company has introduced new service offerings has enabled it to achieve substantial growth, improve its mix of customers and diversify its sources of revenue. The Company believes that business and government customers will continue to account for a substantial share of its revenues over the next several years, because of ICI's ability to offer such customers integrated, cost-effective telecommunications solutions. The Company believes that during the first few years of local exchange competition, the IXCs may enter the market by becoming resellers of the Company's local services. If the IXCs pursue a reseller strategy, the amount of revenue the Company realizes from carriers may increase during this period.

From 1992 through 1995, the Company had achieved positive EBITDA and increased its revenue base substantially. However, as a result of significant investments in resources necessary to launch local exchange services and expand enhanced data services, EBITDA decreased as a percentage of revenue and the Company's EBITDA was negative for 1996. This was due to the significant up front expenses related to the development of its networks and leased facilities, the revenue from which is expected to be realized in later periods. The development of the Company's business and the installation and expansion of its networks have resulted in substantial capital expenditures and net losses during this period of its operations. Procurement of rights-of-way, administration and maintenance of facilities, depreciation of network capital expenditures and sales, general and administrative costs will continue to represent a large portion of the Company's expenses during its rapid expansion. In addition, the Company is experiencing rapid growth in marketing and selling expenses consistent with the addition of new customers and an increased level of selling and marketing activity. All of the marketing and selling expenses associated with the acquisition of new customers are expensed as they are incurred even though these customers are expected to generate recurring revenue for the Company for several years. The continued expansion of the Company's networks in anticipation of new customers and the marketing of services

to new and existing customers is therefore adversely impacting EBITDA of the Company in the near term. The Company anticipates, but there can be no assurance, that as its customer base grows, incremental revenues will be greater than incremental operating expenses.

Plan of Operation

In 1997 and beyond, the Company believes that its growth will be balanced among its local exchange, long distance and enhanced data services. Based on the Company's analysis of FCC data and its knowledge of the industry, the Company estimates that the market for local exchange, long distance and data services was approximately $25 billion in 1996 in the Company's service territory. As a result of the Company's planned expansion in 1997, the Company expects to be positioned to provide these services in markets with a total opportunity of approximately $34 billion by the end of 1997.

In order to develop its businesses more rapidly and efficiently utilize its capital resources, ICI plans to use the existing fiber optic infrastructure of other providers in addition to using its existing networks. While the Company will use significant amounts of capital to deploy enhanced data and voice switches on a demand driven basis in selected markets, ICI believes that its substantial existing network capacity should enable it to add new customers and provide additional services that will result in increased revenues with lower incremental costs and, correspondingly, over time improve its EBITDA. For example, selling additional services, such as local exchange services, to existing or new customers allows the Company to utilize unused portions of the capacity inherent in its existing fiber optic networks. This operating leverage increases the utilization of the network with limited additional capital expenditures. The Company's strategy to offer a full complement of telecommunications services is designed to enable the Company to take advantage of the operating leverage of its networks.

Revenue and Customer Base Analysis

Since the Company's founding in 1987, ICI has continually introduced new services. Due to these efforts, ICI's customer and revenue base has expanded substantially in recent years. The Company believes that the continued aggressive expansion of its enhanced data and interexchange voice services and the continued deployment of local exchange services will accelerate the diversification of the Company's customer and revenue base. The Company believes the expansion of the Company's customer base and the diversification of its revenue sources have (i) lowered the Company's reliance on any one customer, (ii) increased the total addressable market for the Company's services and (iii) reduced the Company's percentage of revenue associated with services to IXCs. The table set forth below provides an analysis of the Company's customer and revenue base.

Revenue and Customer Base Analysis

	Year Ended December 31,			Pro Forma(1) Year Ended December 31,
	1994	1995	1996	1996
Customer revenue				
Non-IXCs	77%	90%	90%	91%
IXCs	23	10	10	9
Total	100%	100%	100%	100%
Number of customers served (at end of period)(2)	8,148	9,530	14,133	14,133
Revenue sources				
Local network services	57%	28%	13%	9%
Enhanced data services	16	18	31	24
Interexchange services	9	49	51	64
System integration	18	5	5	3
	100%	100%	100%	100%

(1) Gives effect to the acquisitions of FMI, UTT and NetSolve as if they had occurred at the beginning of the period presented.

(2) Excludes long distance customers for whom billings during December 1996 were less than $5.00.

Results of Operations

The following table presents, for the periods indicated, certain information derived from the Consolidated Statements of Operations of the Company and the Unaudited Pro Forma Condensed Consolidated Financial Statements expressed in percentages of revenue

	Year Ended December 31,			Pro Forma(1) Year Ended December 31,
	1994	1995	1996	1996
Revenue	100.0%	100.0%	100.0%	100.0%
Facilities administration and maintenance and line cost	37.8	59.5	78.4	80.1
Selling, general and administrative	44.9	38.8	35.4	26.7
Depreciation and amortization	36.0	26.4	19.2	15.1
Operating loss	(18.7)	(24.7)	(33.0)	(21.9)
Interest expense	(8.5)	(35.6)	(34.1)	(23.2)
Interest and other income	5.7	10.5	11.8	7.5
Income tax benefit	—	0.2	—	—
Loss before extraordinary item	(21.5)	(49.6)	(55.3)	(37.6)
Extraordinary loss on early extinguishment of debt	—	(4.1)	—	
Net loss	(21.5)%	(53.7)%	(55.3)%	(37.6)%

(1) Gives effect to the acquisitions EMI, UTT and NetSolve as if they had occurred at the beginning of the period presented

Year ended 1996 vs. Year ended 1995

The Company's revenue grew from $38.6 million to $103.4 million or 168% from 1995 to 1996. Revenues in 1995 and 1996 for each of the product lines were as follows:

	1995	1996	Increase
Local network services	$10.8	$ 13.5	$ 2.7
Enhanced data services	6.9	31.7	24.8
Interexchange services	18.9	53.1	34.2
Systems integration	2.0	5.1	3.1
	$38.6	$103.4	$64.8

The increase in revenue was derived principally from growth in the Company's local network services, enhanced data services and interexchange services. EMI contributed $27.8 million to the growth during the last six months of 1996, of which $20.5 million related to interexchange services and $7.3 million related to enhanced data services. The Company acquired the telecommunications division of EMI in June 1996. The Company's annualized monthly recurring revenue increased to $12.3 million at December 31, 1996 from $3.3 million at December 31, 1995, an increase of 273%. Monthly recurring revenue represents the monthly service charges billable to telecommunications service customers as of the last day of the period indicated and excludes nonrecurring revenues for certain one-time charges, such as installation fees or equipment sales. The increase in the level of enhanced data services was evidenced by the increase in nodes which grew approximately 313% from approximately 2,300 at December 31, 1995 to approximately 9,500 at December 31, 1996. The geographic coverage of the Company's networks also grew in 1996 primarily through the acquisitions of EMI, UTT and NetSolve and the expansion of the Company's intercity network. Monthly recurring revenue in the backlog (booked sales that have yet to be installed) at December 31, 1996 was approximately $4.8 million annualized, a 14.3% increase from the prior year. From December 31, 1995 to December 31, 1996, the number of fiber miles in the Company's networks increased from 17,128 to 24,122, route miles increased from 504 to 655, and the number of customers served by ICI increased from 9,530 to 14,133

Operating expenses in total increased by 186% from $48.2 million for 1995 to $137.6 million in 1996, a $89.4 million increase. Of the increase, approximately $25.9 million, $1.9 million and $.5 million were attributable to the inclusion of EMI, NetSolve and UTT operating expenses, respectively. The operating results of EMI have been included in the consolidated results since July 1, 1996. NetSolve and UTT operating results have been included in the consolidated results since December 1, 1996. The balance of the increase was consistent with the significant expansion of the Company's owned and leased networks and equipment sales to customers.

Facilities administration and maintenance and line costs increased $58.1 million or 253% to $81.1 million in 1996 from $23.0 million in 1995. Of the increase, approximately $20.9 million, $.9 million and $.4 million were attributable to the inclusion of EMI, NetSolve and UTT operating results, respectively. In addition, increases in leased network capacity associated with the growth of local network service, enhanced data service and interexchange service revenues, increases in maintenance expense due to network expansion, payroll expense increases due to hiring additional engineering and operations staff along with increased cost of goods sold related to equipment sold to customers contributed to the change.

Selling, general and administrative expenses increased to $36.6 million in 1996 from $15.0 million in 1995, an increase of $21.6 million or 144%. The increase in expense is primarily related to increased sales commissions as a result of increases in sales bookings, in addition to increased sales, customer service, marketing and management information systems and payroll expense along with related costs, including one-time recruitment, relocation and training expenses. Of the increase, approximately $2.7 million was attributable to the inclusion of EMI operating results. Selling, general and administrative expenses in 1996 include $.9 million of amortization of deferred compensation expense related to the Company's 1996 Long-Term Incentive Plan. Unamortized deferred compensation to be amortized into expense over approximately the next 5 years amounts to $7.6 million.

Depreciation and amortization expense increased to $19.8 million in 1996 from $10.2 million in 1995, an increase of $9.6 million or 95%. These increases are directly related to the $149.6 million and $34.9 million of telecommunications equipment additions (including capital leases and business acquisitions) in 1996 and 1995, respectively, relating to ongoing network expansion.

Interest expense increased to $35.2 million in 1996 from $13.8 million in 1995, an increase of $21.4 million or 156%. This increase is the result of interest expense on the May 1996 issuance of $330 million principal amount of the Company's 12½% Discount Notes and the effect of a full year of interest expense on the June 1995 issuance of $160 million principal amount of the Company's 13½% Senior Notes. Included in the $35.2 million of interest expense for 1996 was $14.3 million of interest on the 12½% Discount Notes which was accreted into principal without a cash outlay.

Interest and other income increased to $12.2 million in 1996 from $4.1 million in 1995, an increase of $8.1 million or 200%, resulting from interest income earned on the excess proceeds of the May 1996 issuance of $330 million principal amount of the 12½% Discount Notes and the issuance of 4,674,503 shares of Common Stock, at $26.00 per share, combined with a full year of interest income earned on the excess proceeds of the June 1995 issuance of $160 million principal amount of the 13½% Senior Notes.

Extraordinary loss of $1.6 million in 1995 reflects $1.2 million in prepayment penalties related to certain indebtedness which was repaid from the proceeds of the June 1995 issuance of $160 million principal amount of 13½% Senior Notes and the write-off of the unamortized deferred financing costs associated with the indebtedness repaid.

EBITDA for 1996 decreased $15.0 million in 1996 from $.6 million in 1995 to $(14.3) million in 1996. As a percentage of revenue, 1996 and 1995 EBITDA were approximately (13.8%) and 1.7%, respectively. This decline was the result of the acceleration in the deployment of ICI's capital expansion plan which significantly increased growth oriented expenses (such as increases in sales, customer service and market development costs) prior to realizing revenues associated with these expenditures.

Year ended 1995 vs. Year ended 1994

The Company's revenue grew from $14.3 million to $38.6 million or 171% from 1994 to 1995. Revenues in 1995 and 1994 for each of the product lines were as follows:

	1994	1995	Increase
Local network services	$ 8.2	$10.8	$ 2.6
Enhanced data services	2.3	6.9	4.6
Interexchange services	1.3	18.9	17.6
Systems integration	2.5	2.0	(0.5)
	$14.3	$38.6	$24.3

A substantial portion of the increase in revenue was derived from growth in the Company's enhanced data services and the revenues of Phone One, Inc. ("Phone One") (interexchange services) for the full year in 1995. The Company acquired all of the outstanding common stock of Phone One on December 2, 1994. Monthly recurring revenue increased to $2.9 million at December 31, 1995 from $2 million at December 31, 1994, an increase of 45%. Monthly recurring revenue represents the monthly service charges billable to telecommunications service customers as of the last day of the period indicated and excludes nonrecurring revenues for certain one-time charges, such as installation fees or equipment charges. The increase in the level of enhanced data services was evidenced by the increase in nodes which grew approximately 156% from approximately 900 at December 31, 1994 to approximately 2,300 at December 31, 1995. The geographic coverage of the Company's networks also grew in 1995 primarily through the acquisition of FiberNet USA, Inc. and FiberNet Telecommunications of Cincinnati, Inc. (collectively, "FiberNet") and the expansion of the Company's intercity network. Monthly recurring revenue in the backlog at December 31, 1995 was approximately $4.2 million annualized, an approximately 45% increase from the prior year. From December 31, 1994 to December 31, 1995, the number of fiber miles in the Company's networks increased from 11,227 to 17,128, route miles increased from 378 to 504; and the number of customers serviced by ICI (including interexchange customers) increased from 8,148 to 9,530.

Operating expense in total increased by 184% from $16.9 million for 1994 to $48.2 million in 1995, a $31.3 million increase. Approximately $20.5 million of the increase was attributable to the inclusion of operating expenses relating to the Company's interexchange long distance services. Approximately $2.1 million of the increase was attributable to the inclusion of FiberNet's operating expenses. The operating results of FiberNet have been included in the consolidated results since March 1, 1995. The balance of the increase was consistent with the significant expansion of the Company's owned and leased networks and equipment sales to customers. As a result, the Company incurred a net loss of $20.7 million for 1995, as compared to a net loss of $3.1 million in 1994.

Facilities administration and maintenance and line costs increased by 326% from $5.4 million in 1994 to $23.0 million in 1995, a $17.6 million increase. Approximately $13.3 million of the increase is due to inclusion of the operating results of the Company's interexchange long distance services. In addition, increases in maintenance expense due to network expansion, payroll expense due to hiring additional engineering staff and cost of goods sold related to equipment sold to customers contributed to the change.

Selling, general, and administrative expense increased by 134% from $6.4 million in 1994 to $15.0 million in 1995, an $8.6 million increase. Approximately $5.2 million of the increase is due to the inclusion of the operating results of the Company's interexchange long distance services and $.3 million is due to the inclusion of FiberNet's operating results. The remaining change was primarily due to increases in sales commissions as a result of increases in sales bookings, accounting, marketing and management information systems staff, and increased property taxes relating to network expansion and enhancements. In addition, the Company expended additional resources by increasing the number and skill level of its sales and sales support staff. Recovery of these additional expenditures typically is recognized in future periods.

Depreciation and amortization expense increased by 99% from $5.1 million in 1994 to $10.2 million in 1995, an increase of $5.1 million. These increases are directly related to the $34.9 million and $18.3 million of telecommunications equipment additions (including capital leases) in 1995 and 1994, respectively, relating to ongoing network expansion and increases in the amortization of intangibles associated with the acquisitions of Phone One and FiberNet.

Interest and other income increased 396% from $0.8 million in 1994 to $4.1 million in 1995, a $3.3 million increase, as a result of interest earned on the cash available from the proceeds of the offering of the Senior Notes which were received in June 1995.

Interest expense increased by 1029% from $1.2 million in 1994 to $13.8 million in 1995, an increase of $12.6 million. The increase is primarily due to the interest incurred on the Senior Notes.

Extraordinary loss of $1.6 million was incurred which consisted of $1.2 million in prepayment penalties relating to certain indebtedness which was repaid from the proceeds of the offering of the Senior Notes and the write off of the unamortized deferred financing costs associated with the indebtedness repaid.

EBITDA decreased by $1.8 million or 74% from $2.5 million in 1994 to $0.6 million in 1995. As a percent of revenue, 1995 and 1994 EBITDA were approximately 2% and 17%, respectively. This decline was the result of the inclusion of a full year of revenues and expenses relating to interexchange long distance services which have a lower operating margin than the Company's other services, the incurrence of additional growth oriented expenses (such as increases in sales and support staff and market development costs) prior to realizing revenues associated with these expenditures and the Company's introduction of switched access transport services to IXCs.

Liquidity and Capital Resources

The Company's operations have required substantial capital investment for the purchase of telecommunications equipment and the design, construction and development of the Company's networks. Capital expenditures for the Company were $13.7 million, $30.0 million and $131.2 million in 1994, 1995 and 1996, respectively, excluding capital leases and telecommunications equipment acquired in connection with business acquisitions. The Company expects that it will continue to have substantial capital requirements in connection with the (i) expansion and improvement of the Company's existing networks, (ii) design, construction and development of new networks, (iii) connection of additional buildings and customers to the Company's networks, (iv) purchase of switches necessary for local exchange services and expansion of interexchange services and (v) development of the Company's enhanced data services.

The Company has funded a substantial portion of these expenditures through the public sale of debt and equity securities and, to a lesser extent, privately placed debt. From inception through December 31, 1996, the Company has raised approximately $212.6 million from the sale of Common Stock, including Common Stock issued in connection with the acquisitions of FiberNet, Phone One, EMI and UTT, and $324.6 million from the sale of the Existing Senior Notes.

