ORIGINAL

Before the
FLORIDA PUBLIC SERVICE COMMISSION

CoreComm Florida, Inc.	)	
	)	
Petition for a Certificate of	)	Docket No. 992034-TX
Authority to Provide Alternative	)	
Local Exchange Service	)	
Within the State of Florida	)	

PETITION FOR CERTIFICATION TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE

Ellen C. Craig
Regulatory Affairs
CoreComm Florida, Inc.
10 S. Riverside Plaza
Suite 2000
Chicago, IL 60606
(312) 906-3802
(312) 559-8388 (fax)

(1) **This is an application for (check one)**

(X) **Original certificate** (new company)

(   ) **Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

(   ) **Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

(2) **Name of Company**

CoreComm Florida, Inc. ("CoreComm FL")

(3) **Name under which the applicant will do business (fictitious name, etc.):**

CoreComm Florida, Inc.

(4) **Official mailing address (including street name & number, post office box, city, state, zip code):**

CoreComm Florida, Inc.
10 South Riverside Plaza, Suite 2000
Chicago, Illinois 60606

(5) **Florida address (including street name & number, post office box, city, state, zip code):**

Applicant does not have a Florida address.

(6) **Structure of organization:**

( ) **Individual**	(X) **Corporation**
( ) **Foreign Corporation**	( ) **Foreign Partnership**
( ) **General Partnership**	( ) **Limited Partnership**
( ) **Other**___________	

(7) **<u>If individual,</u>** provide:

Name:
Title:
Address:
City/State/Zip:
Telephone No.: Fax No.:
Internet E-Mail Address:
Internet Website Address:

Applicant is not an individual.

(8) **<u>If incorporated in Florida,</u>** provide proof of authority to operate in Florida:

(a) The Florida Secretary of State corporate registration number:

Applicant is not incorporated in Florida.

(9) **<u>If foreign corporation,</u>** provide proof of authority to operate in Florida:

(a) The Florida Secretary of State corporate registration number:

The corporate registration number is: F98000004384

(10) **<u>If using fictitious name - d/b/a,</u>** provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

(a) The Florida Secretary of State fictitious name registration number:

Applicant will not be using a fictitious name.

(11) **<u>If a limited liability partnership,</u>** provide proof of a registration to operate in Florida:

(a) The Florida Secretary of State registration number:

Applicant is not a limited liability partnership.

(12) **<u>If a partnership</u>**, provide name, title and address of all partners and a copy of the partner agreement.

Name:
Title:
Address:
City/State/Zip:
Telephone No. Fax No.:
Internet E-Mail Address:
Internet Website Address:

Applicant is not a partnership.

(13) **<u>If a foreign limited partnership</u>,** provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) The Florida registration number:

Applicant is not a foreign limited partnership.

(14) **Provide <u>F.E.I. Number</u>:**

13-4025785

(15) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. <u>Provide explanation</u>.

No.

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, <u>give reason why not</u>.

Yes. All officers and directors of CoreComm Florida, Inc. are also officers and directors of CoreComm Newco, Inc. CoreComm Florida, Inc. is a wholly-owned subsidiary of CoreComm Newco, Inc. CoreComm Newco., Inc. currently holds a certificate to provide long distance service within the state of Florida. <u>See</u> Florida Public Service Commission Order No. PSC-99-2024-CO-TI, consummating Order No. PSC-99-1861-PAA-TI.

(16) **Who will serve as liaison to the Commission with regard to the following?**

(a) **The application:**

Name: Ellen C. Craig
Title: Regulatory Affairs
Address: 10 S. Riverside Plaza, Suite 2000
City/State/Zip: Chicago, IL 60606
Telephone No.: (312) 906-3802 **Fax No.:**(312) 559-8388
Internet E-Mail Address: Ellen.Craig@core.com
Internet Website Address:

(b) **Official point of contact for the ongoing operations of the company:**

Name: Ellen C. Craig
Title: Regulatory Affairs
Address: 10 S. Riverside Plaza, Suite 2000
City/State/Zip: Chicago, IL 60606
Telephone No.: (312) 906-3802 **Fax No.:** (312) 559-8388
Internet E-Mail Address: Ellen.Craig@core.com
Internet Website Address:

(c) **Complaints/Inquiries from customers:**

Name: K.P. Lansing
Title: Manager of the Research and Resolution Group,
Customer Operations Department
Address: 10 S. Riverside Plaza, Suite 2000
City/State/Zip: Chicago, IL 60606
Telephone No.: (877) 876-2273 **Fax No.:** (312) 446-1547
Internet E-Mail Address: Kenneth.Lansing@core.com
Internet Website Address:

(17) **List the states in which the applicant:**

(a) **has operated as an alternative local exchange company.**

CoreComm Florida, Inc., is a wholly-owned indirect subsidiary of CoreComm Limited ("CoreComm"). Specifically, CoreComm Florida, Inc., is wholly owned by CoreComm Newco, Inc., which is wholly owned by CoreComm Operating Company, Inc., which is wholly owned by CoreComm Communications, Inc., which is in turn wholly owned by CoreComm Limited. A diagram depicting the names and corporate relationships of the primary companies that are in a holding company system with CoreComm Florida, Inc., is attached as Exhibit A.

Through its subsidiaries, CoreComm offers resold and/or facilities-based competitive local exchange, intrastate interexchange, interstate and international telecommunications services in various states. CoreComm Newco, Inc. is certified as a facilities-based local exchange carrier in Ohio and is the first company to provide competition in the residential marketplace in that state. Through CoreComm Newco and the other wholly-owned operating subsidiaries (such as CoreComm New York, Inc., CoreComm Massachusetts, Inc., CoreComm Indiana, Inc., etc.), CoreComm is also authorized to provide competitive local exchange service in California, Connecticut, Illinois, Indiana, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Oregon, Rhode Island, Pennsylvania, and Virginia.

Through wholly-owned operating subsidiaries, CoreComm is currently providing either carrier-based or resold local exchange services to customers in the following states: Illinois, Indiana, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Virginia, and Ohio.

(b) has applications pending to be certificated as an alternative local exchange company.

CoreComm Maryland, Inc., CoreComm Oregon, Inc., and CoreComm Wisconsin, Inc. have applications pending to provide local telecommunications services in Maryland, Texas, and Wisconsin, respectively. Other operating subsidiaries of CoreComm are in the process of preparing applications to provide resold and facilities-based local telecommunications services in other states.

(c) is certificated to operate as an alternative local exchange company.

See response (a) above.

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

Neither CoreComm Florida, Inc. nor any of CoreComm's operating subsidiaries have been denied authority to operate as an alternative local exchange company in any state.

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

Neither CoreComm Florida Inc. nor any of CoreComm's operating subsidiaries, have ever had any regulatory penalties imposed.

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

Neither CoreComm Florida, Inc. nor any of CoreComm's operating subsidiaries have been involved in civil court proceedings with any interexchange carrier.

(18) Submit the following:

A. Financial capability.

SEE ATTACHMENT A.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall be so stated.

The unaudited financial statements should be signed by the applicants' chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;
2. income statement; and
3. statement of retained earnings.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. **written explanation** that the applicant has sufficient financial capacity to maintain the requested service.

3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

B. Managerial capability: gives resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

SEE ATTACHMENT B

C. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what the company has been contracted to conduct technical maintenance.

SEE ATTACHMENT B

APPLICANT ACKNOWLEDGMENT STATEMENT

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

Ellen C. Craig
Signature

12/22/99
Date

Regulatory Affairs, CoreComm Florida, Inc.
Title

(312) 906-3802
Telephone No.

Address: 10 S. Riverside Plaza, Suite 2000

Chicago, IL 60606

(312) 559-8388
Fax No.

__(NOT APPLICABLE)__

****APPENDIX A****

CERTIFICATE SALE, TRANSFER, OR ASSIGMENT STATEMENT

I, (Name)____,

(Title)__________________________________ of (Name of Company)

____

and current holder of Florida Public Service Commission Certificate Number #_______

___________, have reviewed this application and join in the petitioner's request for a:

(   ) sale

(   ) transfer

(   ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

_________________________________   ________________
Signature   Date

_________________________________   ________________
Title   Telephone No.

Address: ___________________________   ________________
Fax No.

____

****APPENDIX B****

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased. **

   1) ________________ 2) ________________
   3) ________________ 4) ________________

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased. **

   1) ________________ 2) ________________
   3) ________________ 4) ________________

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased. **

POP-to-POP	OWNERSHIP
1) ________________	________________
2) ________________	________________
3) ________________	________________
4) ________________	________________

**Applicant intends to be a facilities-based provider of alternate local exchange service. However, the Applicant plans initially to establish itself as a provider of intrastate telecommunications services in Florida via resale only. Once the Applicant has established itself as a provider of telecommunication services in Florida, the Applicant plans to construct, lease or operate its own switching facilities, fiber optic, copper, microwave, digital, analog, and other technologies to connect customers to interexchange carrier Points-of-Presence or to other customers on an intra-city, intraLATA, and interLATA basis. The facilities constructed by the Applicant may be used separately or in conjunction with similar facilities provided by or obtained from other certified entities.

Access to 911 emergency services will be provided under interconnection arrangements being negotiated with local exchange telecommunications companies in the areas served. 911 service will be equivalent to that provided by the local exchange telecommunications companies in the areas served and the mechanism used to fund this service will also be equivalent.

**APPENDIX C **

AFFIDAVIT

By my signature below, I the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s.775.082 and s.775.083."

UTILITY OFFICIAL:

Ellen C. Craig
Signature

12/22/99
Date

Regulatory Affairs, CoreComm Florida, Inc.
Title

(312) 906-3802
Telephone No.