The substantial capital investment required to build the Company's networks has resulted in negative cash flow from operations after consideration of investing activities over the last five year period. This negative cash flow after investing activities is a result of the requirement to build a substantial portion of the Company's network in anticipation of connecting revenue generating customers. The Company expects to continue to produce negative cash flow after investing activities for the next several years due to expansion activities associated with the development of the Company's networks. Until sufficient cash flow after investing activities is generated from operation, the Company will be required to utilize its current and future capital resources to meet its cash flow requirements, including the issuance of additional debt and/or equity securities.

In response to the new pro-competitive telecommunications environment (See "Business—Government Regulation") the Company has accelerated and expanded its capital deployment plan to allow for an increased

level of demand-driven capital spending necessary to more rapidly exploit the market opportunity in the local exchange market. The Company expects to expend substantial amounts to upgrade its existing networks in order to switch traffic within the local service area in those states where it is currently permitted to provide such services. The Company is certified as a CLEC in 13 states and the District of Columbia, allowing the Company to provide local exchange services in those markets, and has CLEC certification applications pending in 22 states. In addition, the Company expects to expend capital toward the further development of the Company's enhanced data service and interchange service offerings.

The Company currently estimates that it will require approximately $190 million to fund anticipated capital requirements during 1997, which it expects to fund from its available cash, including the proceeds of the Private Placement described in the next paragraph.

On March 7, 1997, the Company sold 30,000 shares (aggregate liquidation preference $300,000,000) of the Series A Preferred Stock in a private placement transaction. Net proceeds to the Company amounted to approximately $288,875,000. Dividends on the Series A Preferred Stock accumulate at a rate of 13½% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of additional shares of Series A Preferred Stock having an aggregate liquidation preference equal to the amount of such dividends. The Series A Preferred Stock is subject to mandatory redemption at its liquidation preference of $10,000 per share, plus accumulated and unpaid dividends on March 31, 2009. The Series A Preferred Stock will be redeemable at the option of the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

The Company may, at its option, exchange some or all shares of the Series A Preferred Stock for the Company's 13½% Senior Subordinated Debentures, due 2009 (the "Exchange Debentures"). The Exchange Debentures mature on March 31, 2009. Interest on the Exchange Debentures is payable semi-annually, and may be paid in the form of additional Exchange Debentures at the Company's option. Exchange Debentures will be redeemable by the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

The Company expects that its available cash, including proceeds from the Private Placement, will be sufficient to fund its accelerated and expanded capital deployment plan through 1998. The Company expects to require additional financing to continue its capital deployment plan beyond 1998. The Company may obtain additional funding through the sale of public or private debt and/or equity securities or through securing a bank credit facility. There can be no assurance as to the availability or the terms upon which such financing might be available. Moreover, the Existing Senior Notes and the Series A Preferred Stock impose certain restrictions upon the Company's ability to incur additional indebtedness or issue additional preferred stock.

The Company has from time to time held, and continues to hold, preliminary discussions with (i) potential strategic investors (i.e. investors in the same or a related business) who have expressed an interest in making an investment in or acquiring the Company, (ii) potential joint venture partners looking toward formation of strategic alliances that would expand the reach of the Company's network or services without necessarily requiring an additional investment in the Company and (iii) companies that represent potential acquisition opportunities for the Company. There can be no assurance that any agreement with any potential strategic investor, joint venture partner or acquisition target will be reached nor does management believe that any such agreement is necessary to successfully implement its strategic plans.

Impact of Inflation

Inflation has not had a significant impact on the Company's operations over the past three years.

Item 8. *Financial Statements and Supplementary Data*

The financial statements listed in Item 14(a)(1) and (2) are included in this report beginning on page F-1.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

The information required by this Item 10 is incorporated by reference from the information captioned "Proposal One Election of Directors" and "Executive Officers" to be included in the Company's proxy statement to be filed in connection with the annual meeting of stockholders, to be held on May 22, 1997 (the "Proxy Statement")

Item 11. ***Executive Compensation***

The information required by this Item 11 is incorporated by reference from the information captioned "Executive Compensation" and "Comparative Stock Performance" to be included in the Proxy Statement

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The information required by this Item 12 is incorporated by reference from the information captioned "Beneficial Ownership" to be included in the Proxy Statement

Item 13. ***Certain Relationships and Related Transactions***

The information required by this Item 13 is incorporated by reference from the information captioned "Certain Transactions" to be included in the Proxy Statement

PART IV

Item 14. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a)(1) and (2) Financial Statements and Financial Statement Schedules

The following consolidated financial statements of the Company and the notes thereto, the related reports thereon of the independent certified public accountants, and financial statement schedules, are filed under Item 8 of this Report

(a)	(1)	Financial Statements	
		Report of Independent Certified Public Accountants	F-1
		Consolidated Balance Sheets at December 31, 1995 and 1996	F-2
		Consolidated Statements of Operations for the years ended December 31 1994 1995 and 1996	F-3
		Consolidated Statements of Stockholders' Equity for the years ended December 31, 1994 1995 and 1996	F-4
		Consolidated Statements of Cash Flows for the years ended December 31, 1994 1995 and 1996	F-5
		Notes to Consolidated Financial Statements	F-6
	(2)	Financial Statement Schedules	
		Schedule II— Valuation and Qualifying Accounts	F-18

All other financial statement schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission (the "Commission") are not required under the instructions to Item 8 or are inapplicable and therefore have been omitted

(3) Exhibits

Number	Exhibit
2.1(a)	Acquisition agreement between the Company and Phone One International, Inc. dated November 9, 1994 (the "Acquisition Agreement"). Exhibit 2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 filed with the Commission on November 15, 1994 is incorporated herein by reference.
2.1(b)	Amendment No. 1 to the Acquisition Agreement, dated as of December 2, 1994. Exhibit 2.1(b) to the Company's Current Report on Form 8-K filed with the Commission on December 14, 1994 (the "1994 Form 8-K") is incorporated herein by reference.
2.1(c)	Letter agreement dated December 16, 1994 between the Company and Phone One International, Inc. Exhibit 2.1(c) to the Company's Current Report on Form 8-K filed with the Commission on January 27, 1995 is incorporated herein by reference.
2.2	Agreement and Plan of Merger, dated as of February 15, 1995, among the Company, FAC Acquisition, Inc., CAC Acquisition, Inc., FiberNet USA, Inc., FiberNet Telecommunications Cincinnati, Inc., James F. Geiger, Mark A. Masi, Joseph A. Tortoretti, Petrocelli Industries, Inc. and Santo Petrocelli. Exhibit 2.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 is incorporated herein by reference.
2.3	Asset Purchase Agreement (the "EMI Asset Purchase Agreement") dated as of February 20, 1996 among EMI Communications Corp., Eastern Message, Inc., Eastern Message of New Jersey, Inc., Eastern Message of Pennsylvania, Inc., Eastern Message of Massachusetts, Inc., Eastern Message of Maryland, Inc., Newhouse Broadcasting Corporation and Intermedia Communications of Florida, Inc. Exhibit 2.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (the "1995 Form 10-K") is incorporated herein by reference.
2.3(a)	Amendment No. 1 to the EMI Asset Purchase Agreement. Exhibit 2.2 to the Company's Current Report on Form 8-K filed with the Commission on June 28, 1996 is incorporated herein by reference.
3.1	Restated Certificate of Incorporation of ICI, together with all amendments thereto.
3.2	By-laws of ICI, together with all amendments thereto. Exhibit 3.2 to the Company's Form S-1, filed with the Commission on November 8, 1993 (No. 33-69053) (the "Form S-1") is incorporated herein by reference.
4.1	Registration Rights Agreement between the Company and Phone One International, Inc., dated December 2, 1994. Exhibit 4.1 to the 1994 Form 8-K is incorporated herein by reference.
4.1(a)	Amended and Restated Stockholders Agreement, dated as of June 5, 1991, among ICI, Robert Benton, Richard Anthony, James Burt, Mary Couture, Robert Hardie, Sheryl Houff, Thomas Klump, Richard Kolsby, William Miller, Daniel Montague, Susan Rodriguez, Barbara Samson, Harvard Southall, Bruce Sutcliffe, Marion Samson Joseph, APA Excelsior II, National Westminster Jersey Trust Co. Ltd., Custodian for APA Excelsior Venture Capital Holdings (Jersey) Ltd., Morgan Holland Fund L.P., MBW Venture Partners Limited Partnership, Michigan Investment Fund L.P. and Philip E. McCarthy, Vista III L.P., Kronish, Lieb, Weiner & Hellman Profit Sharing Plan and Trust F/B/O Ralph J. Sutcliffe, New York Life Insurance Company and Community Investment Partners, L.P. (the "Stockholders Agreement"). Exhibit 4.1(a) to the Form S-1 is incorporated herein by reference.
4.1(b)	Amendment to Stockholders Agreement dated as of February 21, 1992. Exhibit 4.1(b) to the Form S-1 is incorporated herein by reference.

Number	Exhibit
4.2	Indenture, dated as of June 2, 1995, between the Company and SunBank National Association, as trustee. Exhibit 4.1 to the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission on June 20, 1995 (No. 33-93622) (the "Form S-4") is incorporated herein by reference.
4.2(a)	Amended and Restated Indenture, dated as of April 26, 1996, governing the Company's 13½% Series B Senior Notes due 2005, between the Company and SunTrust Bank, Central Florida, National Association, as trustee. Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on April 29, 1996 is incorporated herein by reference.
4.3	Registration Rights Agreement, dated as of June 2, 1995 among the Company, Bear, Stearns, & Co., Inc. and Morgan Stanley & Co., as initial purchasers. Exhibit 4.3 to the Form S-4 is incorporated herein by reference.
4.4	Rights Agreement dated as of March 7, 1996, between Intermedia Communications of Florida, Inc., and Continental Stock Transfer and Trust Company. Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on March 12, 1996 is incorporated herein by reference.
4.4(a)	Amendment to Rights Agreement, dated as of February 20, 1997 between Intermedia Communications Inc. and Continental Stock Transfer & Trust Company.
4.5	Warrant Agreement, dated as of February 18, 1988, between ICI and certain of its stockholders. Exhibit 10.16 to the Company's Form S-1 is incorporated herein by reference.
4.6	Warrant Agreement, dated as of June 5, 1991, between ICI and New York Life Insurance Company. Exhibit 10.17 to the Company's Form S-1 is incorporated herein by reference.
4.7	Form of Warrant Agreement, dated as of March 4, 1992, between ICI and certain of its stockholders. Exhibit 10.18 to the Company's Form S-1 is incorporated herein by reference.
4.8	Indenture, dated as of May 14, 1996, between the Company and SunTrust Bank, Central Florida, National Association, as trustee. Exhibit 4.1 to Amendment No. 1 to the Company's Registration Statement on Form S-3 (Commission File No. 33-34738) filed with the Commission on April 18, 1996 is incorporated herein by reference.
4.9	Certificate of Designation of the Company's 13½% Series A and Series B Redeemable Exchangeable Preferred Stock due 2009 is contained in the Company's Restated Certificate of Incorporation, as amended, filed as Exhibit 3.1 to this report.
4.10	Registration Rights Agreeement, dated as of March 7, 1997, by and among the Company and Bear, Stearns & Co. Inc., Morgan Stanley & Co. Incorporated and Salomon Brothers Inc, as the initial purchasers.
4.11	Certificate of Designation, as amended, of the Company's Series C Preferred Stock is contained in the Company's Restated Certificate of Incorporation, as amended, filed as Exhibit 3.1 to this report.
10.1(a)	1992 Stock Option Plan. Exhibit 10.1 to the Form S-1 is incorporated herein by reference.
10.1(b)	Amendment to 1992 Stock Option Plan dated May 20, 1993. Exhibit 10.1(b) to the Form S-1 is incorporated herein by reference.
10.1(c)	Long Term Incentive Plan. Exhibit 10.1(c) to the Company's 1995 Form 10-K is incorporated herein by reference.
10.2	David C. Ruberg Employment Agreement, dated May 1, 1993, between David C. Ruberg and ICI. Exhibit 10.2 to the Company's 1995 Form 10-K is incorporated herein by reference.

Number	Exhibit
10.3	Sublease, dated August 28, 1995, between ICI and Pharmacy Management Services, Inc. for its principal executive offices located at 3625 Queen Palm Drive, Tampa, Florida. Exhibit 10.3 to the Company's 1995 Form 10-K is incorporated herein by reference.
10.4	Stock Purchase Agreement, dated as of February 18, 1988, among ICI, Marion Samson Joseph, Robert Benton, Barbara Samson, Bruce Sutcliffe, William Miller, Richard Kolsby, and National Westminster Jersey Trust Co. Ltd., Custodian for APA Excelsior Venture Capital Holdings (Jersey) Ltd, APA Excelsior II, Morgan Holland Fund L.P., MBW Venture Partners Limited Partnership, Michigan Investment Fund L.P., and Philip E. McCarthy, as amended. Exhibit 10.11 to the Form S-1 is incorporated herein by reference.
10.5	Stock Purchase Agreement, dated as of March 18, 1988, among ICI, Marion Samson Joseph, Robert Benton, Barbara Samson, Bruce Sutcliffe, William Miller, Richard Kolsby, and Vista III L.P., Morgan Holland Fund L.P., MBW Venture Partners Limited Partnership, Michigan Investment Fund L.P., and Kronish, Lieb, Weiner & Hellman Profit Sharing Plan and Trust F/B/O Ralph J. Sutcliffe, as amended. Exhibit 10.12 to the Form S-1 is incorporated herein by reference.
10.6	Stock Purchase Agreement, dated as of July 18, 1989, between ICI and New York Life Insurance Company. Exhibit 10.13 to the Form S-1 is incorporated herein by reference.
10.7(a)	Stock Purchase Agreement, dated as of June 5, 1991, as amended (the "1991 Stock Purchase Agreement"), among ICI, New York Life Insurance, National Westminster Jersey Trust Co. Ltd., Custodian for APA Excelsior Venture Capital Holdings (Jersey) Ltd., APA Excelsior II, Morgan Holland Fund L.P., Vista III, L.P., MBW Venture Partners Limited Partnership, Michigan Investment Fund L.P., Philip E. McCarthy, Community Investment Partners, L.P. and Kronish, Lieb, Weiner & Hellman Profit Sharing Plan and Trust F/B/O Ralph J. Sutcliffe. Exhibit 10.14(a) to the Form S-1 is incorporated herein by reference.
10.7(b)	Amendment to 1991 Stock Purchase Agreement, dated as of March 2, 1992. Exhibit 10.14(b) to the Form S-1 is incorporated herein by reference.
10.7(c)	Instrument of Approval, dated as of February 21, 1992, by parties to the 1991 Stock Purchase Agreement. Exhibit 10.14(c) to the Company's Form S-1 is incorporated herein by reference.
10.11	401(k) Plan. Exhibit 10.20 to the Company's Form S-1 is incorporated herein by reference.
10.12	Frame Relay Service Program Agreement, dated September 12, 1994, among PacNet, Inc., ICI, EMI Communications Corp., Integrated Network Services Inc. and MRC Telecommunications, Inc. Exhibit 10.12 to the Company's 1995 Form 10-K is incorporated herein by reference.
11	Statement Re: Computation of Per Share Earnings.
12	Statement Re: Computation of Ratios.
21	Subsidiaries of the company.
23	Consent of Ernst & Young LLP.
(b)	Reports on Form 8-K filed in the fourth quarter of 1996. There were no reports on Form 8-K filed during the fourth quarter of 1996.

Glossary

Access Charges—The charges paid by an interexchange carrier to a LEC for the origination or termination of the IXC's customer's long distance calls

Access Line—A circuit that connects a telephone user (customer) to the public switched telephone network. The access line usually connects to a telephone at the customer's end.

Access Node—A Nortel switching device, which extends the presence of the DMS-500 switch to a remote site, such as an On Net building. The Access Node provides interfaces for line connections to the network, and provides concentration of lines back to the DMS-500 switch

Access Trunk—A circuit that connects a telephone user's PBX or other intelligent device to the public switched telephone network. An access trunk is designed to carry more traffic than an access line, since it is accessible to a number of users

ATM (Asynchronous Transfer Mode)—A modern information transfer standard that allows packetized voice and data to share a transmission circuit. ATM provides much greater efficiency than typical channelized transmission media

Bandwidth—The range of analog frequencies or the bit rate of digital signals that can be supported by a circuit or device. The bandwidth of a particular circuit is generally determined by the medium itself (wire, fiber optic cable, etc.) and the device that transmits the signal to the transmission medium (laser, audio amplifier, etc.)