Address: 10 S. Riverside Plaza, Suite 2000

Chicago, IL 60606

(312) 559-8388
Fax No.

ATTACHMENT A

FINANCIAL CAPABILITY

CoreComm Florida, Inc. is financially qualified to provide facilities-based and resold alternative local exchange services in Florida. In particular, CoreComm has access to the financing and capital necessary to conduct its telecommunications operations as specified in this application. In support of this application, CoreComm Florida, Inc. as a newly formed company, will rely upon the substantial financial resources of its parent, CoreComm Newco, Inc., to provide initial capital investment and to fund operating costs. Accordingly, as CoreComm FL does not have separate financial statements, Applicant has attached hereto copies of CoreComm Ltd.'s two most recent consolidated audited financial statements, on SEC FORM 10-K, starting from January 1, 1997, the date from which CoreComm Ltd was incorporated. These exhibits are being offered to demonstrate CoreComm's financial ability to provide the proposed services. With the resources of CoreComm, CoreComm Florida, Inc. possesses the sound financial support necessary to effectively procure, install and operate the facilities and services requested in this Application.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 1998

or

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

For the Transition Period From TO

Commission File No. 0-24521

CORECOMM LIMITED
(Exact name of registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	**Not Applicable** (I.R.S. Employer Identification No.)
Cedar House **41 Cedar Avenue** **Hamilton, HM 12, Bermuda** **(441) 295-2244** (Address, including zip code, and telephone number, including area code of Registrant's principal executive offices)	**Secretary CoreComm Limited** **110 East 59th Street** **New York, NY 10022** **(212) 906-8485** (Name, address, including zip code, and telephone number, including area code of agent for service)

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

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

Common Stock, par value $.01 per share

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 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. ☐

The aggregate market value of the Registrant's common stock held by non-affiliates at March 16, 1999, valued in accordance with the Nasdaq Stock Market's National Market closing sale price for the Registrant's common stock, was approximately $420,076,000.

Number of shares of Common Stock outstanding as at March 16, 1999: 13,239,599

Documents Incorporated by Reference

Document	Part of 10-K in which Incorporated
Definitive proxy statement for the 1999 Annual Meeting of the Stockholders of CoreComm Limited	Part III

This Annual Report on Form 10-K for the year ended December 31, 1998, at the time of filing with the Securities and Exchange Commission, modifies and supersedes all prior documents filed pursuant to Section 13, 14 and 15(d) of the Securities Exchange Act of 1934 for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration statement or Prospectus filed pursuant to the Securities Act of 1933 which incorporated by reference this Annual Report.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995:

Certain statements contained herein constitute "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. When used herein, the words, "believe," "anticipate," "should," "intend," "plan," "will," "expects," "estimates," "projects," "positioned," "strategy," and similar expressions identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Registrant, or industry results, to be materially different from those contemplated or projected, forecasted, estimated or budgeted, whether expressed or implied, by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, industry trends, the Registrant's ability to continue to design and build its network, install facilities, obtain and maintain any required government licenses or approvals and finance construction and development, all in a timely manner, at reasonable costs and on satisfactory terms and conditions, as well as assumptions about customer acceptance, churn rates, overall market penetration and competition from providers of alternative services, the impact of new business opportunities requiring significant up-front investment, year 2000 readiness and availability, terms and deployment of capital.

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PART I

Item 1. *Business*

CoreComm Limited ("CoreComm" or the "Company") is now embarking on the next phase of its business strategy, which is to create a national, facilities-based network capable of transmitting voice and data to our customers using the latest technologies.

CoreComm's objective is to exploit the convergence of the telecommunications and information services industries through a "Smart Local Exchange Carrier" or "Smart LEC" strategy. This strategy combines advanced communications technologies together with a unique implementation plan which management believes will result in the production of a low cost, efficient delivery system for bundled Internet access and local and long distance telephony. In time, this network may provide video services as well.

A core part of our strategy is to offer our customers "one-stop shopping" for bundled telecommunications and Internet services. We are building our Smart LEC network to provide a full range of voice and data services. Bundling these services together with convenient integrated billing and a single point of contact for sales and service are central to our strategy. We have already developed this approach in our Ohio operations.

The Smart LEC concept — combining our own facilities and switches with leased lines, interconnection agreements for use of local networks — allows us to implement our own national facilities-based telecommunications network without the great expense and time commitment of building our own lines and local loops. Management believes this strategy, which has been made possible by the Telecommunications Act of 1996, will result in better profit margins than those of the resale business in a much shorter period of time. This strategy also allows us to expand incrementally over time, while we continue to act as a reseller where we do not have facilities in place yet.

We have already begun building the Smart LEC network in Ohio. We are in the process of installing switches and will make use of the local ILEC's networks through interconnection agreements. We are also in the process of negotiating leases for transport lines that will carry communications to our switch.

CoreComm now holds, through directly and indirectly wholly owned subsidiaries, entities which operate or hold licenses or applications to operate the following businesses:

- competitive local exchange carrier ("CLEC")
- Internet service provider ("ISP")
- long distance service
- centralized exchange telecommunications services ("CENTREX")
- cellular service
- prepaid cellular service
- paging service
- local multipoint distribution services ("LMDS")

CoreComm has entered into a definitive agreement to acquire MegsINet, Inc., a Chicago based, regional ISP and regional telecommunications provider that has already assembled a large network of leased lines, is currently installing a switch in Chicago and has an interconnection agreement with Ameritech. We plan to integrate MegsINet's existing network into our Smart LEC network if and when the acquisition is completed. This acquisition of MegsINet is described below under the section "Recent Developments."

We have also entered into an agreement to acquire certain assets of USN Communications, Inc., subject to Bankruptcy Court auction procedures. USN is primarily a CLEC that provides services as a reseller of ILEC's local telephone services principally in Illinois, Ohio, Michigan, Massachusetts and New York, as well as several other states in the Ameritech and Bell Atlantic regions. USN has developed advanced systems for interacting with the ILECs used in servicing existing customers and acquiring new customers. USN has also developed a strong base of customers in its markets. The potential acquisition of USN is described below under the section "Recent Developments."

The Smart LEC Network

The Smart LEC network will be built through a combination of several elements:

- Installing "switches" in population centers, beginning with Ohio. These switches are devices which route voice and data transmissions — i.e., ordinary phone service and Internet service — between networks and to and from end users.
- Leasing the "last mile" or "local loop" (the portion of the network extending from the end-office to the customer's premises) from incumbent local exchange carriers or "ILECs" which own the vast majority of the existing telephone lines — both copper and fiber-optic — that can carry and terminate voice and data transmissions in most cities. The ILECs own the networks of lines leading to a customer's home or office in most local areas.
- Leasing the transport lines necessary to carry voice and data nationally from interexchange carriers ("IXCs") and Competitive Access Providers ("CAPs").
- Entering into interconnection agreements with the ILECs through which we route voice and data communications over the ILEC's networks to carry those transmissions directly to homes and offices.

Our Smart LEC network will be capable of carrying both voice and data communications using the following technologies:

- Standard Telephony — involving the transmission of voice or data over a copper wire and fiber optical transmission path which, through the use of switches, becomes a dedicated end-to-end circuit.
- Internet Protocol (IP) — the structure of data transmitted over the Internet. Because Internet Protocol involves splitting data into "packets" which are transmitted independently and reassembled at their destination, Internet Protocol does not require a dedicated end-to-end circuit and many different communications can be routed simultaneously over the same transmission facilities.
- Digital Subscriber Line (DSL) — a transport protocol that allows mixing data, voice and video over conventional, copper phone lines. A technique known as "modulation" is used to boost transmission rates hundreds of times beyond that of ordinary modem transmission rates. There are geographic limitations using the various forms of DSL technology that require users to be within certain distances from the DSL "access multiplexers."
- Asynchronous Transfer Mode (ATM) — a transport protocol that supports many types of high speed transmissions including voice, data, video, audio and imaging.

These technologies will allow us to offer telephone and Internet service over the same network. Our planned acquisition of MegsINet would give us access to their network, which already incorporates IP and ATM technology and is in the process of being upgraded to implement classic telephony and DSL technologies as well. MegsINet's network currently consists of 57 major-city "nodes" linked via a high capacity ATM network.

Marketing Strategy

CoreComm's marketing strategy is to provide business and residential customers a bundled package of high quality telecommunications services at competitive prices, delivered with exceptional care and service to the customer.

Based on our experience in the telecommunications industry, a bundled service offering allows us to package products in ways which are viewed attractively by the customer. These bundled packages can be priced to provide better "value for money" than more typical service offerings, can be modified for individual customer needs, and are conveniently offered on a single bill. We believe that these and other factors will improve acceptance ratios for our services and increase customer retention.

The Smart LEC strategy will enable us to market our services over wide geographical areas. By using a combination of resold and facilities-based services, we will not be limited to offering services only in areas where we have built our own networks. We believe that the ability to market over larger areas will increase the efficiency and effectiveness of our marketing and advertising programs.

In addition, CoreComm, through its own marketing, as well as acquisitions, has an existing base of customers to which it intends to offer additional services.

CoreComm's Businesses

Competitive Local Exchange Carrier (CLEC) Business

CoreComm has already been certified as a CLEC in Ohio and began providing CLEC services to customers in March, 1998. We have also been certified as a CLEC in New York, California and Massachusetts and have also applied, or intend to apply, for certification as a CLEC in twenty-seven other states, and are expecting to gain certification for CLEC services in those states by the end of 1999. CoreComm has applied for a CLEC license in Michigan and believes it will obtain such license in the spring of 1999. For a description of the Telecommunications Act of 1996 and the regulatory environment for CLECs, see the section entitled "Regulation" beginning on page 10.