Bell System—The name given to the large, single entity that comprised what are today AT&T and the RBOCs, including Bell Laboratories and other subsidiaries.

CAP (Competitive Access Provider)—A name for a category of local service provider that appeared in the late 1980's, who competed with local telephone companies by placing its own fiber optic cables in a city and sold various private line telecommunications services in direct competition to the local telephone company

CENTREX—A Central office based business telephone service that roughly provides the user with the same services as a PBX, without the capital investment of the PBX. Centrex services include station to station dialing (2 through 5 digits), customized long distance call handling, and user-input authorization codes

CLEC (Competitive Local Exchange Carrier)—A category of telephone service provider (carrier) that offers services similar to the former monopoly local telephone company, as recently allowed by changes in telecommunications law and regulation. A CLEC may also provide other types of telecommunications services (long distance, etc.)

CLEC (Certification)—Granted by a state public service commission or public utility commission, this allows a telecommunications services provider the legal standing to offer local exchange telephone services in direct competition with the incumbent LEC and other CLECs. Such certifications are granted on a state by state basis

CO (Central Office)—The switching center and/or central circuit terminating facility of a local telephone company

Communications Act of 1934, The—The first major federal legislation that established rules for broadcast and non broadcast communications, both wireless and wired telephony

Connected Building—A building that is connected to a carrier's network via a non-switched circuit that is managed and monitored by that carrier

Dedicated Access—A circuit that connects a customer to a carrier's network, not shared amongst multiple customers

Diverse Routing—A network topology that provides reliability by providing two distinct physical routes for network transmission path (fiber optic or copper cables) with the ability to quickly "switch" traffic from one route to the other, should one of the routes be rendered inoperable.

DMS-500—A telephone switch manufactured by Nortel, that provides both local exchange switching (also known as a "class 5" switch) and a long distance switch (also known as a "class 4" switch) in a single device.

EBITDA—Earnings Before Interest, Tax, Depreciation, and Amortization - a financial measure of cash flow.

Enhanced Data Services—Data networking services provided on a sophisticated, software managed transport and switching network, such as a frame relay or ATM data network.

FCC (Federal Communications Commission)—The US Government organization charged with the oversight of all public communications media.

Feature Group Circuit—A telecommunications channel that connects a LEC telephone switch with an IXC telephone switch, for the purpose of passing long distance calls between the two carriers' networks. Calls placed by dialing "1+" are routed over these circuits.

Frame Relay—A wide area information transport technology that organizes data into units called frames, with variable bit length, designed to move information that is "bursty" in nature.

ICP (Integrated Communications Provider)—A telecommunications carrier that provides packaged or integrated services from among a broad range of categories, including local exchange service, long distance service, enhanced data service, cable TV service, and other communications services.

ILEC (Incumbent Local Exchange Carrier)—The local exchange carrier that was the monopoly carrier, prior to the opening of local exchange services to competition.

ILEC Collocation—A location serving as the interface point for a CLEC's network at the point of interconnection to the ILEC. Subcollocation can be 1) physical, in which the CLEC "builds" a fiber optic network extension into the ILEC central office, or 2) virtual, in which the ILEC leases a facility, similar to that which it might build, to affect a presence in the ILEC central office.

Interconnection (co-carrier) *Agreement*—A contract between an ILEC and a CLEC for the interconnection of the two's networks, for the purpose of mutual passing of traffic between the networks, allowing customers of one of the networks to call users served by the other network. These agreements set out the financial and operational aspects of such interconnection.

Interexchange Services—Telecommunications services that are provided between two exchange areas, generally meaning between two cities. These services can be either voice or data.

Interim Number Portability—A temporary technique that allows local exchange service customers of an ILEC to keep their existing telephone number, while moving their service to a CLEC. Their interim technique uses a central office feature called remote call forwarding. The permanent solution to number portability is to implemented over the next few years.

ISDN (Integrated Services Digital Network)—a modern telephone technology that combines voice and data switching in an efficient manner.

ISP (Internet Service Provider)—a recently created category of telecommunications service provider who provides access to the Internet, normally for dial access customers, by sharing communications lines and equipment.

IXC (Interexchange Carrier)—A provider of telecommunications services that extend between exchanges or cities. Also called long distance carrier.

LATA (Local Access and Transport Area)—A geographic area inside of which a LEC can offer switched telecommunications services, even long distance (known as local toll). There are 161 LATAs in the continental US. The LATA boundaries were established at the Divestiture of the regional Bell operating companies.

LEC (Local Exchange Carrier)—Any telephone service provider offering local exchange services.

Local Exchange—An area inside of which telephone calls are generally completed without any toll, or long distance charges. Local exchange areas are defined by the state regulator of telephone services.

Local Exchange Services—Telephone services that are provided within a local exchange. These usually refer to local calling services (dial tone services.) Business local exchange services include Centrex, access lines and trunks, and ISDN.

POP (Point of Presence)—A location where a carrier, usually an IXC, has located transmission and terminating equipment to connect its network to the networks of other carriers, or to customers.

RBOC (Regional Bell Operating Company)—One of the Leeks created by the Divestiture of the local exchange business by AT&T. These include BellSouth, NYNEX, Bell Atlantic, Ameritech, US West, SBC, and PacTel.

SONET (Synchronous Optical NETwork)—A transmission technology that is used by carriers in both local and long distance telecommunications networks to provide efficient, highly reliable communications channels.

Special Access Services—Private, non-switched connections between an IXC and a customer, for the purpose of connecting the customer's long distance calls to the IXC's network, without having to pay the LEC's access charges.

Systems Integration—The provision of specialized skills and equipment to meet specific customer needs.

VSAT (Very Small Aperture Terminal)—A satellite communication system that comprises small diameter (approximately 1 meter in diameter) antennae and electronics to establish a communications terminal, use mostly for data. VSAT networks compete with other, landline based networks such as private lines and frame relay.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERMEDIA COMMUNICATIONS INC. (Registrant)

COMPANY NAME

By /s/ DAVID C. RUBERG
David C. Ruberg
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities and 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.

Principal Executive Officer:

Signatures	Title	Date
/s/ DAVID C. RUBERG David C. Ruberg	Chairman of the Board, President and Chief Executive Officer	March 14, 1997

Principal Financial and Accounting Officers:

Signatures	Title	Date
ROBERT M. MANNING Robert M. Manning	Senior Vice President and Chief Financial Officer	March 14, 1997
JEANNE M. WALTERS Jeanne M. Walters	Controller and Chief Accounting Officer	March 14, 1997

Other Directors:

Signatures	Title	Date
JOHN C. BAKER John C. Baker		March 14, 1997
GEORGE F. KNAPP George F. Knapp		March 14, 1997
PHILIP A. CAMPBELL Philip A. Campbell		March 14, 1997

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Intermedia Communications Inc

We have audited the accompanying consolidated balance sheets of Intermedia Communications Inc as of December 31, 1995 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. Our audits also include the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 Intermedia Communications Inc at December 31, 1995 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Tampa, Florida
February 10, 1997, except for Note 13, as to which the date is March 7, 1997

INTERMEDIA COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS

	December 31	
	1995	1996
Assets		
Current assets		
Cash and cash equivalents	$ 50,996,919	$189,545,939
Short-term investments	—	6,041,000
Restricted investments	20,954,015	26,674,831
Accounts receivable, less allowance for doubtful accounts of $869,000 in 1995 and $1,346,000 in 1996	7,954,194	19,271,769
Prepaid expenses and other current assets	1,832,186	5,230,149
Total current assets	81,737,314	246,763,688
Restricted investments	30,869,001	10,481,358
Telecommunications equipment, net	76,169,589	203,907,013
Intangible assets, net	26,986,915	48,397,317
Other assets	255,306	3,391,001
Total assets	$216,018,125	$512,940,377
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 4,810,175	$ 29,895,061
Accrued taxes	285,757	1,660,279
Accrued interest	1,800,000	1,800,000
Other accrued expenses	1,575,925	3,709,951
Advance billings	1,747,081	3,137,093
Current portion of long-term debt	107,757	55,015
Current portion of capital lease obligations	1,057,927	476,973
Total current liabilities	11,384,622	40,734,372
Long-term debt	159,199,226	353,449,031
Capital lease obligations	5,179,914	4,526,764
Stockholders' equity		
Preferred stock, $1.00 par value, 500,000 and 460,000 shares authorized in 1995 and 1996, respectively; no shares issued	—	
Series C preferred stock, $1.00 par value, 40,000 shares authorized in 1996, none in 1995; no shares issued	—	
Common stock, $.01 par value, 20,000,000 and 50,000,000 shares authorized in 1995 and 1996, respectively; 10,359,771 and 16,285,340 shares issued and outstanding in 1995 and 1996, respectively	103,597	162,853
Additional paid-in capital	74,093,476	212,810,661
Accumulated deficit	(33,942,710)	(91,141,421)
Deferred compensation	—	(7,601,883)
Total stockholders' equity	40,254,363	114,230,210
Total liabilities and stockholders' equity	$216,018,125	$512,940,377

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31		
	1994	1995	1996
Revenues	$14,272,396	$ 38,630,574	$103,396,887
Expenses			
Facilities administration and maintenance and line costs	5,395,932	22,989,195	81,105,107
Selling, general, and administrative	6,412,287	14,992,458	36,609,846
Depreciation and amortization	5,131,940	10,195,871	19,835,686
	16,940,159	48,177,524	137,550,639
Loss from operations	(2,667,763)	(9,546,950)	(34,153,752)
Other income (expense):			
Interest expense	(1,218,876)	(13,766,639)	(35,213,179)
Interest and other income	819,260	4,060,040	12,168,220
Loss before income tax benefit and extraordinary item	(3,067,379)	(19,253,549)	(57,198,711)
Income tax benefit	—	96,952	
Loss before extraordinary item	(3,067,379)	(19,156,597)	(57,198,711)
Extraordinary loss on early extinguishment of debt	—	(1,592,045)	
Net loss	$ (3,067,379)	$(20,748,642)	$ (57,198,711)
Loss per share			
Loss before extraordinary item	$ (0.34)	$ (1.91)	$ (4.08)
Extraordinary loss	—	(0.16)	
Net loss per share	$ (0.34)	$ (2.07)	$ (4.08)
Weighted average number of shares outstanding	8,955,993	10,035,774	14,017,597

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Deferred Compensation	Total Stockholders' Equity
	Shares	Amount				
Balance at January 1, 1994	8,877,432	$ 88,774	$ 56,025,341	$(10,126,689)	$ —	$ 45,987,426
Issuance of shares of common stock for business combination	740,000	7,400	8,836,100	—	—	8,843,500
Exercise of stock options for 41,756 shares of common stock at prices ranging from $6.25 to $10.63 per share	41,756	418	269,398	—	—	269,816
Net loss	—	—	—	(3,067,379)	—	(3,067,379)
Balance at December 31, 1994	9,659,188	96,592	65,130,839	(13,194,068)	—	52,033,363
Issuance of shares of common stock for business combination	683,583	6,836	7,854,369	—	—	7,861,205
Return and cancellation of escrowed shares issued for 1994 business combination	(22,357)	(224)	(279,239)	—	—	(279,463)
Exercise of stock options and warrants for 39,357 shares of common stock at prices ranging from $4.20 to $12.20 per share	39,357	393	336,307	—	—	336,700
Issuance of detachable stock purchase warrants, net of issuance costs	—	—	1,051,200	—	—	1,051,200
Net loss	—	—	—	(20,748,642)	—	(20,748,642)
Balance at December 31, 1995	10,359,771	103,597	74,093,476	(33,942,710)		40,254,363
Sale of common stock	4,674,503	46,745	111,670,973			111,717,718
Issuance of shares of common stock for business combinations	968,880	9,689	17,767,495	—	—	17,777,184
Exercise of stock options and warrants for 82,186 shares of common stock at prices ranging from $4.20 to $27.06 per share	82,186	822	706,222	—		707,044
Issuance of stock options under long term compensation plan	—	—	3,574,500	—	(3,574,500)	
Issuance of common stock under long term compensation plan	200,000	2,000	4,997,995	—	(4,999,995)	
Amortization of deferred compensation	—	—	—	—	972,612	972,612
Net loss	—	—	—	(57,198,711)	—	(57,198,711)
Balance at December 31, 1996	16,285,340	$162,853	$212,810,661	$(91,141,421)	$(7,601,883)	$114,230,210

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	1994	1995	1996
Operating activities			
Net loss	$ (3,067,379)	$ (20,748,642)	$ (57,198,711)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	5,131,940	10,607,666	21,087,749
Amortization of deferred compensation	—	—	972,612
Accretion of interest on notes	—	—	14,304,460
Extraordinary loss	—	1,592,045	
Deferred tax benefit	—	(96,952)	
Provision for doubtful accounts	80,222	856,055	2,284,502
Changes in operating assets and liabilities:			
Accounts receivable	(1,273,985)	(3,442,940)	(13,150,097)
Prepaid expenses and other current assets	(741,888)	(204,824)	(1,702,354)
Other assets	—	159,751	(178,009)
Accounts payable	(552,512)	(591,955)	22,326,204
Other accrued expenses and taxes	(360,073)	1,483,878	2,107,548
Advance billings	367,290	691,046	1,390,012
Net cash used in operating activities	(416,385)	(9,694,872)	(7,756,083)
Investing activities			
Purchase of restricted investments	—	(60,952,496)	(5,250,000)
Maturities of restricted investment	—	9,179,480	19,916,827
Purchase of business, net of cash acquired	—	(1,952,268)	(12,401,086)
Purchases of short-term investments	—		(6,041,000)
Purchases of telecommunications equipment	(13,730,693)	(29,962,419)	(131,214,187)
Proceeds from sale of telecommunications equipment	—	—	624,110
Other investing activities	201,701	—	
Net cash used in investing activities	(13,528,992)	(83,687,703)	(134,365,336)
Financing activities			
Proceeds from sale of common stock, net of issuance costs	—	—	111,717,718
Exercise of stock warrants and options	269,816	336,700	707,044
Payments on long-term debt	(3,143,782)	(14,804,457)	(1,320,510)
Net proceeds from issuance of long-term debt and warrants	—	153,766,848	170,862,622
Payments on capital leases	(926,318)	(5,127,784)	(1,296,435)
Net cash (used in) provided by financing activities	(3,800,284)	134,171,307	280,670,439
Increase (decrease) in cash and cash equivalents	(17,745,661)	40,788,732	138,549,020
Cash and cash equivalents at beginning of year	27,953,848	10,208,187	50,996,919
Cash and cash equivalents at end of year	$ 10,208,187	$ 50,996,919	$ 189,545,939
Supplemental disclosures of cash flow information			
Interest paid	$ 1,481,679	$ 12,318,014	$ 23,436,882

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996

1. Summary of Significant Accounting Policies

Business

Intermedia Communications Inc. (ICI or the Company), formerly Intermedia Communications of Florida Inc. through May 29, 1996, is an integrated communications services provider offering a full suite of local, long distance and enhanced data services to business and government end users. Services include data and video telecommunications services, frame relay, Internet access services, local exchange services, long distance services and telecommunications equipment. The Company offers its full product package of telecommunications services to customers in 15 metropolitan statistical areas in the eastern half of the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of Intermedia Communications Inc. and its subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in consolidation.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Short-Term Investments

Short-term investments consist of certificates of deposit with maturities of more than three months when purchased and are stated at cost.

Restricted Investments

Restricted investments consist of U.S. Treasury Notes which are restricted for the repayment of interest on certain debt and are stated at amortized cost. Management designated these investments as held-to-maturity securities in accordance with the provisions of Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Telecommunications Equipment

Telecommunications equipment is stated at cost. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Telecommunications equipment	5-7 years
Fiber optic cable	20 years
Furniture and fixtures	5-7 years

Leasehold improvements are amortized using the straight-line method over the shorter of the term of the lease or the estimated useful life of the improvements.

Intangible Assets

Intangible assets are stated at cost and include purchased customer lists, deferred debt issuance costs and goodwill. Customer lists are amortized using the straight-line method over their estimated useful lives of eight years. Goodwill is amortized using the straight-line method over periods of eight to forty years.

As more fully discussed in Note 2, during December 1996, the Company acquired Universal Telecom, Inc. and NetSolve, Inc. in transactions accounted for using the purchase method. The excess of the respective purchase prices over the fair value of tangible net assets acquired have been preliminarily classified in the accompanying consolidated balance sheets as intangible assets. The final allocation to identifiable intangible assets is currently underway by management. The preliminary intangible assets not allocated to identifiable tangible and intangible assets will be recorded as goodwill.