CoreComm provides CLEC services in Ohio on a resale basis, pursuant to Interconnection Agreements with Ameritech and Cincinnati Bell, the incumbent local exchange carriers in Ohio. Under those agreements, we purchase local exchange services at wholesale prices from Ameritech and Cincinnati Bell, and resell those services to our customers.

Services offered for resale include most of the telecommunications products and services engineered and provided by the ILEC, including:

- local exchange calling
- call waiting
- call forwarding
- caller ID and
- three-way calling

We also have an agreement for the resale of certain non-telecommunications services to its customers, including inside wire maintenance. CoreComm's CLEC service is transparent to the customer, whose telephone operates in precisely the same manner as it did prior to selecting CoreComm as its local carrier. The customer receives its bill from us, rather than from the ILEC.

Internet Service Provider Business

Internet service will be a key component of the CoreComm business strategy. Primarily through Stratos Internet Group, Inc. ("Stratos"), CoreComm is currently offering access to the Internet. Internet access services are provided on a "dial-up" basis as well as "dedicated" access to business and residential customers. In addition, Stratos offers "web hosting" services to business customers to enable them to place their own Web-sites on the Internet.

Long Distance Business

We are a reseller of long distance telephone services to residential and small business customers throughout Ohio, under the CoreComm name. The primary product is our Dial-1 Telephone Service. Our other long distance telephone products are 800 Number services and debit calling card services.

In order to provide these products, we purchase long distance telephone time from national carriers at wholesale rates based upon high volume usage. We then resell this time to our customers at our own retail rates which are priced generally below AT&T's published, tariffed basic rates. Our calling card products operate similarly to the calling card products offered by the major carriers. Our customers pay for their long distance calling usage through direct billing from us or through a major credit card.

In addition, we sell retail long distance telephone services in portions of Ohio, Michigan, Kentucky and Indiana to cellular customers of various local cellular service providers who have chosen us as their long distance service provider. We market these cellular long distance services under the CoreComm name.

We also sell retail long distance services to cellular customers of AT&T Wireless who choose CoreComm as their long distance service provider. We provide these services primarily through arrangements with other long distance carriers under tariff or contract. The markets currently include Colorado, Florida, Texas, Minnesota, Nevada and Pennsylvania, where the services are offered under the "Cellular Long Distance Company" service mark, and California and Texas, where the services are offered under the "Cellular Network" service mark.

Centrex Business

We own, through Digicom, Inc. ("Digicom"), a well developed business providing centralized telecommunication services to multiple customers. Digicom offers to small to large sized businesses throughout Ohio, reliable one-source communications services, together with the latest in communications equipment and enhanced services.

Cellular Business

Through CoreComm and Wireless Outlet, we sell cellular telephone service throughout Ohio and Michigan. We sell cellular services under the CellularOne® and Wireless Outlet service marks and the CoreComm name. We have signed resale agreements with the three major providers of cellular service in Michigan and Ohio: AirTouch Cellular, GTE Mobilenet Inc. and Ameritech Mobile Communications, Inc.

Pre-paid Cellular Business

In addition to its traditional paging and cellular resale businesses, Wireless Outlet also sells pre-paid cellular service on a resale basis. Pre-paid debit cards allow users to make calls from a cellular phone based on a prepaid dollar amount that has been credited to the card. Pre-paid services offer several advantages to the consumer, including no monthly access fee, no monthly bills, easier control over spending, and the absence of credit checks. In addition, prepaid debit card applications include promotional campaigns, fund raising for charitable organizations and budgeted out-of-town calling for traveling employees. CoreComm currently sells prepaid cellular cards in Ohio, California and Texas and is also in the process of expanding its business to other states.

Paging Business

Wireless Outlet operates a paging system on a resale basis and a pager sales and repair business. The paging business resells paging services and markets its products through a dealer network that sells the service and the pagers, primarily to small businesses throughout Ohio.

Local Multipoint Distribution Service

Local Multipoint Distribution Service is a broadband wireless communications service that uses frequencies in the 28GHz to 31GHz range to transmit video and data signals to and from residences and offices at distances of only up to a few miles. An LMDS system is capable of providing high-capacity broadband service for the "last mile" to a subscriber's home or office, at what may be a substantially lower cost than other competing delivery systems.

Video or data signals transmitted through an LMDS system, such as television programming, are received by the system from satellite transponders, terrestrial microwave facilities or studios. Internet Access can be obtained through dedicated lines, such as a T-3 line, connected to the Internet "backbone." The signals are then converted to the LMDS frequency band and transmitted via omnidirectional transmitters.

Prior to the development of LMDS systems, transmission of communications signals in the 28 GHz frequency range was not commercially pursued apart from limited satellite applications because technical impediments, such as interference between transmitters and rainfade, were thought to be insurmountable. Modern LMDS systems seek to eliminate or significantly reduce these impediments through the strategic placement of transmitters and advanced system architecture.

CoreComm, through Cortelyou Communications, an indirect, wholly owned subsidiary, participated in the FCC's recent auction of LMDS licenses. On June 8, 1998 we were awarded the following A-Block licenses in 15 markets in Ohio with a total of 10,573,982 Pops (representing more than 95% of the POPs in Ohio):

Market Name	Pops(1)
Cleveland-Akron, OH	2,894,133
Cincinnati, OH	1,990,451
Columbus, OH	1,477,891
Dayton-Springfield, OH	1,207,689
Toledo, OH	782,184
Canton-New Philadelphia, OH	513,623
Youngstown-Warren, OH	492,619
Lima, OH	249,734
Mansfield, OH	221,514
Zanesville-Cambridge, OH	178,179
Findlay-Tiffin, OH	147,523
Sandusky, OH	133,019
Ashtabula, OH	99,821
Chillicothe, OH	93,579
Marion, OH	92,023
Total	10,573,982

(1) Pops are the estimated population of a market multiplied by a company's ownership interest in the entity operating the system in that market. The number of pops owned by an operator does not represent the number of users of its services and is not necessarily indicative of the number of potential subscribers. Rather, this term is used only as a basis for comparison of the current size of system operators. The FCC used pops in the LMDS auction for determining initial payments, bidder eligibility, and minimum bids. The pops in this chart are based upon the April 1, 1990 U.S. Department of Commerce, Bureau of the Census data.

For a detailed description of the FCC bidding process and LMDS, see the section entitled "Regulation — Local Multipoint Distribution Service" beginning on page 14.

Each LMDS license covers a defined Basic Trading Area, with each A-Block LMDS license consisting of 1150 MHZ of spectrum. CoreComm bid approximately $25.2 million for such licenses, for an average of $2.39/per pop.

In the provision of multichannel video services, we will compete with franchised cable systems and also may face competition from several other sources, such as multichannel multipoint distribution service systems, Satellite Master Antenna Television systems, direct broadcast satellite and video service from telephone companies. The Telecommunications Act of 1996 eliminated restrictions that prohibited local telephone exchange companies from providing video programming in their local telephone service areas and substantially reduces current and future regulatory burdens on franchised cable systems, resulting in significant additional competition from local telephone companies and franchised cable systems.

Background

CoreComm was formed in March 1998 as a subsidiary of Cellular Communications of Puerto Rico, Inc. (formerly CoreComm Incorporated) ("CCPR"). CCPR offers cellular, paging and other telecommunications services in Puerto Rico and the U.S. Virgin Islands. CCPR created CoreComm in order to succeed to operations of OCOM Corporation, which had been purchased by CCPR, and to pursue new telecommunications opportunities outside of Puerto Rico and the U.S. Virgin Islands in an entrepreneurial corporate environment. CCPR spun-off CoreComm on September 2, 1998, by distributing to each CCPR stockholder, on a one for one basis, 100% of the outstanding common stock of CoreComm (the "Spin-off"). CoreComm has since been listed on the Nasdaq national market and trades under the symbol "COMMF". As of December 31, 1998, CoreComm and its subsidiaries had approximately 250 employees.

Certain of CoreComm's businesses were formerly owned by OCOM Corporation, previously a subsidiary of NTL Incorporated. OCOM Corporation sold all of these assets and related liabilities to a subsidiary of CCPR pursuant to an agreement dated as of June 1, 1998. The common stock of that subsidiary was among the assets contributed to CoreComm prior to the Spin-off. CoreComm also owns Digicom, Inc. which operates a CLEC in the State of Ohio. CoreComm also owns Stratos which was acquired on November 30, 1998, and provides Internet service to customers in the Ohio region. CoreComm also owns the assets of JeffRand Corp., also know as the Wireless Outlet, which operates prepaid cellular and paging businesses. Following a Federal Communications Commission ("FCC") auction, on June 8, 1998, Cortelyou Communications Corp., a subsidiary of CoreComm, was awarded local multipoint distribution service (referred to in this industry as LMDS) licenses for 15 markets in the State of Ohio.

Option Plans

After its formation, CoreComm adopted customary compensation policies and plans, including the CoreComm Limited 1998 Stock Option Plan under which 6 million shares have been reserved for issuance. In addition, in January, 1999, CoreComm Ohio Limited, a wholly owned subsidiary of CoreComm, adopted the CoreComm Ohio Limited 1999 Stock Option Plan. Under that plan, up to thirty percent of the common stock of CoreComm Ohio Limited may become subject to options. These options will not become exercisable unless and until there is a registered public offering of CoreComm Ohio Limited's common stock.