Deferred debt issuance costs relate to the issuance of debt and are amortized using the effective interest method over the term of the debt agreements. The related amortization is included as a component of interest expense in the accompanying consolidated statements of operations.

Revenue Recognition

The Company recognizes revenue in the period the service is provided or the goods are shipped for equipment product sales. Unbilled revenues represent revenues earned for telecommunications services provided which will be billed in the succeeding month and totaled $636,257 and $2,403,584 and as of December 31, 1995 and 1996, respectively. Unbilled revenues are included as a component of accounts receivable in the accompanying consolidated balance sheets. The Company invoices customers one month in advance for recurring services resulting in advance billings at December 31, 1995 and 1996 of $1,747,100 and $3,1[illegible] respectively.

Income Taxes

The Company has applied the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, which requires an asset and liability approach in accounting for income taxes for all years presented. Deferred income taxes are provided for in the consolidated financial statements and principally relate to net operating losses and basis differences for customer lists and telecommunications equipment.

Loss Per Share

Loss per share is based on the weighted average shares outstanding. Common stock equivalents are not considered in the Company's calculation of loss per share as all are antidilutive and would have no impact on the results.

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk (as defined by Statement of Financial Accounting Standards No. 105, *Disclosure of Information About Financial Instruments with Off Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk*) are primarily cash and cash equivalents and accounts receivable.

The Company places its cash and temporary cash investments with high-quality institutions. As of December 31, 1996, cash equivalents totaling approximately $227,000,000 were held by a single financial institution. Such amounts were collateralized by government-backed securities.

Accounts receivable are due from residential and commercial telecommunications customers. Credit is extended based on evaluation of the customer's financial condition and generally collateral is not required. Anticipated credit losses are provided for in the consolidated financial statements and have been within management's expectations.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with APB No. 25, *Accounting for Stock Issued to Employees*, and, in cases where exercise prices equal or exceed fair market value, recognizes no compensation expense for the stock option grants. In cases where exercise prices are less than fair value, compensation is recognized over the period of performance or the vesting period.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, *Accounting and Disclosure of Stock-Based Compensation*, (Statement 123) which encourages, but does not require, companies to recognize stock awards based on their fair value at the date of grant. Unaudited pro forma financial information assuming that the Company had adopted the measurement standards of Statement 123 is included in Note 7.

Reclassifications

Certain prior year investment accounts have been reclassified as restricted in order to conform with the 1996 presentation.

2. Business Acquisitions

During December 1994, the Company acquired the common stock of Phone One, Inc. in exchange for 740,000 shares of common stock of the Company, valued at approximately $8,800,000. The acquisition was accounted for by the purchase method of accounting, with the purchase price allocated based on fair values of assets acquired, principally customer lists, and liabilities assumed. The operating results of Phone One, Inc. are included in the Company's consolidated financial statements from the date of acquisition.

During February 1995, the Company acquired FiberNet in exchange for 683,583 shares of the Company's common stock, valued at approximately $7,800,000, the assumption of approximately $5,000,000 in liabilities and a note payable of $1,200,000 which was paid on July 17, 1995. The acquisition was accounted for by the purchase method of accounting with the purchase price allocated based on fair values of assets acquired and liabilities assumed. The excess of the purchase price over the fair values of the net assets amounted to $11,000,000 and is being amortized over 20 years. The operating results of FiberNet are included in the Company's consolidated financial statements since March 1, 1995 since the operating results from the date of acquisition were deemed to be immaterial.

During June 1996, the Company acquired the Telecommunications Division of EMI Communications Corporation (EMI) in exchange for 937,500 shares of the Company's common stock, valued at approximately $16,900,000. The acquisition was accounted for by the purchase method of accounting, with the purchase price allocated to the fair values of assets acquired, principally telecommunications equipment. The operating results of EMI are included in the Company's consolidated financial statements from the date of acquisition.

INTERMEDIA COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During December 1996, the Company acquired, in two separate transactions, certain assets and the related businesses of Universal Telcom, Inc. (UTT) and NetSolve, Incorporated (NetSolve). The purchase price for UTT included 31,380 shares of the Company's common stock, valued at approximately $900,000, and the assumption of approximately $2,000,000 of UTT's liabilities. NetSolve was purchased for cash of $12,800,000. The operations of UTT and NetSolve are included in the Company's consolidated financial statements from December 1, 1996, at which date the Company exercised control. The acquisitions are accounted for by the purchase method, with the purchase price to be allocated to the assets acquired based upon fair values. The allocation of the purchase price to both UTT and NetSolve is tentative pending completion of the valuations of certain identifiable intangibles.

The following unaudited pro forma results of operations for the years ended December 31 assume the acquisitions of FiberNet, EMI, UTT and NetSolve had occurred at the beginning of the periods presented, and do not purport to be indicative of the results that actually would have occurred if the acquisitions had been made as of those dates or of results which may occur in the future.

	Year ended December 31	
	1995	1996
Revenue	$104,687,000	$152,07[illegible],000
Loss before extraordinary item	$(18,354,000)	$(57,202,000)
Net loss	$(19,946,000)	$(57,202,000)
Net loss per share	$ (1.79)	$ (3.94)

3. Telecommunications Equipment

Telecommunications equipment consisted of:

	December 31	
	1995	1996
Telecommunications equipment	$ 50,506,651	$128,995,630
Fiber optic cable	27,891,274	38,098,811
Furniture and fixtures	5,223,389	18,492,948
Leasehold improvements	985,876	4,500,441
Construction in progress	12,830,122	51,393,299
	97,437,312	241,481,129
Less accumulated depreciation	(21,267,723)	(37,574,116)
	$ 76,169,589	$203,907,013

Depreciation expense totaled $4,911,001, $7,940,173 and $15,453,931 in 1994, 1995 and 1996, respectively.

Interest expense capitalized in connection with the Company's internally-managed construction of telecommunications equipment amounted to $257,058, $677,512 and $2,780,125 in 1994, 1995 and 1996, respectively.

Telecommunications equipment and construction in progress included $7,264,534 and $6,867,256 of equipment recorded under capitalized lease arrangements at December 31, 1995 and 1996, respectively. Accumulated amortization of assets recorded under capital leases amounts to $1,007,802 and $1,450,381 at December 31, 1995 and 1996, respectively. Telecommunications equipment purchases financed through capital lease obligations totaled $4,558,761, $4,910,724 and $251,824 in 1994, 1995 and 1996, respectively. The amortization of assets recorded under capital leases is included in depreciation expense.

In connection with network expansion, the Company had firm commitments for capital expenditures of approximately $4,500,000 at December 31, 1996.

4. Intangible Assets

Intangible assets consisted of:

	December 31	
	1995	1996
Goodwill	$13,210,045	$13,233,045
Customer lists	10,096,975	10,376,437
Preliminary intangible assets (Notes 1 and 2)	—	15,451,050
Debt issuance costs	6,233,152	15,288,931
	29,540,172	54,349,463
Less accumulated amortization	(2,553,257)	(5,952,146)
	$26,986,915	$48,397,317

Amortization of goodwill and customer lists amounted to $220,939 in 1994, $2,011,508 in 1995 and $3,123,157 in 1996. Amortization of debt issuance costs, included in interest expense, amounted to $69,192, $411,795 and $1,252,063 in 1994, 1995 and 1996, respectively.

5. Long-Term Debt and Capital Lease Obligations

Long-term debt consisted of:

	December 31	
	1995	1996
13.5% Senior Notes	$158,983,840	$159,115,240
12.5% Senior Discount Notes	—	194,223,760
Other notes payable	323,143	165,046
	159,306,983	353,504,046
Less current portion	(107,757)	(55,015)
	$159,199,226	$353,449,031

During June 1995, ICI issued $160,000,000 principal amount of 13.5% Senior Notes due 2005 (the Senior Notes) and warrants to purchase 350,400 shares of the Company's common stock. The Company allocated $1,051,200 of the proceeds to the warrants, representing the estimated fair value at the date of issuance. The Senior Notes are limited in aggregate principal amount to $160 million and mature on June 1, 2005. The Senior Notes may be redeemed at the option of the Company, in whole or in part, on or after June 1, 2000, beginning at a premium of 106.75% of par and declining to par in 2003, plus accrued and unpaid interest and liquidated damages, if any, through the redemption rate. The Senior Notes bear interest at the rate of 13.5% per annum payable semiannually in arrears on June 1 and December 1. The Senior Notes agreement contains certain covenants including limits on the incurrence of additional indebtedness, with which the Company is in compliance at December 31, 1996.

The Company used a portion of the proceeds from the Senior Notes to retire certain other long-term indebtedness. In connection with the repayment of certain indebtedness, the Company incurred a prepayment

penalty of approximately $1,156,000. This amount, plus the write-off of related unamortized financing costs have been reported as an extraordinary loss in the accompanying 1995 consolidated statements of operations.

During May 1996, the Company issued $330,000,000 principal amount of 12.5% Senior Discount Notes due May 15, 2006 (the Senior Discount Notes). The original issue discounted price for each $1,000 face value Senior Discount Note was $545. The original issue discount is to be amortized over the term of the Senior Discount Notes using the effective interest method. Commencing on November 15, 2001, interest on the Senior Discount Notes will be payable semiannually in arrears on May 15 and November 15 at a rate of 12.5% per annum. Amortization of the original issue discount amounted to approximately $14,304,000 during 1996 and is included in interest expense. The Senior Discount Notes are redeemable at the option of the Company after May 15, 2001, at a premium declining to par in 2004, plus accrued and unpaid interest. The Senior Discount Notes agreement contains certain restrictive covenants including limitations on the incurrence of additional indebtedness, with which the Company is in compliance.

Long-term debt maturities as of December 31, 1996 for the next five years are as follows:

1997	$ 55,015
1998	55,015
1999	55,016
2000	
2001	—
Thereafter	353,339,000
	$353,504,046

The Company is a party to various capital lease agreements for fiber optic cable, underground conduit equipment and utility poles which extend through the year 2015.

Future minimum lease payments for assets under the capital leases at December 31, 1996 are as follows:

1997	$ 1,066,442
1998	1,036,487
1999	1,038,348
2000	1,009,265
2001	542,298
Thereafter	5,875,168
	10,568,008
Less amount representing interest	(5,564,271)
Present value of future minimum lease payments	5,003,737
Less current portion	(476,973)
	$ 4,526,764

6. Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows

	1995		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 50,996,919	$ 50,996,919	$189,545,939	$189,545,939
Short-term investments	—	—	6,041,000	6,041,000
Restricted investments, current and noncurrent	51,823,016	52,064,050	37,156,189	36,920,392
Accounts receivable	7,954,194	7,954,194	19,271,769	19,271,769
Liabilities				
Accounts payable	$ 4,810,175	$ 4,810,175	$ 29,895,061	$ 29,895,061
Long-term debt				
13.5% Senior Notes	158,983,840	179,200,000	159,115,240	182,800,000
12.5% Senior Discount Notes	—	—	194,223,760	216,975,000
Other notes payable	323,143	323,143	165,046	165,046

The following methods and assumptions are used in estimating fair values for financial instruments

Cash and cash equivalents The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates its fair value

Investments As of December 31, 1996, these investments are classified as held-to-maturity, in accordance with SFAS 115 *Accounting for Certain Investments in Debt and Equity Securities* The fair value of these investments is estimated from quoted market prices

Accounts receivable and accounts payable The carrying amounts reported in the consolidated balance sheets for accounts receivable and accounts payable approximate their fair value

Long term and short-term debt The estimated fair value of the Company's borrowing is based on negotiated trades for the securities as provided by the Company's investment banker or by using discounted cash flows at the Company's incremental borrowing rate

7. Stockholders' Equity

Stock Options The Company has a 1992 Stock Option Plan and a 1996 Long Term Incentive Plan (the Plans) under which options to acquire an aggregate of 1,346,000 shares and 1,500,000 shares, respectively, of common stock may be granted to employees, officers, directors and consultants of the Company. The Plans authorize the Board of Directors (the Board) to issue incentive stock options (ISOs) as defined in Section 422A(b) of the Internal Revenue Code, and stock options that do not conform to the requirements of that Code section (Non ISOs). The Board has discretionary authority to determine the types of stock options to be granted, the persons among those eligible to whom options will be granted, the number of shares to be subject to such options, and the terms of the stock option agreements. Options may be exercised in the manner and at such times as fixed by the Board, but may not be exercised after the tenth anniversary of the grant of such option

INTERMEDIA COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the transactions for the three years ended December 31, 1996 relating to the Plans

	Number of Shares	Per Share Option Price
Outstanding, January 1, 1994	627,739	$ 6.06—$12.13
Granted	233,248	$10.25—$12.25
Exercised	(41,756)	$ 6.25—$10.63
Canceled	(70,464)	$ 6.06—$12.13
Outstanding, December 31, 1994	748,767	$ 6.06—$12.25
Granted	549,057	$ 9.50—$15.56
Exercised	(37,831)	$ 6.38—$12.25
Canceled	(121,019)	$ 6.38—$12.25
Outstanding, December 31, 1995	1,138,974	$ 6.06—$15.56
Granted	1,167,183	$19.75—$34.50
Exercised	(81,996)	$ 6.38—$27.06
Canceled	(67,490)	$ 6.60—$15.56
Outstanding, December 31, 1996	2,176,671	
Exercisable, December 31, 1996	526,528	

The Board of Directors has reserved 674,142 shares of common stock in connection with stock warrants and 2,462,341 shares of common stock that may be issued to employees, officers, directors, and consultants of the Company pursuant to stock options as may be determined by the Board of Directors.

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1995 and 1996: risk-free interest rates of 6.2%, a dividend yield of zero, volatility factors of the expected market price of the Company's common stock based on historical trends, and a weighted-average expected life of the options of five years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	1995	1996
Pro forma net loss	$(20,961,000)	$(58,602,000)
Pro forma earnings (loss) per share	$ (2.09)	$ (4.18)

INTERMEDIA COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Award Plans During 1996, the Company entered into restricted share agreements with three executive officers that provide stock award incentives. Pursuant to the agreements, up to an aggregate of 255,000 restricted shares of common stock are awarded to the respective officers upon the attainment of certain stock price milestones ranging from $20 to $40. Shares awarded under these arrangements vest over a period of five years following the award. During 1996, 200,000 shares were awarded with a fair value of $4,999,995, which amount will be amortized over the vesting period.

Stock Warrants At December 31, 1996, warrants to purchase the following shares of the Company's common stock were outstanding:

Shares	Price per share	Expiration date
6,282	$ 4.20	March 4, 1997
317,460	4.20	June 2, 1997
350,400	10.86	June 1, 2000

As further discussed in Note 5, the Company issued warrants expiring in 2000 to acquire 350,400 shares of common stock in connection with the issuance of the Senior Notes. The Company also has warrants outstanding that had been issued for consulting services.

Shareholder Rights Plan On March 7, 1996, the Board of Directors adopted a Shareholder Rights Plan and declared a dividend of one common stock Purchase Right (a Right) for each outstanding share of common stock to shareholders of record on March 18, 1996. Such Rights only become exercisable, or transferable apart from the common stock, ten business days after a person or group (an Acquiring Person) acquires beneficial ownership of, or commences a tender or exchange offer for, 15% or more of the Company's common stock.

Each Right then may be exercised to acquire 1/1000th of a share of the Company's Series C preferred stock at an exercise price of $85. Thereafter, upon the occurrence of certain events, the Rights entitle holders other than the Acquiring Person to acquire the existing Company's preferred stock or common stock of the surviving company having a value of twice the exercise price of the Rights.

The Rights may be redeemed by the Company at a redemption price of $.01 per Right at any time until the 10th business day following public announcement that a 15% position has been acquired or ten business days after commencement of a tender or exchange offer.

Authorized Shares On May 24, 1996, the Board of Directors approved an increase in the number of shares of authorized common stock from 20,000,000 to 50,000,000.

8. Income Taxes

At December 31, 1995 and 1996, the Company had temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts measured by tax laws. The Company also has net operating loss (NOL) carryforwards available to offset future taxable income. Significant components of the Company's deferred tax assets and liabilities as of December 31 are as follows:

Temporary Differences/Carryforwards	Deferred Tax Asset (Liability)	
	1995	1996
Tax over book depreciation	$ (3,410,117)	$ (5,751,022)
Intangibles	(3,324,225)	(2,849,139)
Total deferred tax liabilities	(6,734,342)	(8,600,161)
Net operating loss carryforwards	14,198,845	37,091,018
Other	300,746	1,037,985
Total deferred tax assets	14,499,591	38,129,003
Less valuation allowance	(7,765,249)	(29,528,842)
Net deferred tax assets	6,734,342	8,600,161
	$ —	$

The Company has net operating loss carryforwards of approximately $98,000,000 at December 31, 1996 that expire in various amounts from 2003 to 2011. Approximately $68,000,000 of these net operating loss carryforward is subject to the "ownership change" rules of Section 382 of the Internal Revenue Code of 1986 and can only be utilized at the rate of approximately $31,000,000 per year.