Patents, Copyrights and Licenses

We do not have any patents or copyrights, nor do we believe patents or copyrights play a material role in our business. Other than our FCC licenses, our only license is for the use of the service mark and trademark CellularOne®, which is also licensed to many of the non-wireline cellular systems in the United States. We have the right to use the mark under contract for a fifteen-year term. Under the Cellular One Agreement, we are required to maintain certain service quality standards and to pay licensing and other fees for the use of the service mark.

Competition

The telecommunications industry and all of its segments are highly competitive. Our CLEC business, which is in the development stage, will operate in this highly competitive environment. We expect that competition will continue to intensify in the future due to the increase in the size, resources and number of market participants. In each of our markets, we face competition from larger, better capitalized incumbent providers.

In the local exchange markets, our principal competitor will be the incumbent local exchange carrier. We also face competition or prospective competition from one or more CLECs, many of which have significantly greater financial resources than CoreComm. For example the following companies have each begun to offer local telecommunications services in major U.S. markets using their own facilities or by resale of the incumbent local exchange carrier's services or other providers' services:

- AT&T
- MCIWorldCom
- ICG
- Nextlink
- Sprint

Certain competitors, including AT&T, MCIWorldCom and Sprint, have entered into interconnection agreements with Ameritech for Michigan and Ohio, both states in which we operate. These competitors either have begun or in the near future likely will begin offering local exchange service in those states. In addition to long distance service providers and existing CLECs, entities that are potentially capable of offering switched services include cable television companies, electric utilities, microwave carriers, wireless telephone system operators and large customers who build private networks. Many facilities-based CLECs have committed substantial resources to building their networks or to purchasing CLECs or IXCs with complementary facilities. By building or purchasing a network or entering into interconnection agreements or resale agreements with ILECs, including Bell Operating Companies, and IXCs, a provider can offer single source local and long distance services similar to those offered by us. Some of these CLECs and other facilities-based providers of local exchange service are acquiring or being acquired by IXCs. Some of these combined entities have resources far greater than ours. These combined entities may provide a bundled package of telecommunications products, including local and long distance telephony, that is in direct competition with the products offered by CoreComm, or to be offered in the future.

Under the Telecommunications Act and related federal and state regulatory initiatives, barriers to local exchange competition are being removed. The availability of broad-based local resale and introduction of facilities-based local competition are required before the Bell Operating Companies may provide in-region long distance services originating in their traditional service area. The Bell Operating Companies are currently allowed to offer certain in-region "incidental" long distance services (such as cellular, audio and visual programming and certain interactive storage and retrieval functions) and to offer out-of-region landline long distance services.

Section 271 of the Telecommunications Act prohibits a Bell Operating Company from providing long-distance service that originates (or in certain cases terminates) in one of its in-region states until the Bell Operating Company has satisfied certain statutory conditions in that state and has received the approval of the FCC. The FCC to date has denied each application for such approval, including the application of Ameritech for in-region long distance authority in Michigan. We anticipate that a number of Bell Operating Companies, including Ameritech, will file additional applications for in-region long distance authority in certain states. The FCC will have 90 days from the date an application for in-region long distance authority is filed to decide whether to grant or deny the application. Based on continuing legal challenges, we do not believe that any Bell Operating Company will provide in-region long distance services on a significant basis prior to the year 2000.

Once the Bell Operating Companies are allowed to offer widespread in-region long distance services, they will be in position to offer single-source local and long distance services similar to those offered by CoreComm and the largest IXCs.

While new business opportunities have been made available to us through the Telecommunications Act and other federal and state regulatory initiatives, regulators are likely to provide the incumbent local exchange carriers with an increased degree of flexibility with regard to pricing of their services as competition increases. The Ameritech resale agreement contains certain pricing protections, including adjustments in the wholesale rates to be consistent with any changes in the Ameritech retail rates. Nevertheless, if the incumbent local exchange carriers elect to lower their rates and sustain lower rates over time, this may adversely affect our revenues from and place downward pressure on the rates we can charge. We believe the effect of lower rates may be offset by the increased revenues available by offering new products and services to our target customers as well as increased usage, but we cannot be sure that this will occur. In addition, future regulatory decisions may afford the incumbent local exchange carriers excessive pricing flexibility or other regulatory relief which could have a material adverse effect on us.

Competition for our products and services is based on price, quality, network reliability, service features and responsiveness to customers' needs. A continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors to CoreComm. Many of our existing and potential competitors have financial, technical and other resources significantly greater than ours.

Pay television operators face competition from other sources of entertainment, such as movie theaters and computer on-line services. Further, premium movie services offered by cable television systems have encountered significant competition from the home video industry. In areas where several off-air television broadcasts can be received without the benefit of cable television, cable television systems have experienced competition from such broadcasters.

Many actual and potential competitors have greater financial, marketing and other resources than we do. No assurance can be given that we will be able to compete successfully.

Recent Developments

Proposed MegsINet, Inc. Acquisition

On February 18, 1999, CoreComm announced that it had entered into an agreement and plan of merger to acquire MegsINet, Inc. for a total consideration of approximately $16.75 million in cash plus approximately 1.4 million shares of CoreComm common stock. We believe that this acquisition will close during the summer of 1999, although it remains subject to conditions. As of December 31, 1998, MegsINet had approximately $28 million in property, plant and equipment at historical cost and currently serves approximately 45,000 Internet subscribers.

MegsINet is an integrated communications provider in the ISP business that in the future will offer local and long distance telephone services over its telecommunications network. MegsINet is currently in the process of acquiring and installing the equipment, obtaining the licenses and entering into agreements with telephone carriers required to become a CLEC and an Internet telephony service provider. By leasing inter-exchange and local facilities from fiber optic carriers, MegsINet has created a packet based transport network which MegsINet will use to provide the business and consumer markets with an ever expanding line of advanced telecommunications services.

In February 1998, MegsINet entered into a definitive agreement with Northern Telcom, Inc. to jointly deploy Nortel's latest generation of switched service technology. MegsINet has formed a wholly owned subsidiary, MegsINet-CLEC, Inc., to pursue this opportunity. The Illinois and California Commerce Commissions have granted the subsidiary authority to operate as a facilities and reseller based carrier. They are in the process of registering to operate as a CLEC in the other contiguous 48 states. In addition, MegsINet has received authorization from the FCC to act as an international telecommunications carrier. MegsINet is also processing long distance carrier filings in the contiguous 48 states. Once the regulatory process is completed, MegsINet expects to be the first integrated communications company to provide services as an Internet service provider, CLEC, IXC and CAP over its proprietary packet-based network.

Proposed Acquisition of Assets of USN Communications, Inc.

On February 19, 1999, CoreComm entered into an asset purchase agreement to acquire certain assets of USN Communications, Inc., (specifically excluding its wireless business), for an upfront payment of approximately $27 million in cash, warrants to purchase an aggregate of 350,000 shares of CoreComm common stock, and a contingency payment based on future operating results, that caps the total consideration at $85 million. Completion of this transaction is conditioned upon approval by the Bankruptcy Court presiding over USN's voluntary Chapter 11 reorganization case that is currently pending. USN is currently subject to an auction in that proceeding, in which third parties may bid for the same assets that CoreComm agreed to purchase. CoreComm may be outbid for these USN assets, which would result in our not completing this acquisition and termination of the agreement.

USN offers a bundled package of telecommunications products, including local and long distance telephony, voicemail, paging, teleconferencing, and other enhanced and value-added telecommunications services, tailored to meet the needs of its customers. USN primarily focuses its marketing efforts on small and medium-sized businesses with telecommunications usage of less than $5,000 per month.

USN is presently selling service to customers in certain states in the Bell Atlantic Corporation region (including Massachusetts, New Hampshire, New York and Rhode Island) and the entire Ameritech Corporation region (including Illinois, Indiana, Michigan, Ohio and Wisconsin) and is currently in negotiations to expand its bundled services offering throughout the 14-state Bell Atlantic region.

REGULATION

Overview

The telecommunications services we provide are subject to regulation by federal, state and local government agencies. At the federal level, the FCC has jurisdiction over Interstate and international services and interstate services are communications that originate in one state and terminate in another. Intrastate services are communications that originate and terminate in a single state and state public service commissions exercise jurisdiction over intrastate services. Municipalities and other local government agencies may also regulate limited aspects of our business, such as use of government-owned rights-of-way and construction permits. Our networks are also subject to numerous local regulations such as building codes, franchise and right-of-way licensing requirements.

Telecommunications Act of 1996

The federal Telecommunications Act, enacted in 1996, has resulted and will continue to result in substantial changes in the marketplace for telecommunications services. These changes include, at present, opening local exchange services to competition and, in the future, a substantial increase in the addressable services for CoreComm. Among its more significant provisions, the Telecommunications Act:

- removes legal barriers to entry into all telecommunications services, such as long distance and local exchange services,
- requires incumbent local exchange carriers (e.g. Ameritech or Bell Atlantic) to "interconnect" with and provide services for resale by competitors,
- establishes procedures for incumbent local exchange carriers to enter into new services, such as long distance and cable television,
- relaxes regulation of telecommunications services provided by incumbent local exchange carriers and all other telecommunications service providers, and
- directs the FCC to establish an explicit subsidy mechanism for the preservation of universal service.

The FCC was also directed by Congress to revise and make explicit subsidies inherent in the access charge paid by IXC's for use of local exchange carriers' services.

Removal of Entry Barriers

The provisions of the Telecommunications Act should enable us to provide a full range of local telecommunications services in any state. Although we will be required to obtain certification from state public service commissions in almost all cases, the Telecommunications Act should limit substantially the ability of a state public service commission to deny a request for certification. The provisions of the Telecommunications Act also reduce the barriers to entry by other potential competitors and therefore increase the level of competition we will likely face in all markets affected by the Act. For a detailed description of the competition we likely will face, see "Competition" beginning on page 7.

Interconnection with Local Exchange Carrier Facilities

A company cannot compete effectively with the incumbent local exchange carriers in switched local telephone services unless it is able to connect its facilities with the incumbent local exchange carriers and obtain access to certain essential services and resources under reasonable rates, terms and conditions. The Telecommunications Act imposes a number of access and interconnection requirements on all local exchange providers, including CLECs, with additional requirements imposed on non-rural incumbent local exchange carriers. These requirements are intended to provide access to certain networks under reasonable rates, terms and conditions. Specifically, local exchange carriers must provide the following:

Telephone Number Portability. Telephone number portability enables a customer to keep the same telephone number when the customer switches local exchange carriers.

Dialing Parity. All local exchange carriers must provide dialing parity, which means that a customer calling to or from a CLEC network cannot be required to dial more digits than is required for a comparable call originating and terminating on the local exchange carrier's network.

Reciprocal Compensation. The duty to provide reciprocal compensation means that local exchange carriers must terminate calls that originate on competing networks in exchange for a given level of compensation and that they are entitled to termination of calls that originate on their network, for which they must pay a given level of compensation.

Resale. Incumbent local exchange carriers generally may not prohibit or place unreasonable restrictions on the resale of their services. In addition, incumbent local exchange carriers must offer bundled local exchange services to resellers at a wholesale rate that is less than the retail rate charged to end users.

Access to Rights-of-Way. All incumbent local exchange carriers, CLECs and certain other utilities must provide access to their poles, ducts, conduits and rights-of-way on a reasonable, nondiscriminatory basis.

Unbundling of Network Elements. Incumbent local exchange carriers must offer access to various unbundled elements of their network. This requirement allows new entrants to purchase at cost-based rates elements of an incumbent local exchange carrier's network that may be necessary to provide service to a new entrant's customers.

While the Telecommunications Act generally requires incumbent local exchange carriers to offer interconnection, unbundled network elements and resold services to CLECs, local exchange carrier to CLEC interconnection agreements may have short terms, requiring the CLEC to renegotiate the agreements. Local exchange carriers may not provide timely provisioning or adequate service quality, thereby impairing a CLEC's reputation with customers who can easily switch back to the local exchange carrier. In addition, the prices set in the agreements may be subject to significant rate increases if state regulatory commissions establish prices designed to pass on to the CLECs part of the intrastate cost of providing universal service.

In January 1999, the United States Supreme Court upheld the FCC's authority to adopt pricing rules for unbundled network elements and resale by CLECs. However, the Supreme Court instructed the FCC to reconsider aspects of its 1996 order regarding the extent to which incumbent local access carriers are required to unbundle elements of their networks. In addition, the FCC's pricing rules are subject to further judicial review.

In February 1999, the FCC determined that calls to ISPs are interstate in nature, thus falling under the FCC's jurisdiction. They have since initiated a review of compensation arrangements between ILECs and CLECs for calls to ISPs. This review could adversely affect the compensation that CLECs, including CoreComm, receive for carrying such traffic.

Local Exchange Carrier Entry into New Markets

Our principal competitor in each market we enter is the ILEC. Prior to the enactment of the Telecommunications Act, the Bell Operating Companies generally were prohibited by the consent decree that broke up the Bell System from providing long distance services. The Telecommunications Act established procedures under which a Bell Operating Company can provide landline long distance services originating from (and in certain cases, terminating in) its traditional telephone service area after receiving approval from the FCC. The interconnection offered or provided by the Bell Operating Company must comply with a competitive checklist that incorporates the interconnection requirements discussed above. See "Interconnection with Local Exchange Carrier Facilities" on page 11. Bell Operating Companies are currently permitted to provide landline long distance services to customers outside of their local service areas and in conjunction with their mobile telephone service offerings.

Approval from the FCC will enable a Bell Operating Company to provide customers with a full range of local and long distance telecommunications services. The provision of landline long distance services by Bell Operating Companies is expected to reduce the market share of the major long distance carriers, which may be significant customers of our services. Consequently, the entry of the Bell Operating Companies into the long distance market may have adverse consequences on the ability of CLECs both to generate access revenues from the IXCs and to compete in offering a package of local and long distance services. To date, the FCC has denied each application for in-region long distance service. More Bell Operating Company requests to provide in-region long distance service are expected to be filed with the FCC in the near future.

Relaxation of Regulation

A goal of the Telecommunications Act is to increase competition for telecommunications services, thereby reducing the need for regulation of these services. To this end, the Telecommunications Act requires the FCC to streamline its regulation of ILECs and permits the FCC to forbear from regulating particular classes of telecommunications services or providers. Since CoreComm is a non-dominant carrier and, therefore, is not heavily regulated by the FCC, the potential for regulatory forbearance likely will be more beneficial to the incumbent local exchange carriers than to us in the long run.

The Communications Act requires all common carriers to charge just and reasonable rates for their services and to file schedules of these rates with the FCC. These schedules are known as "tariffs" and they represent a contract between a carrier and its customers. The Telecommunications Act permits the FCC to "forbear" from enforcing certain provisions of the Communications Act and the FCC has used this authority to determine that it is in the public interest to prohibit carriers from filing tariffs for their interstate services. This decision of the FCC and its "mandatory detariffing" has been stayed by the U.S. Court of Appeals for the D.C. Circuit. Another FCC decision permits, but does not require, CLECs to file tariffs for the charges that they levy on interstate long distance carriers for completing calls to CLEC customers (see discussion of "access charges" below). In the absence of a tariff, a carrier depends on a contract with its customers to determine the rates and conditions of service.

Universal Service and Access Charge Reform

On May 8, 1997, the FCC issued an order implementing the provisions of the Telecommunications Act relating to the preservation and advancement of universal telephone service. This order requires all telecommunications carriers providing interstate telecommunications services, including CoreComm, to contribute to universal service support.

In a related proceeding, on May 16, 1997, the FCC issued an order implementing certain reforms to its access charge rules. Access charges are charges imposed by local exchange carriers on long distance providers for access to the local exchange network, and are designed to compensate the local exchange carrier for its investment in the local network. The FCC regulates interstate access and the states regulate intrastate access. This order required incumbent local exchange carriers to substantially decrease over time the prices they charge for switched and special access and changed how access charges are calculated. These changes are intended to reduce access charges paid by IXCs to local exchange carriers and shift certain usage-based charges to flat-rated, monthly per-line charges. To the extent that these rules are effective in reducing access charges, our ability to offer customers lower-cost access services might be impaired. Additionally, the FCC ruled that incumbent local exchange carriers may no longer impose certain interconnection charges on competitive providers that interconnect with the incumbent exchange carrier at the incumbent's end offices but do not use the incumbent company's transport facilities.

Some state public service commissions have adopted rules or are currently considering actions to preserve universal services and promote the public interest.

Federal Regulation Generally

Through a series of proceedings, the FCC has established different levels of regulation for "dominant carriers" and "non-dominant carriers." Only ILECs are classified as dominant; all other providers of domestic interstate services are classified as non-dominant carriers. As a non-dominant carrier, we are subject to relatively limited regulation by the FCC. However, at a minimum, we must offer interstate services at just and reasonable rates in a manner that is not unreasonably discriminatory.

The FCC has adopted rules requiring ILECs to provide "collocation" to CLECs for the purpose of interconnecting their competing networks. Under the rules adopted by the Local Competition Orders, ILECs are required to provide either physical collocation or virtual collocation at their switching offices.

All local exchange carriers, including CLECs, must:

- make their services available for resale by other carriers,
- provide nondiscriminatory access to rights-of-way,
- offer reciprocal compensation for termination of traffic, and
- provide dialing parity and telephone number portability.

In addition, the Telecommunications Act requires all telecommunications carriers to contribute to the universal service mechanism established by the FCC and to ensure that their services are accessible to and usable by persons with disabilities. Moreover, the FCC is considering the regulatory implications of various aspects of local exchange competition. Any or all of these proceedings may negatively affect CLECs, including CoreComm.

The FCC could grant incumbent local exchange carriers substantial pricing flexibility with regard to interstate access services. The May 21, 1997 order reforming the FCC's price cap formula affords local exchange carriers greater flexibility in establishing rates and provides additional incentives to foster efficiency. To the extent these regulatory initiatives enable or require incumbent local exchange carriers to offer selectively reduced rates for access services, the rates CoreComm may charge for access services will be constrained. Our rates also will be constrained by our competitors which, excluding the ILECs, are subject to the same streamlined regulatory regime as CoreComm and can price their services to meet competition.

State Regulation Generally

Most state public service commissions require companies to be certified to provide common carrier services. These certifications generally require a showing that the carrier has adequate financial, managerial and technical resources to offer the proposed services in a manner consistent with the public interest.

In addition to obtaining certification, in each state, we must negotiate terms of interconnection with the incumbent local exchange carrier before we can begin providing switched services. Under the Telecommunications Act, the FCC has adopted interconnection requirements, certain portions of which have been upheld by the United States Supreme Court and other portions of which are subject to reconsideration by the FCC or further judicial review. See "Interconnection with Local Exchange Carrier Facilities" beginning on page 11. We have already entered into interconnection agreements with Ameritech. In addition, we have entered into an agreement to acquire MegsINet which has also entered into an interconnection agreement with Ameritech.

We are not presently subject to price regulation based on costs or earnings. Most states require CLECs to file tariffs setting forth the terms, conditions and prices for intrastate services. Some states permit tariffs to list a rate range or set prices on an individual case basis.