9. Restricted Investments

The terms of the Company's Senior Note agreement (see Note 5) required the Company to use a portion of the debt proceeds to purchase pledged securities (Restricted Investments) sufficient to provide for the payment of interest on the Senior Notes through June 1, 1998. The Company has purchased government securities whose maturity coincides with the interest repayment dates.

The Company's restricted investments at December 31, 1996 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Notes	$30,806,189	$—	$82,070	$30,724,119
Certificates of deposit	6,350,000	—	—	6,350,000
	$37,156,189	$—	$82,070	$37,074,119

The amortized cost and estimated fair value of the Company's restricted investments at December 31, 1996 by contractual maturity are summarized as follows:

Maturities	Amortized Cost	Estimated Fair Value
Due within one year	$26,674,831	$26,635,996
Due after one year through five years	10,481,358	10,438,123
	$37,156,189	$37,074,119

10. Employee Benefit Plan

The Company has established a 401(k) profit-sharing plan. Employees 21 years or older with one year of service are eligible to participate in the plan. Participants may elect to contribute, on a tax-deferred basis, up to 15% of their compensation, not to exceed $9,500 in 1996. The Company will match one-half of a participant's contribution, up to a maximum of 3% of the participant's compensation. The Company's matching contribution fully vests after five years of service. The Company's contributions to the plan were approximately $58,000, $85,000 and $77,000 in 1994, 1995 and 1996, respectively.

11. Operating Leases

The Company leases rights-of-way and cable conduit space, fiber optic cable, terminal facility space, and office space. The leases generally contain renewal options which range from one year to fifteen years, with certain rights-of-way and cable conduit space being renewable indefinitely after the minimum lease term subject to cancellation notice by either party to the lease. Lease payments in some cases may be adjusted for related revenues, increases in property taxes, operating costs of the lessor, and increases in the Consumer Price Index. Lease expense was $908,000, $1,466,000 and $4,795,000, and for 1994, 1995, and 1996, respectively.

Future minimum lease payments under noncancelable operating leases with original terms of more than one year as of December 31, 1996 are as follows:

	Rights-of-Way and Cable Conduit Space	Fiber Optic Cable	Terminal Facility Space	Office Space	Total
1997	$12,250	$ 532,300	$ 3,211,780	$ 3,128,806	$ 6,885,136
1998	—	529,344	2,768,667	3,072,439	6,370,450
1999	—	355,434	2,184,255	2,733,543	5,273,232
2000	—	321,280	1,351,807	2,117,851	3,790,938
2001	—	321,280	890,191	890,325	2,101,796
Thereafter	—	937,066	8,648,872	960,767	10,546,705
	$12,250	$2,996,704	$19,055,572	$12,903,731	$34,968,257

12. Contingencies

On May 3, 1995, the Company asserted a claim for indemnification against the former shareholder of Phone One, Inc. (the Former Shareholder) for approximately $1 million on account of various breaches of representations and warranties made by the Former Shareholder to the Company in the agreement for the acquisition of Phone One, Inc. (the Phone One Acquisition Agreement). The Former Shareholder has objected to the indemnification claim, which is subject to arbitration under the Phone One Acquisition Agreement. On May 24, 1995, the Former Shareholder advised the Company that it has filed a complaint against the Company in the Florida circuit court for Dade County seeking rescission of the Phone One, Inc. acquisition and damages for breach of contract in excess of $3 million. Pursuant to the mandatory arbitration requirements of the Phone One Acquisition Agreement, in July 1995, the Company filed a demand for arbitration, and the action was stayed in the circuit court. The parties negotiated a settlement proposal, and on August 27, 1996, the dispute was settled and mutual general releases exchanged by which the Company delivered 22,357 of the holdback shares, pursuant to the terms of the Phone One Acquisition Agreement. On September 3, 1996, the action in circuit court was dismissed with prejudice.

The Company is not a party to any other pending legal proceedings except for various claims and lawsuits arising in the normal course of business. The Company does not believe that these normal course of business claims or lawsuits will have a material effect on the Company's financial condition, results of operations or cash flows.

13. Subsequent Event

On March 7, 1997, the Company sold 30,000 shares (aggregate liquidation preference $300,000,000) of its 13½% Series A Redeemable Exchangeable Preferred Stock, due 2009, (the "Preferred Stock") in a private placement transaction. Net proceeds to the Company amounted to approximately $288,875,000. Dividends on the Preferred Stock accumulate at a rate of 13½% of the aggregate liquidation preference and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of additional shares of Preferred Stock having an aggregate liquidation preference equal to the amount of such dividends. The Preferred Stock is subject to mandatory redemption at its liquidation preference of $10,000 per share, plus accumulated and unpaid dividends on March 31, 2009. The Preferred Stock will be redeemable at the option of the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

The Company may, at its option, exchange some or all shares of the Preferred Stock for the Company's 13½% Senior Subordinated Debentures, due 2009 (the "Exchange Debentures"). The Exchange Debentures mature on March 31, 2009. Interest on the exchange debentures is payable semi-annually, and may be paid in the form of additional Exchange Debentures at the Company's option. Exchange Debentures will be redeemable by the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

INTERMEDIA COMMUNICATIONS INC.

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
For the year ended December 31, 1994					
Deducted from asset accounts					
Allowance for doubtful accounts . . .	$ 53,793	$ 80,222	$527,320(1)	$ 115,935(2)	$ 545,400
For the year ended December 31, 1995					
Deducted from asset accounts					
Allowance for doubtful accounts	$545,400	$ 856,055	—	$ 532,455(2)	$ 869,000
For the year ended December 31, 1996					
Deducted from asset accounts					
Allowance for doubtful accounts	$869,000	$2,284,502	—	$1,807,502(2)	$1,346,000

(1) Amount represents allowance for doubtful accounts acquired in connection with the December 2, 1994 acquisition of all the outstanding common stock of Phone One, Inc.

(2) Uncollectible accounts written off, net of recoveries.

ATTACHMENT E

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 30, 1997

Commission File Number: 0-20135

INTERMEDIA COMMUNICATIONS INC.

(Exact name of registrant as specified in its charter)

DELAWARE	59-2913586
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3625 Queen Palm Drive
Tampa, Florida 33619
(Address of principal executive offices)

Telephone Number (813) 829-0011

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes X No __

As of November 6, 1997, there were 17,268,057 shares of the Registrant's Common Stock outstanding.

INTERMEDIA COMMUNICATIONS INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTERMEDIA COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share data)

	Three Months Ended		Nine Months Ended	
	September 30, 1997	September 30, 1996	September 30, 1997	September 30, 1996
Revenues:				
Local network services	$11,814	$3,288	$25,457	$9,670
Enhanced data services	30,843	10,746	54,831	19,493
Interexchange services	27,637	19,249	80,877	31,806
Integration services	952	697	4,152	3,364
	71,246	33,980	165,317	64,333
Expenses:				
Network operations	49,032	25,003	116,295	41,554
Facilities administration and maintenance	9,985	2,413	21,409	4,316
Cost of goods sold	503	589	2,537	3,174
Selling, general and administrative	25,004	10,174	64,983	23,884
Depreciation and amortization	16,100	5,255	34,274	12,069
Charge for in-process R&D	60,000	-	60,000	-
	160,624	43,434	299,498	84,997
Loss from operations	(89,378)	(9,454)	(134,181)	(20,664)
Other income (expense):				
Interest expense	(17,689)	(10,774)	(39,895)	(24,179)
Other income	6,736	5,723	16,691	9,201
Loss before extraordinary items	(100,331)	(14,505)	(157,385)	(35,642)
Extraordinary loss on early extinguishment of debt	(43,834)	-	(43,834)	-
Net loss	(144,165)	(14,505)	(201,219)	(35,642)
Preferred stock dividends and accretions	(13,895)	-	(27,118)	-
Net loss attributable to common stockholders	$(158,060)	$(14,505)	$(228,337)	$(35,642)
Loss before extraordinary item, including preferred stock dividends and accretions	($6.82)	($0.90)	($11.21)	($2.69)
Extraordinary loss	(2.62)	0.00	(2.66)	0.00
Net loss per common share	($9.44)	($0.90)	($13.87)	($2.69)
Weighted average number of shares outstanding	16,739,730	16,126,448	16,462,731	13,242,546

See accompanying notes.

INTERMEDIA COMMUNICATIONS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share information)

	September 30, 1997	December 31, 1996
Assets		
Current Assets:		
Cash and cash equivalents	$471,101	$189,546
Short-term investments	491	6,041
Restricted investments	6,351	26,675
Accounts receivable, less allowance for doubtful accounts of $3,873 in 1997 and $1,346 in 1996	46,855	19,272
Prepaid expenses and other current assets	4,316	5,230
Total current assets	529,114	246,764
Restricted investments	-	10,481
Telecommunications equipment	453,545	241,481
Less accumulated depreciation	(65,731)	(37,574)
Telecommunications equipment, net	387,814	203,907
Intangible assets, net	162,610	48,397
Other assets	6,647	3,391
Total assets	$1,086,185	$512,940
Liabilities, Preferred Stock and Stockholders' Equity		
Current liabilities:		
Accounts payable	$47,325	$29,895
Other accrued expenses	28,258	10,307
Current portion of long term debt and capital lease obligation	3,882	532
Total current liabilities	79,465	40,734
Long-term debt and capital lease obligations	615,380	357,975
Total liabilities	694,845	398,709
Series B redeemable exchangeable preferred stock and accrued dividends, $.10 par value; 600,000 shares authorized in 1997; 323,499 shares outstanding in 1997	312,002	-
Series D junior convertible preferred stock and accrued dividends, $1.00 par value; 69,000 shares authorized in 1997; 69,000 shares outstanding in 1997	170,109	-
Stockholders' equity (deficit):		
Common stock, $.01 par value; 50,000,000 shares authorized in both 1997 and 1996; 17,087,429 and 16,285,340 shares issued and outstanding in 1997 and 1996, respectively	171	163
Additional paid-in capital	237,334	212,811
Accumulated deficit	(319,478)	(91,141)
Deferred compensation	(8,798)	(7,602)
Total stockholders' equity (deficit)	(90,771)	114,231
Total liabilities, preferred stock and stockholders' equity (deficit)	$1,086,185	$512,940

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	Nine month period ended	
	September 30, 1997	September 30, 1996
Operating activities		
Net loss	($201,219)	($35,642)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Extraordinary loss on early extinguishment of debt, noncash portion	5,869	-
Depreciation and amortization, including loan costs	35,514	12,178
Gain on sale of telecommunications equipment	(12)	-
Amortization of deferred compensation	1,095	501
Accretion of discount on notes	27,712	8,583
Provision for doubtful accounts	3,834	714
Charge for in-process R&D	60,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(25,648)	(14,879)
Prepaid expenses and other current assets	(1,483)	(2,258)
Accounts payable	8,777	11,932
Other accrued expenses	3,685	8,523
Net cash used in operating activities	(81,876)	(10,348)
Investing activities		
Purchase of short-term investments	-	(10,291)
Purchase of business, net of cash acquired	(150,085)	-
Maturities of short-term investments	5,550	-
Maturities of restricted investments	30,805	9,481
Proceeds from sale of telecommunications equipment	44	-
Purchase of telecommunications equipment	(178,776)	(80,810)
Net cash used in investing activities	(292,462)	(81,620)
Financing activities		
Proceeds from sale of preferred stock, net of issuance costs	454,992	-
Proceeds from issuance of senior discount notes	362,993	171,226
Proceeds from sale of common stock	-	112,086
Proceeds from exercise of stock warrants and options	2,861	-
Principal payments on long-term debt and capital lease obligation	(164,953)	(980)
Net cash provided by financing activities	655,893	282,332
Increase in cash and cash equivalents	281,555	190,364
Cash and cash equivalents at beginning of period	189,546	50,997
Cash and cash equivalents at end of period	$471,101	$241,361
Supplemental disclosures of cash flow information		
Interest paid	$11,759	$16,675

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the information set forth therein have been included. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

Operating results for the three and nine month periods ended September 30, 1997 are not necessarily an indication of the results that may be expected for the year ending December 31, 1997.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

Recent Pronouncements

Earnings per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("FASB 128"), which establishes standards for computing and presenting earnings per share. FASB 128 replaces the presentation of primary and fully diluted earnings per share with basic and diluted earnings per share, respectively. Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share are computed similarly to fully diluted earnings per share. The standard is effective for financial statements for periods ending after December 15, 1997, with earlier application not permitted. For the three and nine month periods ended September 30, 1997 and September 30, 1996, earnings per share, under FASB 128, would not have been impacted.

Segments

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FASB 131"), which supersedes Financial Accounting Standards No. 14. FASB 131 uses a management approach to report financial and descriptive information about a Company's operating segments. Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally for the Company's management. FASB 131 is effective for fiscal years beginning after December 15, 1997.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("FASB 130"). FASB 130 requires that total comprehensive income and comprehensive income per share be disclosed with equal prominence as net income and earnings per share. Comprehensive income is defined as all changes in stockholders' equity exclusive of transactions with owners such as capital contributions and dividends. FASB 130 is effective for fiscal years beginning after December 15, 1997.

Note 2 Debt

On July 9, 1997, concurrently with the sale of the 6,000,000 Series D Depositary Shares, (as defined in Note 3), the Company sold $606 million principal amount at maturity of 11 ¼% Senior Discount Notes due 2007 (the "11 ¼% Notes") in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the 11 ¼% Notes was exercised and the Company sold an additional $43 million principal amount at maturity of 11 ¼% Notes. The issue price of the 11 ¼% Notes was $577.48 per $1,000 principal amount at maturity of the 11 ¼% Notes. Net proceeds to the Company amounted to approximately $365 million. Cash interest will not accrue on the 11 ¼% Notes prior to July 15, 2002 Commencing January 15, 2003, cash interest on the 11 ¼% Notes will be payable semi-annually in arrears on July 15 and January 15 at a rate of 11 ¼% per annum. The 11 ¼% Notes will be redeemable, at the Company's option at any time on or after July 15, 2002, and are pari passu with all other senior indebtedness.

The Company used a portion of the proceeds of the 11 ¼% Notes to retire or defease (the "Retirement") Intermedia's outstanding 13 ½% Senior Notes due 2005 (the "13 ½% Notes"). The Retirement resulted in an extraordinary loss, as shown in the accompanying consolidated statement of operations, of approximately $44 million in the third quarter of 1997.

Also see note 5, Subsequent Events, for information regarding an additional issuance of debt securities subsequent to September 30, 1997.

Note 3 Preferred Stock

On March 7, 1997, the Company sold 30,000 shares (aggregate liquidation preference $300 million) of its Series A Redeemable Exchangeable Preferred Stock, due 2009, (the "Series A Preferred Stock") in a private placement transaction. Net proceeds to the Company amounted to approximately $288 million. On June 6, 1997, the Company issued 300,000 shares (aggregate liquidation preference $300 million) of its 13 ½% Series B Redeemable Exchangeable Preferred Stock due 2009 (the "Series B Preferred Stock"), which were registered under the Securities Act of 1933, as amended, in exchange for all outstanding shares of the Series A Preferred Stock pursuant to a registered exchange offer. Dividends on the Series B Preferred Stock accumulate at a rate of 13 ½% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of additional shares of Series B Preferred Stock having an aggregate liquidation preference equal to the amount of such dividends. The Series B Preferred Stock is subject to mandatory redemption at its liquidation preference of $1,000 per share, plus accumulated and unpaid dividends on March 31, 2009. The Series B Preferred Stock will be redeemable at the option of the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

The Company may, at its, option, exchange some or all shares of the Series B Preferred Stock for the Company's 13 ½% Senior Subordinated Debentures, due 2009 (the "Exchange Debentures"). The Exchange Debentures mature on March 31, 2009. Interest on the Exchange Debentures is payable semi-annually, and may be paid in the form of additional Exchange Debentures at the Company's option. Exchange Debentures will be redeemable by the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

The Company is accreting the Series B Preferred Stock to its liquidation preference through the due date of the Series B Preferred Stock. The accretion for the three and nine month periods ended September 30, 1997 was $226 thousand and $512 thousand, respectively.

The Company elected to issue approximately 13,000 additional shares of Series B Preferred Stock, in lieu of cash, with an aggregate liquidation preference of $12.9 million in June 1997, in payment of the first quarterly dividend (accumulated from March 7, 1997 through June 30, 1997). In September 1997, the Company elected to issue approximately 11,000 additional shares of Series B Preferred Stock, in lieu of cash, with an aggregate liquidation preference of $10.6 million, in payment of the second quarterly dividend (accumulated from July 1, 1997 through September 30, 1997).

On July 9, 1997, the Company sold 6,000,000 Depositary Shares (the "Series D Depositary Shares") (aggregate liquidation preference $150,000,000) each representing a one-hundredth interest in a share of the Company's 7% Series D Junior Convertible Preferred Stock, (the "Series D Preferred Stock"), in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series D Depositary Shares was exercised and the Company sold an additional 900,000 Series D Depositary Shares (aggregate liquidation preference of $22,500,000). Net proceeds to the Company amounted to approximately $167 million. Dividends on the Series D Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series D Preferred Stock will be redeemable at the option of the Company at any time on or after July 19, 2000 at rates commencing with 104%, declining to 100% on July 19, 2004.

The Series D Preferred Stock is convertible, at the option of the holder, into Common Stock of the Company at a conversion price of $38.90 per share of Common Stock, subject to certain adjustments

The Company is accreting the Series D Depositary Shares to its liquidation preference through the due date of the Series D Preferred Stock. The accretion for the three and nine month periods ended September 30, 1997 was $357 thousand.

Also see note 5, Subsequent Events, for information regarding an additional issuance of preferred stock subsequent to September 30, 1997.

Note 4 Acquisitions

During June 1996, the Company acquired the Telecommunications Division of EMI Communications Corporation ("EMI") in exchange for 937,500 shares of the Company's common stock, valued at approximately $16.9 million. The acquisition was accounted for by the purchase method of accounting, with the purchase price allocated to the fair values of assets acquired, principally telecommunications equipment. EMI's telecommunications division, headquartered in Syracuse, New York, is a provider of frame relay based network services and interexchange private line services primarily in the northeastern United States. EMI operates owned and leased microwave and fiber optic digital network capacity in New York, Massachusetts, Vermont, Rhode Island, Connecticut, New Jersey, Pennsylvania, Maryland and the District of Columbia and maintains POPs in most major cities in these states.

During December 1996, the Company acquired, in two separate transactions, certain assets and the related businesses of Universal Telcom, Inc. ("UTT") and NetSolve, Incorporated ("NetSolve"). The purchase price for UTT included 31,380 shares of the Company's common stock, valued at approximately $.9 million, and the assumption of approximately $2 million of UTT's liabilities. NetSolve was purchased for cash of $12.8 million. The acquisitions are accounted for by the purchase method of accounting, with the purchase price allocated to the fair value of assets acquired, principally goodwill.. The goodwill, including an additional $.2 million for legal expenses, for these acquisitions has been adjusted during the first quarter of 1997 due to the finalization of the purchase price allocation.

On June 24, 1997, the Company purchased from Telco Communications Group, Inc. ("Telco") five long distance voice switches and ancillary network equipment located in Atlanta, Chicago, Dallas, Los Angeles and New York (the "Telco Acquisition"). Three of these switches will be upgraded to local/long distance voice switches, consistent with the Company's planned deployment of at least fifteen local/long distance voice switches by the end of 1997. As part of the Telco Acquisition, the Company also acquired certain network transport services for a three year period. The aggregate purchase price of the Telco Acquisition was approximately $38 million. The company believes that the Telco Acquisition will allow the Company to more rapidly deploy local/long distance voice switches in these markets and to do so at a lower overall cost. In addition, the transport services acquired as part of the Telco Acquisition will permit the Company to accelerate its deployment of ATM in its intercity and intracity networks. Implementation of ATM will facilitate additional enhanced data and voice services and network efficiencies.

During July 1997, Intermedia acquired DIGEX, Incorporated ("DIGEX"), a leading nationwide business Internet services provider. Aggregate cash consideration for the acquisition was approximately $155

million and was funded with the Company's existing cash reserves. The acquisition was accounted for by the purchase method of accounting, with the purchase price allocated to the fair value of assets acquired and liabilities assumed. For purpose of the financial statements as of September 30, 1997 and for the periods then ended, certain aspects of the purchase price allocation, related to duplicate network facilities and differing lease market rates, were accounted for on a preliminary basis pending the receipt by the Company of additional information and the performance of certain evaluations. Such information and evaluations are anticipated to be completed in the fourth quarter. In addition, the Company obtained an independent valuation related to fixed assets, developed and in-process technology, and other identifiable intangible assets. Based upon this valuation, the amount allocated to purchased research and development ($60 million) is recorded as a one-time charge to earnings in the accompanying consolidated statements of operations.

The following unaudited pro forma results of operations presents the consolidated results of operations as if the acquisition of UTT, NetSolve and EMI had occurred on January 1, 1996, and DIGEX on January 1, 1997. These proforma results do not purport to be indicative of the results that actually would have occurred if the companies had been acquired as of that date or of results which may occur in the future.

(In thousands)	Nine Months Ended September 30, 1997	1996
Revenue	$184,963	$90,215
Net loss	(223,355)	(36,873)
Net loss attributable to common stockholders	(250,473)	(36,873)
Net loss per common share	(15.21)	(2.78)

Note 5 Subsequent Events

On October 30, 1997, the Company sold 7,000,000 Depositary Shares (the "Series E Depositary Shares") (aggregate liquidation preference $175,000,000) each representing a one-hundredth interest in a share of the Company's 7% Series E Junior Convertible Preferred Stock, (the "Series E Preferred Stock"), in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series E Depositary Shares was exercised and the Company sold an additional 1,000,000 Series E Depositary Shares (aggregate liquidation preference of $25,000,0000). Net proceeds to the Company amounted to approximately $193.8 million. Dividends on the Series E Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series E Preferred Stock will be redeemable at the option of the Company at any time on or after October 18, 2000 at rates commencing with 104%, declining to 100% on October 18, 2004.

The Series E Depositary Shares will be convertible at any time after December 29, 1997, at the option of the holder into Common Stock of the Company at a conversion price of $60.47 per share of Common Stock, subject to certain adjustments.

Concurrently with the sale of the Series E Depositary Shares, the Company sold $250 million principal amount of 8 7/8% Senior Notes due 2007 (the "8 7/8% Notes") in a private placement transaction. Net proceeds to the Company amounted to approximately $243 million. Cash interest on the 8 7/8% Notes will be payable semi-annually in arrears on May 1 and November 1 at a rate of 8 7/8% per annum. The 8 7/8% Notes will be redeemable, at the Company's option at any time on or after November 1, 2002, and are pari passu with all other senior indebtedness.

The proceeds of the Series E Depositary Shares will be used to finance the continued expansion of the Company's telecommunications networks, including but not limited to, network electronics, such as local/long distance voice and data switches, and for general corporate purposes, including working capital The net proceeds from the offering of the 8 7/8% Notes will be used to fund up to 80% of the cost of acquisition or construction by the Company of telecommunications-related assets.

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

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included herewith, and with the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations and audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1996 filed with the Securities and Exchange Commission.

Overview

Intermedia Communications Inc. ("Intermedia" or the "Company"), formerly Intermedia Communications of Florida, Inc. through May 29, 1996, is a rapidly growing provider of integrated telecommunications solutions for business, government, and the telecommunications industry. Headquartered in Tampa, Florida, Intermedia is the third largest (based on annualized telecommunications revenues) among providers referred to as Competitive Local Exchange Carriers ("CLECs"). Intermedia offers a full suite of local, long-distance and enhanced data telecommunications services to business and government end user customers, long distance carriers, Internet service providers, resellers, and wireless communications companies serving customers from 43 sales offices located throughout the eastern United States. Intermedia also provides enhanced data/ATM and Internet services in approximately 3,787 cities nationwide, offering customers seamless end-to-end connectivity virtually anywhere in the world.

Since its inception in 1987, the Company has experienced substantial growth. Building from its original base in Florida, Intermedia is now a provider of integrated telecommunications services to customers that have a presence in the eastern United States. The Company currently has ten digital fiber optic networks and provides end-to-end connectivity throughout the United States and many international markets. As its networks and service offerings have expanded, the Company has experienced significant year to year growth in revenues and customers

Intermedia competes with the Incumbent Local Exchange Carriers ("ILECs") and Interexchange Carriers ("IXCs") in its service territory and offers a full range of voice and data telecommunications services. Intermedia's customers include a broad range of business and government end users and IXC's. The Company delivers local network services, including local exchange service, primarily over digital fiber optic telecommunications networks that it either owns or leases. In some circumstances, leasing facilities enables the Company to more rapidly initiate service to customers, reduces the risk of network construction or acquisition and potentially improves cash flow due to the reduction or deferment of capital expenditures. The Company also offers enhanced data services to its customers on an extensive intercity network that connects its customers, either through its own network or through other carriers, to locations throughout the country and internationally. This intercity network combined with the Company's local/long distance voice switches allows the Company to provide interexchange long distance service domestically and internationally.

At its inception, Intermedia provided special access and private line services to IXC's. In 1988, Intermedia was the first telecommunications provider in Florida to begin providing special access and private line services to business customers. In 1991, Intermedia began offering integration services in response to customer's needs and in 1992, Intermedia introduced its first enhanced data services to provide flexible capacity and highly reliable end-to-end data service for its business and government customers. The Company began offering interexchange long distance service in December 1994, Internet services in 1995 and local exchange services in 1996. The pace with which the Company has introduced new service offerings has enabled it to achieve substantial growth, improve its mix of customers and diversify its sources of revenue. The Company believes that business and government customers will continue to account for a substantial share of its revenue over the next several years, because of Intermedia's ability to offer such customers integrated, cost-effective telecommunications solutions. The Company believes that during the first few years of local exchange competition, the IXC's may enter the market by becoming resellers of the Company's local services. If the IXC's pursue a reseller strategy, the amount of revenue the Company realizes from carriers may increase during this period.

From 1992 through 1995, the Company had achieved positive EBITDA and increased its revenue base substantially. However, as a result of significant investments in resources necessary to launch local exchange services and expand enhanced data services, EBITDA decreased as a percentage of revenue and the Company's EBITDA was negative for 1996 and the first three quarters of 1997. This was due to the significant up front expenses related to the development of its networks and leased facilities, the revenue from which is expected to be

realized in later periods. The development of the Company's business and the installation and expansion of its networks have resulted in substantial capital expenditures and net losses during this period of its operations. Procurement of rights-of-way, administration and maintenance of facilities, depreciation of network capital expenditures and sales, general and administrative costs will continue to represent a large portion of the Company's expenses during its rapid expansion. In addition, the Company is experiencing rapid growth in marketing and selling expenses consistent with the addition of new customers and an increased level of selling and marketing activity. All of the marketing and selling expenses associated with the acquisition of new customers are expensed as they are incurred even though these customers are expected to generate recurring revenue for the Company for several years. The continued expansion of the Company's networks in anticipation of new customers and the marketing of services to new and existing customers is therefore adversely impacting EBITDA of the Company in the near term. The Company anticipates, but there can be no assurance, that as its customer base grows, incremental revenues will be greater than incremental operating expenses.

On June 24, 1997, the Company purchased from Telco Communications Group, Inc. ("Telco") five long distance voice switches and ancillary network equipment located in Atlanta, Chicago, Dallas, Los Angeles and New York (the "Telco Acquisition"). Three of these switches will be upgraded to local/long distance voice switches, consistent with the Company's planned deployment of at least fifteen local/long distance voice switches by the end of 1997. As part of the Telco Acquisition, the Company also acquired certain network transport services for a three year period. The aggregate purchase price of the Telco Acquisition was approximately $38 million, which was substantially included in the Company's planned expenditures for 1997. The company believes that the Telco Acquisition will allow the Company to more rapidly deploy local/long distance voice switches in these markets and to do so at a lower overall cost. In addition, the transport services acquired as part of the Telco Acquisition will permit the Company to accelerate its deployment of ATM in its intercity and intracity networks. Implementation of ATM will facilitate additional enhanced data and voice services and network efficiencies.

On July 11, 1997, Intermedia's wholly owned subsidiary, Daylight Acquisition Corp., completed a merger (the "Merger") with DIGEX, Incorporated ("DIGEX"), a leading nationwide business Internet services provider. The aggregate cash consideration for the acquisition was approximately $155 million and was funded with the Company's existing cash reserves in July 1997.

During the remainder of 1997 and beyond, the Company believes that its growth will be balanced among its local exchange, long distance and enhanced data services. Based on the Company's analysis of FCC data and its knowledge of the industry, the Company estimates that the market for local exchange, long distance and data services was approximately $25 billion in 1996 in the Company's service territory. As a result of the Company's planned expansion in 1997, the Company expects to be positioned to provide these services in markets with a total opportunity of approximately $34 billion by the end of 1997, exclusive of the opportunities provided by the DIGEX acquisition.

In order to develop its business more rapidly and efficiently utilize its capital resources, Intermedia plans to use the existing fiber optic infrastructure of other providers in addition to using its existing networks. While the Company will use significant amounts of capital to deploy enhanced data and voice switches on a demand driven basis in selected markets, Intermedia believes that its substantial existing network capacity should enable it to add new customers and provide additional services that will result in increased revenues with lower incremental costs and, correspondingly, over time improve its EBITDA. For example, selling additional services, such as local exchange services, to existing or new customers allows the Company to utilize unused portions of the capacity inherent in its existing fiber optic networks. This operating leverage increases the utilization of the network with limited additional capital expenditures. The Company's strategy to offer a full complement of telecommunications services is designed to enable the Company to take advantage of the operating leverage of its networks.

Results of Operations

The following table presents, for the periods indicated, certain information derived from the Company's Condensed Consolidated Statements of Operations, expressed in percentages of revenue:

	Three Months Ended Sept. 30, 1997 (Unaudited)	Three Months Ended Sept. 30, 1996 (Unaudited)	Nine Months Ended Sept. 30, 1997 (Unaudited)	Nine Months Ended Sept. 30, 1996 (Unaudited)
Revenues:				
Local network services	16.6 %	9.7 %	15.4 %	15.0 %
Enhanced data services	43.3	31.6	33.2	30.3
Interexchange services	38.8	56.6	48.9	49.5
Integration services	1.3	2.1	2.5	5.2
	100.0	100.0	100.0	100.0
Expenses:				
Network operations	68.8	73.6	70.3	64.6
Facilities administration and maintenance	14.0	7.1	13.0	6.7
Cost of goods sold	.7	1.7	1.5	4.9
Selling, general and administrative	35.1	29.9	39.3	37.1
Depreciation and amortization	22.6	15.5	20.7	18.8
Charge for in-process R&D	84.2	-	36.3	-
Loss from operations	(125.4)	(27.8)	(81.2)	(32.1)
Other income (expense):				
Interest expense	(24.8)	(31.7)	(24.1)	(37.6)
Other income	9.5	16.8	10.1	14.3
Loss before extraordinary items	(140.7)	(42.7)	(95.2)	(55.4)
Extraordinary item	(61.5)	-	(26.5)	-
Net Loss	(202.2)	(42.7)	(121.7)	(55.4)
Preferred stock dividends and accretions	(19.5)	-	(16.4)	-
Net loss attributable to common stockholders	(221.7)%	(42.7)%	(138.1)%	(55.4)%

The following table sets forth other statistical data derived from the Company's operating records:

	Sept. 30, 1997	Sept. 30, 1996
Transport services:		
Buildings connected	2,703	429
Route miles	762	647
Fiber optic miles	33,801	23,763
Network cities in operation	10	9
Enhanced data services:		
Data switches installed	130	76
Frame relay cities	3,787	1,134
Nodes in service	17,286	8,462
NNI connections	366	219
Local and Long Distance Services:		
Voice switches in operation	13	4
Long distance billable minutes	111,049,341	61,549,894
Access line equivalents	50,740	-
Employees	1,820	724

Quarter Ended September 30, 1997 Compared to Quarter Ended September 30, 1996

Revenue

Total revenue increased 109.7% to $71.3 million for the third quarter of 1997 compared to $34.0 million for the same period in 1996. This increase primarily resulted from the acquisition of DIGEX, the introduction of new services and the increased focus of the Company's sales force on offering a full suite of telecommunications services to an expanding market. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Local network services revenue increased 259.3% to $11.8 million for the third quarter of 1997 compared to $3.2 million for the same period in 1996. This increase primarily resulted from the continued rollout of local exchange services into additional markets. The Company has received CLEC certification in 28 states plus the District of Columbia as of the end of the third quarter of 1997.