Several states provide incumbent local exchange carriers with flexibility for their rates, special contracts (selective discounting) and tariffs, particularly for services deemed subject to competition. This pricing flexibility increases the ability of the incumbent local exchange carrier to compete with us and constrains the rates we may charge for its services. In light of the additional competition that is expected to result from the Telecommunications Act, states may grant ILECs additional pricing flexibility. At the same time, some ILECs may request increases in certain local exchange rates to offset revenue losses due to competition.

Regulation of Resellers

The FCC has defined resale as any activity in which a party (the reseller) subscribes to the services or facilities of a facilities-based provider (or another reseller) and then reoffers communications services to the public for profit, with or without adding value. Resellers are common carriers generally subject to all rules and regulations placed on providers of the underlying services by either the FCC or the states in which they operate. The FCC has held that prohibitions on the resale of common carrier services are unjust, unreasonable, and unlawfully discriminatory in violation of the Communications Act. Accordingly, all common carriers must make their services available for resale at rates, terms, and conditions that do not unreasonably discriminate against resellers. The Telecommunications Act imposes the additional duty upon incumbent local exchange carriers to make their services available for resale at wholesale rates. The FCC adopted specific requirements for determining such wholesale rates for local telecommunications services. While the United States Supreme Court upheld the FCC's authority to adopt these rules, the FCC's specific pricing rules are subject to further judicial review. As to other telecommunications services, however, there is no regulation that requires discounts to resellers below those offered to end users of the same quantities of like services. The FCC has determined that because of the competitive development of broadband commercial mobile radio service, providers of those services will not be required to offer their services for resale after November 24, 2002.

Local Government Authorizations

Some jurisdictions where CoreComm may provide service require license or franchise fees based on a percent of certain revenues. There are no assurances that jurisdictions that do not currently impose fees will not seek to impose fees in the future. In many markets, other companies providing local telecommunications services, particularly the incumbent local exchange carriers, had been excused from paying license or franchise fees or paid fees that are materially lower than those that would be required from new competitors such as CoreComm. The Telecommunications Act requires jurisdictions to charge nondiscriminatory fees to all telecommunications providers, but it is uncertain how quickly this requirement will be implemented by particular jurisdictions where we operate or plan to operate or whether it will be implemented without a legal challenge initiated by us or another CLEC.

Local Multipoint Distribution Service

The FCC has established a new wireless service named Local Multipoint Distribution Service (LMDS). The FCC allocated two frequency blocks in each of 493 Basic Trading Areas in the U.S. to LMDS: Block A with 1,150 MHZ of spectrum in the 28 GHz and 31 GHz bands, and Block B with 150 MHZ in the 31 GHz band. LMDS licenses are awarded for ten-year terms with renewal expectancies provided to licensees that make a showing of substantial service in their licensed areas.

LMDS may be used to provide any kind of communications service on a common carrier or non-common-carrier basis. Radio frequencies in the 28 and 31 GHz bands are generally capable of only "line-of-sight" transmission and reception, are subject to interference from certain weather conditions, and do not lend themselves to mobile applications. LMDS is expected to be used for the delivery of various broadband services to homes and offices, including telecommunications, Internet access, and two-way video. At least seven other countries, including Canada and Mexico, have licensed LMDS on either a permanent or experimental basis. LMDS licensees are expected to be able to provide a wide array of services, two-way capabilities, and high capacity through the use of newer digital equipment and transmission mechanisms. The FCC expects that Block-A LMDS licensees especially, by applying cellular-style frequency re-use technology to an already large frequency bandwidth, have the potential to become competitors to ILECs and cable operators. Accordingly, the LMDS rules prohibit ownership of Block-A licenses by ILECs and incumbent cable operators prior to July, 2000, but permit an applicant that would otherwise be prohibited from holding a Block-A license to apply for a waiver of the ownership restriction by showing that it does not have market power in its telephone or cable service area.

The FCC held a simultaneous, multiple-round auction for the 986 LMDS licenses which closed on March 25, 1998. 104 winning participants bid a total of $578,663,029 for 864 licenses. No auction participant placed the minimum opening bid on any of the remaining 122 licenses, which will be reauctioned beginning in April, 1999. We won 15 Block-A licenses for Basic Trading Areas encompassing substantially all population centers in the state of Ohio, for a total bid of $25,241,133. Auction participants that had average gross revenues for the previous three years of $75 million or less, when aggregated with all commonly controlled affiliates, were entitled to bidding credits of 25%, 35%, or 45%. We did not qualify for any bidding credit. The FCC has since granted our 15 LMDS licenses with an effective date of June 8, 1998.

Future International Operations

CoreComm may ultimately expand its operations to other countries and currently provides international resale services. The FCC requires every carrier that intends to originate international telecommunications from within the U.S., either through the use of its own facilities or on a resale basis, to secure in advance an authorization from the FCC under Section 214 of the Communications Act. Additionally, these carriers must file with the FCC a tariff containing the rates, terms, and conditions of their international service offerings. In applying for a 214 Authorization, a carrier must disclose any affiliations with or special concessions from foreign carriers or nations. The FCC has streamlined its procedures for granting 214 Authorizations, providing a routine grant of such authorizations in 35 days unless an application is formally opposed or the applicant is affiliated with a carrier that controls bottleneck telecommunications facilities in a foreign country, in which case the applicant may be subject to more stringent regulation as a "dominant" carrier. Additionally, applicants affiliated with foreign carriers in countries that are signatories to the Telecommunications Annex to the World Trade Organization General Agreement of Trade in Services, including Canada, have a reduced burden of demonstrating their "non-dominance." Carriers that have received 214 Authorizations are subject to certain reporting requirements, must file contracts with foreign correspondents, and are restricted in the provision of certain services to certain nations, such as the use of resold private lines for switched services and the provision of any services to countries on the FCC's "exclusion list." CoreComm holds a 214 Authorization for both facilities-based and resale international services and has filed a tariff for its international resale services.

Internet Regulation

The FCC currently does not regulate the provision of Internet service, although it does regulate common carriers that provide elements of the "backbone" networks on which the Internet is based. Similarly, state public utility commissions generally do not regulate Internet service, except in some limited circumstances where incumbent local exchange carriers provide Internet services. The FCC and some states, however, are reviewing the development of the Internet and the types of services that are provided through it. For example, if the FCC should determine that an Internet service provider offers a service that is an exact substitute for long distance telephone service with the sole distinction that it is based on a packet-switched network rather than a circuit-switched network, the FCC may determine that it should provide regulatory parity for the services.

Customer Dependence and Seasonality

The Company is not dependent upon any single customer for any significant portion of its business. The Company's business as well as the cellular communications industry, is not generally characterized as having a material seasonal element and it is not expected to become seasonal in the foreseeable future.

Employees

As of December 31, 1998, the Company and its subsidiaries had an aggregate of approximately 250 employees. No employees are represented by any labor organization. The Company believes that its relationship with its employees is excellent.

Item 2. *Property*

Certain of the Company's subsidiaries lease office space which the Company believes is adequate to serve its present business operations and its needs for the foreseeable future. See the Notes to the Company's Consolidated Financial Statements included elsewhere in this Form 10-K for information concerning lease commitments.

Item 3. *Legal Proceedings*

The Company is not involved in any legal disputes that are expected to have a material adverse effect on the Company's financial condition.

Item 4. *Submission of Matters to a Vote of Stockholders*

No matter was submitted to a vote of security holders of the Company during the quarter ended December 31, 1998.

PART II

Item 5. *Market for the Registrant's Common Stock and Related Stockholder Matters.*

CoreComm formerly was a wholly owned subsidiary of Cellular Communications of Puerto Rico, Inc. ("CCPR") (formerly CoreComm Incorporated). On September 2, 1998, CCPR distributed to its stockholders, on a one for one basis, all of the capital stock of CoreComm. CoreComm's Common Stock began trading on the Nasdaq Stock Market's National Market on September 2, 1998, under the Nasdaq symbol "COMFV". Subsequently, on September 3, 1998, the symbol was changed to "COMMF," under which it presently trades. The following table sets forth for the periods indicated, the high and low last sale prices on the Nasdaq Stock Market's National Market.

	Last Sale Price	
	High	Low
1998		
Third Quarter (beginning September 2, 1998)	$15.00	$10.00
Fourth Quarter	$17.25	$ 7.50
1999		
First Quarter (through March 16, 1999)	$39.125	$16.375

On March 16, 1999, the last sales price for the Common Stock on the Nasdaq Stock Market National Market was $33.94. As of March 16, 1999, there were approximately 290 record holders of the Common Stock. This figure does not reflect beneficial ownership of shares held in nominee names.

The Company has never declared or paid any cash dividends on the Common Stock. The Company anticipates that it will retain earnings, if any, for use in the operation and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future.

Item 6. *Selected Financial Data.*

The following selected financial data of CoreComm and its predecessor, OCOM Corporation Telecoms Division ("OCOM") should be read in conjunction with the historical financial statements and notes thereto included elsewhere in this Form 10-K. The selected historical financial data relates to OCOM as it was operated prior to its acquisition by CoreComm.