Enhanced data services revenue increased 187.0% to $30.8 million for the third quarter of 1997 compared to $10.7 million for the same period in 1996. This increase primarily resulted from the expansion of the Company's enhanced data network by 54 switches and 8,824 new frame relay nodes since July 1, 1996. In addition, the number of frame relay cities has increased by 2,653 during the same time period. Of the revenue increase, a significant portion was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Interexchange services revenue increased 43.6% to $27.6 million for the third quarter of 1997 compared to $19.2 million for the same period in 1996. This increase primarily resulted from strong growth in long distance switched revenue and steady growth in interLATA transport.

Integration services revenue increased 36.6% to $1.0 million for the third quarter of 1997 compared to $.7 million for the same period in 1996. This increase primarily resulted from the Company's increased focus on providing a total service package for the customer.

Operating Expenses

Total operating expenses increased 269.8% to $160.6 million for the third quarter of 1997 compared to $43.4 million for the same period in 1996. The increase primarily resulted from the costs associated with the significant expansion of the Company's owned and leased networks and the continued expansion in personnel to sustain and support the Company's growth. Of the increase, $60 million resulted from the charge for in-process research and development and the inclusion of DIGEX's operating results for the third quarter of 1997.

Network operations expenses increased 96.1% to $49.0 million for the third quarter of 1997 compared to $25.0 million for the same period in 1996. This increase primarily resulted from the increases in leased network capacity that is associated with the growth of local network service, enhanced data service and interexchange service revenues. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Facilities administration and maintenance expenses increased 313.8% to $10.0 million for the third quarter of 1997 compared to $2.4 million for the same period in 1996. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997. In addition, the increase resulted from the expansion of the Company's owned and leased network capacity, increases in maintenance expense due to the network expansion and increased payroll expenses related to hiring additional engineering and operations staff to support and service the expanding network.

Selling, general and administrative expenses increased 145.8% to $25.0 million for the third quarter of 1997 compared to $10.2 million for the same period in 1996. This increase primarily resulted from the Company's continued growth and represented a major increase in the sales, marketing, management information services and customer service personnel, one time expenditures for employee recruitment, relocation, training and increased commissions relating to the rise in revenues for these periods. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Depreciation and amortization expenses increased 206.4% to $16.1 million for the third quarter of 1997 compared to $5.3 million for the same period in 1996. This increase primarily resulted from additions to telecommunications equipment placed in service during 1996 and the first nine months of 1997, relating to ongoing network expansion. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Charge for in-process Research & Development of $60 million represents the amount of the purchased in-process research and development associated with the purchase of DIGEX. This cost is recorded as a one-time charge to earnings in the third quarter of 1997.

Interest Expense

Interest expense increased 64.2% to $17.7 million for the third quarter of 1997 compared to $10.8 million for the same period in 1996. This increase primarily resulted from interest expense on the May 1996 issuance of $330 million principal amount at maturity of the Company's 12 ½% Senior Discount Notes due 2006 (the "12 ½% Notes") and the July 1997 issuance of $649 million, including the over-allotment option, principal amount at maturity of the Company's 11 ¼% Notes.

Other Income

Other income increased 17.7% to $6.7 million for the third quarter of 1997 compared to $5.7 million for the same period in 1996. This increase was primarily the result of interest earned on the cash available from the excess proceeds relating to the May 1996 issuance of the 12 ½% Notes, the May 1996 issuance of 4,674,503 common shares, par value $.01 per share, at $26.00 per share, the March 1997 issuance of 30,000 shares of the Company's Series A Preferred Stock, which was subsequently exchanged for the Series B Preferred Stock, the July 1997 issuance of the 11 ¼% Notes and the July 1997 issuance of 6,900,000 Series D Depositary Shares.

Extraordinary Loss of $43.8 million for the third quarter of 1997 consisted of pre-payment penalties relating to certain indebtedness which was repaid from the proceeds of the offering of the 11 ¼% Notes and the write-off of the unamortized deferred financing costs associated with the indebtedness repaid.

Net Loss

Net loss increased 893.8% to $144.2 million for the third quarter of 1997 compared to $14.5 million for the same period in 1996. This increase was due primarily to the increased operating expenses resulting from the expansion of the network, increased selling general and administrative costs, the charge for in-process research & development, increased interest costs and the extraordinary items.

Preferred Stock Dividends and Accretions

Preferred stock dividends and accretions of $13.9 million resulted from the March 1997 issuance of 30,000 shares of the Company's Series A Preferred Stock, which was subsequently exchanged for the Series B Preferred Stock, and the July 1997 issuance of 6,900,000 Series D Depositary Shares.

EBITDA

EBITDA decreased 216.2% to $(13.3) million for the third quarter of 1997 compared to $(4.2) million for the same period in 1996. This decline was the result of the acceleration in the deployment of Intermedia's capital expansion plan which significantly increased growth oriented expenses, such as network expenses, increases in sales, customer service and market development costs, prior to realizing revenues associated with these expenditures

Nine Months Ended September 30, 1997 Compared to Nine Months Ended September 30, 1996

Revenue

Total revenue increased 156.9% to $165.3 million for the nine months ended September 30, 1997 compared to $64.3 million for the same period in 1996. This increase primarily resulted from the acquisitions of EMI and DIGEX, the introduction of new services and the increased focus of the Company's sales force on offering a full suite of telecommunications services to an expanding market. A portion of the increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997.

Local network services revenue increased 163.3% to $25.5 million for the nine months ended September 30, 1997 compared to $9.7 million for the same period in 1996. This increase primarily resulted from the continued rollout of local exchange services into additional markets. The Company has received CLEC certification in 28 states plus the District of Columbia as of the end of the third quarter of 1997.

Enhanced data services revenue increased 181.3% to $54.8 million for the nine months ended September 31, 1997 compared to $19.5 million for the same period in 1996. This increase primarily resulted from the expansion of the Company's enhanced data network by 54 switches and 8,824 new frame relay nodes since July 1, 1996. In addition, the number of frame relay cities has increased by 2,653 during the same time period. A portion of the revenue increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997.

Interexchange services revenue increased 154.3% to $80.9 million for the nine months ended September 30, 1997 compared to $31.8 million for the same period in 1996. This increase primarily resulted from strong growth in long distance switched revenue and steady growth in interLATA transport. A portion of the increase, was attributable to the inclusion of EMI's operating results for the nine months ended September 30, 1997.

Integration services revenue increased 23.4% to $4.2 million for the nine months ended September 30, 1997 compared to $3.4 million for the same period in 1996. This increase primarily resulted from the Company's increased focus on providing a total service package for the customer.

Operating Expenses

Total operating expenses increased 252.4% to $299.5 million for the nine months ended September 30, 1997 compared to $85 million for the same period in 1996. The increase primarily resulted from the costs associated with the significant expansion of the Company's owned and leased networks and the continued expansion in personnel to sustain and support the Company's growth. Of the increase, $60 million resulted from the charge for in-process research and development and the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997.

Network operations expenses increased 179.9% to $116.3 million for the nine months ended September 30, 1997 compared to $41.6 million for the same period in 1996. This increase primarily resulted from the increases in leased network capacity that is associated with the growth of local network service, enhanced data service and interexchange service revenues. A portion of the increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997.

Facilities administration and maintenance expenses increased 396.0% to $21.4 million for the nine months ended September 30, 1997 compared to $4.3 million for the same period in 1996. A portion of the increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997 In addition, the increase resulted from the expansion of the Company's owned and leased network capacity, increases in maintenance expense due to the network expansion and increased payroll expenses related to hiring additional engineering and operations staff to support and service the expanding network.

Selling, general and administrative expenses increased 172.1% to $65 million for the nine months ended September 30, 1997 compared to $23.9 million for the same period in 1996. This increase primarily resulted from the Company's continued growth and represented a major increase in the sales, marketing, management information services and customer service personnel, one time expenditures for employee recruitment, relocation, training and

increased commissions relating to the rise in revenues for these periods. A portion of the increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997

Depreciation and amortization expenses increased 184.0% to $34.3 million for the nine months ended September 30, 1997 compared to $12.1 million for the same period in 1996. This increase primarily resulted from additions to telecommunications equipment placed in service during 1996 and the first nine months of 1997, relating to ongoing network expansion. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Charge for in-process Research & Development of $60 million represents the amount of the purchased in-process research and development associated with the purchase of DIGEX. This cost is recorded as a one-time charge to earnings in the third quarter of 1997.

Interest Expense

Interest expense increased 65.0% to $39.9 million for the nine months ended September 30, 1997 compared to $24.2 million for the same period in 1996. This increase primarily resulted from interest expense on the May 1996 issuance of $330 million principal amount at maturity of the Company's 12 ½% Notes and the July 1997 issuance of $649 million, including the over-allotment option, principal amount at maturity of the Company's 11 ¼% Notes.

Other Income

Other income increased 81.4% to $16.7 million for the nine months ended September 30, 1997 compared to $9.2 million for the same period in 1996. This increase was primarily the result of interest earned on the cash available from the excess proceeds relating to the May 1996 issuance of the 12 ½% Notes, the May 1996 issuance of 4,674,503 common shares, par value $.01 per share, at $26.00 per share, the March 1997 issuance of 30,000 shares of the Company's Series A Preferred Stock, which was subsequently exchanged for the Series B Preferred Stock, the July 1997 issuance of the 11 ¼% Notes and the July 1997 issuance of 6,900,000 Series D Depositary Shares.

Extraordinary Loss of $43.8 million for the third quarter of 1997 consisted of pre-payment penalties relating to certain indebtedness which was repaid from the proceeds of the offering of the 11 ¼% Notes and the write-off of the unamortized deferred financing costs associated with the indebtedness repaid.

Net Loss

Net loss increased 464.6% to $201.2 million for the nine months ended September 30, 1997 compared to $35.6 million for the same period in 1996. This increase was due primarily to the increased operating expenses resulting from the expansion of the network, increased selling general and administrative costs, the charge for in-process research & development, increased interest costs and the extraordinary items.

Preferred Stock Dividends and Accretions

Preferred stock dividends and accretions of $27.1 million resulted from the March 1997 issuance of 30,000 shares of Series A Preferred Stock, which was subsequently exchanged for the Series B Preferred Stock, and the July 1997 issuance of 6,900,000 Series D Depositary Shares.

EBITDA

EBITDA decreased 364.3% to $(39.9) million for the nine months ended September 30, 1997 compared to $(8.6) million for the same period in 1996. This decline was the result of the acceleration in the deployment of Intermedia's capital expansion plan which significantly increased growth oriented expenses, such as network expenses, increases in sales, customer service and market development costs, prior to realizing revenues associated with these expenditures.

Liquidity and Capital Resources

The Company's operations have required substantial capital investment for the purchase of telecommunications equipment and the design, construction and development of the Company's networks. Capital expenditures for the Company were $179 million and $81 million for the nine months ended September 30, 1997 and 1996, respectively. The Company expects that it will continue to have substantial capital requirements in connection with the (i) expansion and improvement of the Company's existing networks, (ii) design, construction and development of new networks, (iii) connection of additional buildings and customers to the Company's networks, (iv) purchase of switches necessary for local exchange services and expansion of interexchange services and (v) development of the Company's enhanced data services. In addition, the Company utilized approximately $155 million of its available cash to complete the acquisition of DIGEX in July 1997.

The Company has funded a substantial portion of these expenditures through the public sale of debt and equity securities and to a lesser extent, privately placed debt. From inception through December 31, 1996, the Company raised approximately $212.6 million from the sale of Common Stock, including Common Stock issued in connection with the acquisitions of FiberNet, Phone One, EMI and UTT, and $324.6 million from the sale of senior debt.

The substantial capital investment required to build the Company's network has resulted in negative cash flow from operations after consideration of investing activities over the last five year period. This negative cash flow after investing activities was a result of the requirement to build a substantial portion of the Company's network in anticipation of connecting revenue generating customers. The Company expects to continue to produce negative cash flow after investing activities for the next several years due to the expansion activities associated with the development of the Company's networks. Until sufficient cash flow after investing activities is generated from operations, the Company will be required to utilize its current and future capital resources to meet its cash flow requirements, including the issuance of additional debt and/or equity securities.

In response to the new pro-competitive telecommunications environment, the Company has accelerated and expanded its capital deployment plan to allow for an increased level of demand-driven spending necessary to more rapidly exploit the market opportunity in the local exchange market. The Company expects to expend substantial amounts to upgrade its existing networks in order to switch traffic within the local service area in those states where it is currently permitted to provide such services. The Company is certified as a CLEC in 28 states and the District of Columbia, allowing the Company to provide local exchange services in those markets. In addition, the Company expects to expend capital toward the further development of the Company's enhanced data service and interchange service offerings.

The Company currently estimates that it will require approximately $45 million to fund anticipated capital requirements during the remainder of 1997, which it expects to fund from its available cash. The Company does not believe that the acquisition of DIGEX will have a material impact on its capital expenditure requirements.

On March 7, 1997, the Company sold 30,000 shares (aggregate liquidation preference $300,000,000) of Series A Preferred Stock in a private placement transaction. Net proceeds to the Company amounted to approximately $288 million. On June 6, 1997, the company issued 300,000 shares (aggregate liquidation preference $300 million) of its Series B Preferred Stock, which were registered under the Securities Act of 1933, as amended, in exchange for all outstanding shares of the Series A Preferred Stock pursuant to a registered exchange offer. Dividends on the Series B Preferred Stock accumulate at a rate of 13 ½% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of additional shares of Series B Preferred Stock having an aggregate liquidation preference equal to the amount of such dividends. The Series B Preferred Stock is subject to mandatory redemption at its liquidation preference of $1,000 per share, plus accumulated and unpaid dividends on March 31, 2009. The Series B Preferred Stock will be redeemable at the option of the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

The Company may, at its, option, exchange some or all shares of the Series B Preferred Stock for the Company's Exchange Debentures. The Exchange Debentures mature on March 31, 2009. Interest on the Exchange Debentures is payable semi-annually, and may be paid in the form of additional Exchange Debentures at the

Company's option. Exchange Debentures will be redeemable by the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

On July 11, 1997, Intermedia's wholly owned subsidiary, Daylight Acquisition Corp., completed a merger with DIGEX, a leading nationwide business Internet services provider. The aggregate cash consideration for the acquisition was approximately $155 million and was funded with the Company's existing cash reserves in July 1997.

On July 9, 1997, the Company sold 6,000,000 Series D Depositary Shares (aggregate liquidation preference $150,000,000) each representing a one-hundredth interest in a share of the Company's Series D Preferred Stock, in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series D Depositary Shares was exercised and the Company sold an additional 900,000 Series D Depositary Shares (aggregate liquidation preference of $22,500,000). Net proceeds to the Company amounted to approximately $167 million. Dividends on the Series D Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series D Preferred Stock will be redeemable at the option of the Company at any time on or after July 19, 2000 at rates commencing with 104%, declining to 100% on July 19, 2004.

The Series D Preferred Stock is convertible, at the option of the holder, into Common Stock of the Company at a conversion price of $38.90 per share of Common Stock, subject to certain adjustments.

Concurrently with the sale of the Series D Depositary Shares, the Company sold $600 million principal amount at maturity of 11 ¼% Notes in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the 11 ¼% Notes was exercised and the Company sold an additional $43 million principal amount at maturity of 11 ¼% Notes. The issue price of the 11 ¼% Notes was $577.48 per $1,000 principal amount at maturity of the 11 ¼% Notes. Net proceeds to the Company amounted to approximately $365 million. Cash interest will not accrue on the 11 ¼% Notes prior to July 15, 2002. Commencing January 15, 2003, cash interest on the 11 ¼% Notes will be payable semi-annually in arrears on July 15 and January 15 at a rate of 11 ¼% per annum. The 11 ¼% Notes will be redeemable, at the Company's option at any time on or after July 15, 2002, and are pari passu with all other senior indebtedness.

The Company used a portion of the proceeds of the private offering of the 11 ¼% Notes to retire or defease Intermedia's outstanding 13 ½% Notes. The Retirement resulted in an extraordinary loss, as shown in the accompanying consolidated statement of operations, of approximately $44 million in the third quarter of 1997.

On October 30, 1997, the Company sold 7,000,000 Series E Depositary Shares (aggregate liquidation preference $175,000,000) each representing a one-hundredth interest in a share of the Company's Series E Preferred Stock, in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series E Depositary Shares was exercised and the Company sold an additional 1,000,000 Series E Depositary Shares (aggregate liquidation preference of $25,000,0000). Net proceeds to the Company amounted to approximately $193.8 million. Dividends on the Series E Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series E Preferred Stock will be redeemable at the option of the Company at any time on or after October 18, 2000 at rates commencing with 104%, declining to 100% on October 18, 2004.

The Series E Preferred Stock will be convertible at any time after December 29, 1997, at the option of the holder into Common Stock of the Company at a conversion price of $60.47 per share of Common Stock, subject to certain adjustments.