	For the Period from April 1, 1998 (date operations commenced) to December 31, 1998(1)	The Predecessor (OCOM)				
		For the Period from January 1, 1998 to May 31, 1998	Year Ended December 31,			
			1997	1996	1995(2)	1994
		(in thousands, except per share data)				
Income statement data:						
Revenues	$ 6,713	$ 1,452	$ 3,579	$ 5,103	$ 4,001	$ 3,690
Operating expenses	25,139	4,234	7,954	6,333	8,413	2,987
Net income (loss)	(16,255)	(2,782)	(4,379)	(1,097)	(4,154)	1,048
Net income (loss) per common share:						
Basic	(1.23)	(.21)	(.33)	(.08)	(.38)	.11
Diluted	(1.23)	(.21)	(.33)	(.08)	(.38)	.10
Weighted average number of common shares(3):						
Basic	13,190	13,183	13,075	13,196	11,070	9,867
Diluted	13,190	13,183	13,075	13,196	11,070	10,161

	December 31, 1998(1)	The Predecessor (OCOM) December 31,			
		1997	1996	1995	1994
		(in thousands)			
Balance sheet data:					
Working capital	$133,899	$ (950)	$(490)	$ (42)	$148
Fixed assets — net	3,582	1,269	270	226	172
Total assets	176,526	1,731	917	1,020	670
Noncurrent liabilities	501	—	—	—	—
Shareholders' equity	169,297	—	—	—	—
Parent's investment	—	321	(208)	(207)	353

(1) During the period from April 1, 1998 (date operations commenced) to December 31, 1998, CCPR made the following contributions to CoreComm prior to the Spin-off: (a) a cash contribution of $150 million, (b) a contribution of businesses acquired by CCPR in April and June 1998 and (c) the contribution of the subsidiary that owns various LMDS licenses in Ohio that were acquired for an aggregate of $25,241,000. Revenues and expenses of CoreComm increased in the period from April 1, 1998 (date operations commenced) to December 31, 1998 when compared to the revenues and expenses of OCOM for the year ended December 31, 1997 due to the increase in OCOM expenses subsequent to its acquisition by CoreComm and the consolidation of the results of operations of the acquired businesses.

(2) OCOM incurred one-time costs of $2,294,000 in 1995 in connection with the expansion of its cellular long distance resale business into certain AT&T Wireless markets.

(3) The weighted average number of common shares are equivalent to CCPR's historical weighted average shares on a one-for-one basis, plus CoreComm's weighted average shares in the 1998 period.

CoreComm has never declared or paid any cash dividends.

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

RESULTS OF OPERATIONS

The following discussion of the results of operations of CoreComm (or "the Company") includes a comparison to the results of operations of OCOM, the predecessor business to the Company. The Company was formed in March 1998 and did not have any prior operations. Since OCOM represents a significant portion of CoreComm's current business, the comparison with OCOM's historical operating results gives the reader a basis to evaluate CoreComm's present business. However, the historical results of OCOM may not be indicative of CoreComm's future results. OCOM's primary historical business is its cellular long distance resale business that has been and currently is a highly competitive segment of the long distance telephone market. OCOM and now CoreComm have diversified into other telecommunications resale businesses.

For the Period from April 1, 1998 (date operations commenced) to December 31, 1998 and for the Year Ended December 31, 1997

The increase in revenues to $6,713,000 from $3,579,000 is primarily due to acquisitions in 1998, which accounted for $4,535,000 of the increase. OCOM's revenues decreased to $2,178,000 from $3,579,000 because OCOM's revenues prior to its acquisition in June 1998 of $1,452,000 are not included in the 1998 amount. OCOM's cellular long distance revenues continued to decline in 1998 as a result of customers switching to other long distance providers, which trend is expected to continue to occur. This reduction in revenues was offset by increases in CLEC and cellular revenues.

Operating costs increased to $5,584,000 from $1,581,000 primarily due to acquisitions in 1998, which accounted for $3,895,000 of the increase. Operating costs as a percentage of revenues increased to 83% from 44%. This increase is the result of the reduction in cellular long distance revenues which to date has the highest gross margin of CoreComm's telecommunications businesses.

Selling, general and administrative expenses increased to $13,989,000 from $5,934,000 as a result of increased selling and marketing costs and increased customer service costs. These costs are expected to increase in the foreseeable future. These increases were offset by a reduction in billing costs due to the implementation of in-house billing in the fourth quarter of 1997.

The compensation charge of $4,586,000 in 1998 is a non-cash charge recorded in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," as a one time charge related to the issuance of CoreComm's warrants and stock options to holders of CCPR's stock options in connection with the Spin-off.

Depreciation expense increased to $749,000 from $428,000 as a result of an increase in fixed assets, primarily computer hardware and software.

Amortization expense increased to $231,000 from $11,000 due to the amortization of goodwill from the acquisitions in 1998.

Interest income and other, net, increased to income of $2,632,000 from expense of $4,000 primarily due to $2,585,000 of interest income on CoreComm's cash, cash equivalents and marketable securities.

Interest expense increased to $21,000 from zero due to interest on the note payable and capital leases.

The income tax provision of $440,000 in 1998 is for state and local tax.

Years Ended December 31, 1997 and 1996

Revenues decreased to $3,579,000 from $5,103,000 primarily due to a reduction in cellular long distance revenues as a result of customers switching to other long distance providers. The reduction in cellular long distance revenues was partially offset by revenues from landline long distance and cellular service, both of which were introduced subsequent to December 31, 1996.

Operating costs decreased to $1,581,000 from $3,065,000 as a result of the decline in revenues. Operating costs as a percentage of revenues decreased to 44% from 60% due to the improvement in the margin on cellular long distance as a result of a reduction in the wholesale cost.

Selling, general and administrative expenses increased to $5,934,000 from $3,119,000 as a result of increased selling and marketing costs, customer service costs and management costs due to the increased efforts beginning in late 1996 to grow and develop OCOM's business.

Depreciation expenses increased to $428,000 from $138,000 as a result of an increase in fixed assets, primarily computer hardware and software.

Interest income and other, net, decreased to expense of $4,000 from income of $133,000 primarily due to the termination of OCOM's consulting agreement with AT&T Wireless for assistance in marketing and implementing a cellular long distance resale business.

LIQUIDITY AND CAPITAL RESOURCES

The Company will require significant resources to fund the construction of its facilities based network, develop and expand its existing businesses and licenses, acquire or develop additional telecommunications-related business, and fund near term operating losses.

The Company intends to significantly expand its telecommunications infrastructure in the United States over the next several years. CoreComm, as well as its completed and pending acquired companies, have already begun the process of installing switches, Internet points-of-presence, and other telecommunications facilities in Ohio as well as other states. The anticipated amount of such expenditures have yet to be determined, and will be related to the speed and location of equipment deployment, as well as the mix of resold vs. facilities-based services.

The Company's businesses will also consume capital to acquire new customers and to finance the working capital required to support these new customers. These businesses will also require additional billing, customer service and other back-office infrastructure. These capabilities can be expanded in-house or can be outsourced to reduce up-front capital requirements. To date, the Company's strategy has been to utilize the expertise developed by its management to develop in-house billing and back-office capabilities.

In February 1999, CoreComm entered into agreements to acquire MegsINet and certain assets of USN. The USN acquisition is subject to Bankruptcy Court auction procedures. Approximately $16.75 million in cash would be required to complete the acquisition of MegsINet and approximately $27 million in cash (plus a potential contingent payment to be paid in 2000) would be required to complete the acquisition of the USN assets. In addition, the Company would require significant capital to fund the expansion and operations related to those acquisitions, if consummated. In the future, the Company plans to make further appropriate acquisitions which may require significant capital expenditures.

The amount of capital required to construct the LMDS systems is unknown at this time, but is likely to be several times the cost of the licenses. In addition to up-front network construction costs, a significant ongoing capital requirement will be the cost to acquire customer premise equipment to receive and transmit LMDS signals. The network and customer premise equipment costs are unknown because a de facto standard has yet to emerge among the LMDS auction winners and because insufficient orders have been placed with manufacturers who determine likely prices for equipment. As license holders choose equipment manufacturers and one or more equipment standard emerges, prices will become more easily quantifiable.

The Company intends to fund its near term capital expenses, operating losses and working capital requirements with cash, cash equivalents and marketable securities on hand of $137 million at December 31, 1998. The funds on hand are primarily the result of the $150 million cash capital contribution from CCPR prior to the Spin-off. Longer term, it is likely that the Company will be required to raise additional debt and/or equity financing to fully implement its goals.

Consolidated Statements of Cash Flows

Cash used in operating activities increased to $12,322,000 from $3,477,000 primarily due to the increase in the net loss to $16,255,000 from $4,379,000. The net loss increased as a result of acquisitions and an increase in selling and marketing costs and customer service expenses. We expect cash used in operating activities to increase in 1999 for the same reasons.

Cash used to purchase fixed assets increased to $2,344,000 from $1,435,000 due to acquisitions and as a result of an increase in computer hardware and software purchases. We continue to expand our in-house billing capabilities and require additional hardware for additional personnel.

Cash provided by capital contributions of $150,904,000 is the cash contributed by CCPR prior to the Spin-off.

Year 2000

We have a comprehensive Year 2000 project designed to identify and assess the risks associated with our information systems, operations and infrastructure, suppliers, and customers that are not Year 2000 compliant, and to develop, implement and test remediation and contingency plans, to mitigate these risks. The project comprises four phases: (1) identification of risks, (2) assessment of risks, (3) development of remediation and contingency plans and (4) implementation and testing.

Our assessment is primarily focused on both our information technology ("IT") systems, in particular our billing, provisioning and customer service systems, and the readiness of the significant facilities-based carriers that we depend upon for our resale services. Our leased office space and other non-IT equipment which may have embedded technology that may be affected by the year 2000 problem is being separately assessed.