Concurrently with the sale of the Series E Depositary Shares, the Company sold $250 million principal amount at maturity of 8 7/8% Notes due in a private placement transaction. Net proceeds to the Company amounted to approximately $243 million. Cash interest on the 8 7/8% Notes will be payable semi-annually in arrears on May 1 and November 1 at a rate of 8 7/8% per annum. The 8 7/8% Notes will be redeemable, at the Company's option at any time on or after November 1, 2002, and are pari passu with all other senior indebtedness.

The proceeds from the Series E Depositary Shares will be used to finance the continued expansion of the Company's telecommunications networks, including but not limited to, network electronics, such as local/long distance voice and data switches, and for general corporate purposes, including working capital. The net proceeds from the offering of the 8 7/8% Notes will be used to fund up to 80% of the cost of acquisition or construction by the Company of telecommunications-related assets.

The Company expects that its available cash, including proceeds from the concurrent offerings of the 8 7/8% Notes and Series E Depositary Shares, and credit availability will be sufficient to fund its current accelerated and expanded capital deployment plan. If the Company were to require additional financing, it would seek to obtain such financing through the sale of public or private debt and/or equity securities or through securing a bank credit facility. There can be no assurance as to the availability of the terms upon which such financing might be available Moreover, the 12 ½% Notes, the 11 ¼% Notes, the 8 7/8% Notes and the Series B Preferred Stock impose certain restrictions upon the Company's ability to incur additional indebtedness or issue additional preferred stock.

The Company has from time to time held, and continues to hold, preliminary discussions with (i) potential strategic investors (i.e. investors in the same or a related business) who have expressed an interest in making an investment in or acquiring the Company, (ii) potential joint venture partners looking toward formation of strategic alliances that would expand the reach of the Company's network or services without necessarily requiring an additional investment in the Company and (iii) companies that represent potential acquisition opportunities for the Company. There can be no assurance that any agreement with any potential strategic investor, joint venture partner or acquisition target will be reached nor does management believe that any thereof is necessary to successfully implement its strategic plans.

Impact of Inflation

Inflation has not had a significant impact on the Company's operations over the past 3 years.

The information set forth above in "Management's Discussion and Analysis of Financial Conditions and Results of Operations" includes forward-looking statements that involve numerous risks and uncertainties. The Company's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 20, 1997, two purported class action complaints were filed in the Court of Chancery of the State of Delaware in and for New Castle County respectively by TAAM Associates, Inc. and David and Chaile Steinberg (the "Complaints"), purported stockholders of DIGEX on behalf of all non-affiliated common stockholders of DIGEX against Intermedia, DIGEX and the Directors of DIGEX (the "DIGEX Directors"). The Complaints allege that the DIGEX Directors violated their fiduciary duties to the public stockholders of DIGEX by agreeing to vote in favor of the Merger and that Intermedia knowingly aided and abetted such violation by offering to retain DIGEX management in their present positions and consenting to stock option grants to certain executive officers of DIGEX The Complaints sought preliminary and permanent injunction enjoining the Merger but no applications were made for such injunctions prior to consummation of the Merger on July 11, 1997. In addition, the Complaints seek cash damages from the DIGEX Directors. In August 1997, a motion to dismiss the Complaints was filed on behalf of Intermedia, DIGEX and the DIGEX Directors.

These cases are in their very early stages and no assurance can be given as to their ultimate outcome. Intermedia, after consultation with its counsel, believes that there are meritorious factual and legal defenses to the claims in the Complaints. Intermedia intends to defend vigorously the claims in the Complaints.

Item 2. Changes in Securities

On July 9, 1997, the Company sold 6,000,000 Series D Depositary Shares (aggregate liquidation preference $150,000,000) each representing a one-hundredth interest in a share of the Company's Series D Preferred Stock, in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series D Depositary Shares was exercised and the Company sold an additional 900,000 Series D Depositary Shares (aggregate liquidation preference of $22,500,000). Net proceeds to the Company amounted to approximately $167 million. Dividends on the Series D Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series D Preferred Stock will be redeemable at the option of the Company at any time on or after July 19, 2000 at rates commencing with 104%, declining to 100% on July 19, 2004.

The Series D Preferred Stock is convertible, at the option of the holder, into Common Stock of the Company at a conversion price of $38 90 per share of Common Stock, subject to certain adjustments

The Series D Depositary Shares were issued and sold to the initial purchasers pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Act"). Each of the initial purchasers of the Series D Depositary Shares represented to the Company, among other things, that (i) it is a qualified institutional buyer ("QIB"), (ii) it is not acquiring the Series D Depositary Shares with a view to any distribution thereof that would violate the Act or the securities laws of any state of the United States or any other applicable jurisdiction, (iii) it will be re-offering and reselling the Series D Depositary Shares only to QIBs in reliance on the exemption from the registration requirements of the Act provided by Rule 144A and to accredited investors in a private placement exempt from the registration requirements of the Act, and (iv) no form of general solicitation or general advertising has been or will be used by it or any of its representatives in connection with the offer and sale of any of the Depositary Shares.

On October 30, 1997, the Company sold 7,000,000 Series E Depositary Shares (aggregate liquidation preference $175,000,000) each representing a one-hundredth interest in a share of the Company's Series E Preferred Stock, in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series E Depositary Shares was exercised and the Company sold an additional 1,000,000 Series E Depositary Shares (aggregate liquidation preference of $25,000,0000). Net proceeds to the Company amounted to approximately $193 8 million. Dividends on the Series E Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series E Preferred Stock will be redeemable at the option of the Company at any time on or after October 18, 2000 at rates commencing with 104%, declining to 100% on October 18, 2004

The Series E Preferred Stock will be convertible at any time after December 29, 1997, at the option of the holder, into Common Stock of the Company at a conversion price of $60.47 per share of Common Stock, subject to certain adjustments

The Series E Depositary Shares were issued and sold to the initial purchasers pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Act"). Each of the initial purchasers of the Series E Depositary Shares represented to the Company, among other things, that (i) it is a qualified institutional buyer ("QIB"), (ii) it is not acquiring the Series E Depositary Shares with a view to any distribution thereof that would violate the Act or the securities laws of any state of the United States or any other applicable jurisdiction, (iii) it will be re-offering and reselling the Series E Depositary Shares only to QIBs in reliance on the exemption from the registration requirements of the Act provided by Rule 144A, pursuant to offers and sales that occur outside the United States within the meaning of Regulation S and to accredited investors in a private placement exempt from the registration requirements of the Act, and (iv) no form of general solicitation or general advertising has been or will be used by it or any of its representatives in connection with the offer and sale of any of the Series E Depositary Shares.

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders
None

Item 5. Other Information
None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Number	Exhibit
2 1	Agreement and Plan of Merger among the Company, Daylight Acquisition Corp and DIGEX, dated June 4, 1997. Exhibit 99 (c) (1) to the Company's Schedule 14D-1 filed with the Securities and Exchange Commission on June 11, 1997 is incorporated herein by reference.
3.1	Restated Certificate of Incorporation of the Company, together with all amendments thereto.
3.2	By-laws of the Company, together with all amendments thereto. Exhibit 3.2 to the Company's Form S-1, filed with the Commission on November 8, 1993, (No. 33-69053) is incorporated herein by reference.
4.1	Indenture, dated as of October 30, 1997, by and between the Company and SunTrust Bank, Central Florida, National Association, as Trustee. Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Commission on November 6, 1997 (the "Form 8-K"), is incorporated herein by reference.
4 2	Certificate of Designation of Voting Power, Designation Preferences and Relative, Participating, Optional and other Rights and Qualifications, Limitations and Restrictions of 7% Series E Junior Convertible Preferred Stock of the Company, filed with the Secretary of State of the State of Delaware on October 29, 1997 Exhibit 4.2 to the Form 8-K is incorporated herein by reference
4 3	Deposit Agreement, dated as of October 30, 1997, by and among the Company, Continental Stock Transfer & trust Company and all the holders from time to

time of Depositary Receipts issued thereunder. Exhibit 4.2 to the Form 8 K is incorporated herein by reference.

27 1 Financial Data Schedule (For SEC Use Only)

(b) Reports on Form 8-K

The following reports on Form 8-K were filed during the third quarter of 1997 and through November 6, 1997:

The Company filed a Current Report on Form 8-K, dated July 9, 1997, reporting under Item 2 the completion of the acquisition of DIGEX, Incorporated by Daylight Acquisition, Corp., a wholly owned subsidiary of Intermedia Communications Inc. The Company also reported under Item 5 the completion of the concurrent private placements of its Series D Depositary Shares and 11 ¼ % Notes.

The Company filed a Current Report on Form 8-K/A, dated July 9, 1997, reporting under Item 7 the financial statements of businesses acquired and the proforma financial information as of March 31, 1997.

The Company filed a Current Report on Form 8-K, dated October 24, 1997, reporting under Item 5, the commencement of two concurrent private offerings of its securities.

The Company filed a Current Report on Form 8-K, dated November 6, 1997, reporting under Item 5, the completion of concurrent private placements of its Series E Depositary Shares and 8 7/8% Notes

SIGNATURES

Pursuant to the requirements 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.

Dated November 6, 1997

INTERMEDIA COMMUNICATIONS INC.
(Registrant)

/s/ Robert M. Manning
Robert M. Manning
Senior Vice President and Chief Financial Officer

/s/ Jeanne M. Walters
Jeanne M. Walters
Controller and Chief Accounting Officer

ATTACHMENT F

DIRECTORS AND EXECUTIVE OFFICERS OF INTERMEDIA COMMUNICATIONS, INC.

The following information sets forth the name, age, citizenship, business address, present principal occupation or employment, and the material occupation, positions, offices or employment for the past five years of each director and executive office of ICI. Unless otherwise indicated below, the address of each director and executive officer is Intermedia Communications Inc., 3625 Queen Palm Drive, Tampa, Florida 33619 and each director and executive officer is a citizen of the United States of America.

David C. Ruberg, age 51, has been a director, President, and Chief Executive Officer of ICI since May 1993 and Chairman of the Board since March 1994. He was an independent consultant to the computer and telecommunications industries from September 1991 to May 1993. Mr. Ruberg was a Vice President and General Manager of Data General Corporation from 1989 until September 1991.

John C. Baker, age 47, has been a director of ICI since February 1988. Mr. Baker has been the principal of Baker Capital Corp., a private equity investment firm, since October 1995. He was a Senior Vice President of Patricof & Co. Ventures, Inc., a multi-national venture capital firm from 1988 until September 1995. Mr. Baker is currently a director of Xpedite Systems, Inc., FORE Systems, Inc. and Resource Bancshares Mortgage Group, Inc., all of which are publicly traded corporations.

George F. Knapp, age 65, has been a director of ICI since February 1988. He has been a principal of Communications Investment Group, an investment banking firm, since June 1990. From January 1988 until June 1990, Mr. Knapp was an associate at MBW Management, Inc., a venture capital firm. Prior to that time, he held various executive positions at ITT Corporation and its subsidiaries, most recently as Corporate Vice President of ITT Corporation. Mr. Knapp is currently a member of the Manhattan College Board of Trustees and Chairman of its Finance Committee.

Philip A. Campbell, age 60, has been a director of ICI since September 1996. Mr. Campbell retired from Bell Atlantic Inc. as director, Vice Chairman and Chief Financial Officer in 1991. Previously, he was President of New Jersey Bell, Indiana Bell, and Bell Atlantic Network Services. Mr. Campbell is currently a director of Xpedite Systems, Inc., a publicly traded corporation.

Robert A. Rouse, age 48, has served as Executive Vice President, Operations and Systems of ICI since October 1996. Prior to joining ICI, Mr. Rouse was Senior Vice President of Concert, a joint venture company of British Telecommunications and MCI Communications Company where he managed the engineering and operations of the Concert Global Networks from 1991 to 1996. Mr. Rouse held various executive management positions at MCI from 1986 to 1991, with responsibilities including product and network design, network and systems development, network planning, operations, provisioning, and customer services. From 1969 to 1986, he managed several subsidiaries of Rochester Telephone, now a part of Frontier Corporation. Mr. Rouse received his B.A. from the University of Rochester in 1971.

James F. Geiger, age 38, has served as Senior Vice President, Sales of ICI since August 1995. Mr. Geiger served as the Vice President of Alternate Channel Sales from March 1995 through August 1995 and as the President of each of FiberNet USA, Inc. and FiberNet Telecommunications Cincinnati, Inc. (collectively, "FiberNet") since their inception. Mr. Geiger was one of the founding principals of FiberNet, initially serving as Vice President of Sales & Marketing and subsequently serving as President. From April 1989 to April 1990, Mr. Geiger served as Director of Marketing for Associated Communications, a cellular telephone company. Mr. Geiger received his B.S. in accounting from Clarkson University.

Robert M. Manning, age 37, has served as Senior Vice President, Chief Financial Officer of ICI since September 1996. Mr. Manning joined ICI from DMX Inc., a Los Angeles-based cable programmer, where he was Executive Vice President, Senior Financial Executive and a director of DMX-Europe from October 1991 to September 1996. Prior to his tenure at DMX, Mr. Manning spent ten years in the investment banking field in corporate finance and mergers and acquisitions, most recently with Oppenheimer and Co., Inc. as Vice President, Corporate Finance, managing their Entertainment/Leisure Time Group from October 1988 to October 1991. Mr. Manning is a graduate of Williams College, Williamstown, Massachusetts.

Robert A. Ruh, age 52, has served as Senior Vice President, Human Resources of ICI since March 1, 1996. From January 1991 through February 1996, Dr. Ruh was an independent consultant, specializing in executive and organization development. From 1975 to 1990, Dr. Ruh held executive positions in human resources with Baxter Healthcare Corporation and American Hospital Supply Corporation. From 1973 to 1975, Dr. Ruh served as a consulting psychologist for Medina and Thompson, specializing in executive assessment, selection, and development. From 1970 to 1972, Dr. Ruh was on the corporate organization development staff at Corning Glass Works. Dr. Ruh served as Assistant Professor of psychology at Michigan State University from 1970 to 1972. Dr. Ruh received a B.A. in psychology from Valparaiso University in 1966. He received an M.A. (1967) and a Ph.D. (1970) in industrial/organization psychology from Michigan State University.

Barbara L. Samson, age 34, a co-founder of ICI, has served as a Vice President since June 1987, and as a Senior Vice President since October 1992. She served as President of ICI's predecessor from September 1986 to June 1987. Ms. Samson recently served two terms as Chairman of the Association of Local Telecommunications Services (ALTS), a national competitive access provider trade association. Ms. Samson received her B.S. in telecommunications from the University of Florida and her M.B.A. from the University of South Florida.[1]

Michael A. Viren, age 55, has served as Senior Vice President, Strategic Planning, Regulatory, and Industry Relations of ICI since October 1996. Prior to his present position, he was Senior Vice President, Engineering and Information Systems from January 1996 to October 1996 and served as Vice President, Product Development from December 1992 through January 1996. Dr. Viren joined ICI in February 1991 as Director of Product Development. Dr. Viren worked for GTE Corporation from August 1986 to February 1991 as a specialist in wide and local area networking. Prior to that he operated his own consulting firm concentrating in WAN and LAN design; was Senior Vice President of Criterion, Inc., an economic consulting firm in Dallas, Texas; and served as the Director of the Utility Division of the Missouri Public Service Commission. Dr. Viren taught economics for 10 years, most recently as an Associate Professor of Economics at the University of Missouri-Columbia and prior to that at the University of Kansas. Dr. Viren received a Ph.D. in economics from the University of California-Santa Barbara and a B.S. in mechanical engineering from the California State University at Long Beach.

Patricia A. Kurlin, age 42, has served as Vice President, General Counsel of ICI since June 1996. From September 1995 until June 1996, Ms. Kurlin served as Corporate Counsel and served as Director of Governmental and Legal Affairs for ICI from September 1993 to September 1995. Prior to joining ICI, Ms. Kurlin served as Senior Telecommunications Attorney at the Florida Public Service Commission from May 1990 to September 1993. Ms. Kurlin received her J.D. from the Florida State University and a B.S. degree from the University of South Florida.

Jeanne M. Walters, age 34, has served as Controller and Chief Accounting Officer of ICI since May 1993. From November 1992 until May 1993 she served as Assistant Controller. From June 1988 to November 1992, Ms. Walters was an auditor at Ernst & Young LLP, a certified public accounting firm in Tampa, Florida. Ms. Walters received her B.S. in accounting and an M.B.A. from Wilkes University. She is licensed in the State of Florida as a certified public accountant.

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[1]Commencing April 1, 1997, Ms. Samson has been on a sabbatical leave in order to chair the Florida NetDay 2000 program.