- We have completed the assessment of our financial IT systems, which will require upgrades from vendors at nominal additional cost. The upgrades will be placed into service by June 1999.
- Our evaluation of the billing, provisioning and customer service IT systems has progressed from assessments to renovation and validation. We expect to incur nominal costs to complete the renovation and validation of these systems since they are new systems that were designed to be year 2000 ready. Although we expected to complete the renovation and validation of the billing, provisioning and customer service IT systems by June 1999, we now expect to complete these tasks by September 1999. We have engaged a consulting firm to assist us in this process.
- Most of our IT hardware is currently year 2000 ready. Primarily all of the cost of upgrades and purchases of hardware and data communications equipment to complete the implementation of year 2000 readiness is part of our planned growth and upgrade capital expenditures in 1999 and is not expected to be significantly different than expenditures in previous years. Although we expected to complete the IT hardware upgrades by June 1999, we now expect to complete these upgrades by September 1999.
- Our evaluation of the readiness of our significant vendors is still in process. We have requested information from these vendors in order to determine the extent to which we may be vulnerable to their failure to correct their own year 2000 problems. We have received responses from approximately 45% of these vendors through March 16, 1999. However, we believe that all of the facilities-based vendors that we rely upon for wholesale service, including billing data, and for Internet connections, are telephone companies that are required to report their year 2000 readiness to state public utility commissions. We anticipate that such reporting will assist us in our evaluation of their readiness. Approximately 75% of the vendors who have not yet responded to our inquiries are telephone companies and other public utilities.
- We currently believe the most reasonably likely worst case scenario with respect to the Year 2000 is the failure of one or more of our significant facilities-based vendors, including utilities, to be ready for the year 2000. This could cause a temporary interruption in our provision of service to customers or in

our ability to bill our customers, or both. Either or both could have a material adverse effect on our operations, although it is not possible at this time to quantify the amount of revenues and gross profit that might be lost, or the costs that could be incurred. Our contingency plan to address some of these risks involve switching customers to another wholesale provider, which would require time to implement and may be constrained due to capacity and/or training limitations.

As the Year 2000 project continues, we may discover additional problems, may not be able to develop, implement or test remediation or contingency plans, or may find that the costs of these activities exceed current expectations. In many cases, we are relying on assurances from suppliers that new and upgraded information systems and other products will be Year 2000 ready. We plan to test such third-party systems and products. However, we cannot be sure that our tests will be adequate or that, if problems are identified, they will be addressed by the supplier in a timely and satisfactory way.

Because we use a variety of information systems and have additional systems embedded in our operations and infrastructure, we cannot be sure that all of our systems will work together in a Year 2000-ready fashion. Furthermore, we cannot be sure that we will not suffer business interruptions, either because of our own Year 2000 problems or those of third-parties upon whom we rely on for services. We are continuing to evaluate our Year 2000-related risks and corrective actions. However, the risks associated with the Year 2000 problem are pervasive and complex; they can be difficult to identify and address, and can result in material adverse consequences to the Company. Even if we, in a timely manner, complete all of our assessments, identify and test remediation plans believed to be adequate, and develop contingency plans believed to be adequate, some problems may not be identified or corrected in time to prevent material adverse consequences to the Company.

Item 7A. *Quantitative and Qualitative Disclosure About Market Risk.*

The Securities and Exchange Commission's rule related to market risk disclosure requires that we describe and quantify our potential losses from market risk sensitive instruments attributable to reasonably possible market changes. Market risk sensitive instruments include all financial or commodity instruments and other financial instruments (such as investments and debt) that are sensitive to future changes in interest rates, currency exchange rates, commodity prices or other market factors. We are not exposed to market risks from changes in foreign currency exchange rates or commodity prices. We do not hold derivative financial instruments nor do we hold securities for trading or speculative purposes. We currently have a small amount of noncurrent liabilities at fixed interest rates, therefore, we do not believe it is necessary to manage this exposure to interest rate changes. We are exposed to changes in interest rates primarily from our investments in cash equivalents and available-for-sale marketable securities. All of our marketable Securities have maturities of less than one year which reduces our interest rate exposure. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate changes. A hypothetical 100 basis point decline in short-term interest rates would reduce the fair value of our interest sensitive investments by approximately $137,000 at December 31, 1998.

Item 8. *Financial Statements and Supplementary Data.*

The Financial Statements are included herein commencing on page F-1.

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

Not applicable.

PART III

Items 10, 11, 12 and 13.

The information required by Part III is incorporated by reference from CoreComm's definitive proxy statement involving the election of directors which CoreComm expects to file, pursuant to Regulation 14A, within 120 days following the end of its fiscal year.

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

(a) (1) Financial Statements — See list of Financial Statements on page F-1.

(2) Financial Statement Schedules — See list of Financial Statement Schedules on page F-1.

(3) Exhibits — See Exhibit Index on page 23.

(b) Reports on Form 8-K. The Company filed no current reports on Form 8-K for the quarter ended December 31, 1998.

(c) Exhibits — The response to this portion of Item 14 is submitted as a separate section of this report.

(d) Financial Statement Schedules — See list of Financial Statement Schedules on page F-1.

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
2.1	Form of Distribution Agreement, dated as of August 18, 1998, between CoreComm Incorporated and the Registrant(1)
3.1	Company's Memorandum of Association and Certificate of Name Change(1)
3.2	Company's By-laws(1)
4.1	Rights Agreement between the Company and Continental Stock Transfer & Trust Company, as Rights Agent(1)
4.2	Form of Common Stock Certificate(1)
10.1	Form of Tax Disaffiliation Agreement between CoreComm Incorporated and the Registrant(1)
10.2	CoreComm Limited 1998 Stock Option Plan(1)
10.3	CoreComm Ohio Limited 1999 Stock Option Plan
11	Statement re: Computation of per share earnings
21	Subsidiaries of the registrant
27.1	Financial Data Schedules

(1) Incorporated by reference from the Company's Registration Statement on Form 10, File No. 0-24521.

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 under signed thereunto duly authorized. Dated: March 22, 1999

CORECOMM LIMITED

By: /s/ RICHARD J. LUBASCH
Senior Vice President, General Counsel and Secretary

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 in the capacities and on the date indicated.

Signature	Title	Date
/s/ GEORGE S. BLUMENTHAL George S. Blumenthal	Chairman of the Board and Director	March 22, 1999
/s/ J. BARCLAY KNAPP J. Barclay Knapp	Principal Executive and Financial Officer and Director	March 22, 1999
/s/ PATTY J. FLYNT Patty J. Flynt	Principal Operating Officer	March 22, 1999
/s/ GREGG GORELICK Gregg Gorelick	Principal Accounting Officer	March 22, 1999
/s/ SIDNEY R. KNAFEL Sidney R. Knafel	Director	March 22, 1999
/s/ DEL MINTZ Del Mintz	Director	March 22, 1999
/s/ ALAN J. PATRICOF Alan J. Patricof	Director	March 22, 1999
/s/ WARREN POTASH Warren Potash	Director	March 22, 1999
/s/ TED H. MCCOURTNEY Ted H. McCourtney	Director	March 22, 1999

FORM 10-K — ITEM 14(a)(1) AND (2)

CORECOMM LIMITED AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statements and schedule of CoreComm Limited and subsidiaries and its predecessor OCOM Corporation Telecoms Division are included in Item 8:

The following consolidated financial statement schedule of CoreComm Limited and subsidiaries is included in Item 14(d):

The following financial statement schedule of OCOM Corporation Telecoms Division is included in Item 14(d):

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
CoreComm Limited

We have audited the consolidated balance sheet of CoreComm Limited and Subsidiaries as of December 31, 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for the period from April 1, 1998 (date operations commenced) to December 31, 1998. Our audit also included the financial statement schedule listed in the Index at Item 14(a) for the period from April 1, 1998 (date operations commenced) to December 31, 1998. 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 CoreComm Limited and Subsidiaries at December 31, 1998, and the consolidated results of their operations and their cash flows for the period from April 1, 1998 (date operations commenced) to December 31, 1998 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, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

New York, New York
February 26, 1999

REPORT OF INDEPENDENT AUDITORS

Shareholder
OCOM Corporation Telecoms Division

We have audited the accompanying balance sheet of OCOM Corporation Telecoms Division ("OCOM") as of December 31, 1997, and the related statements of operations, parent's investment (deficiency) and cash flows for the period from January 1, 1998 to May 31, 1998 and the years ended December 31, 1997 and 1996. Our audit also included 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 misstatements. 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 financial statements referred to above present fairly, in all material respects, the financial position of OCOM Corporation Telecoms Division at December 31, 1997, and the results of its operations and its cash flows for the period from January 1, 1998 to May 31, 1998 and the years ended December 31, 1997 and 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, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

New York, New York
February 26, 1999

CORECOMM LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 1998	The Predecessor (OCOM) December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,161,000	$ —
Marketable securities	110,718,000	—
Accounts receivable-trade, less allowance for doubtful accounts of $742,000 (1998) and $46,000 (1997)	1,125,000	332,000
Due from affiliates	1,954,000	—
Inventory	150,000	80,000
Other	519,000	48,000
Total current assets	140,627,000	460,000
Fixed assets, net	3,582,000	1,269,000
Goodwill, net of accumulated amortization of $230,000	4,028,000	—
LMDS license costs	25,366,000	—
Other, net of accumulated amortization of $1,000	2,923,000	2,000
	$176,526,000	$1,731,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,937,000	$ 348,000
Accrued expenses	4,247,000	1,062,000
Current portion of note payable and capital lease obligations	133,000	—
Deferred revenue	411,000	—
Total current liabilities	6,728,000	1,410,000
Note payable	283,000	—
Capital lease obligations	218,000	—
Commitments and contingent liabilities		
Shareholders' equity:		
Series preferred stock — $.01 par value, authorized 1,000,000 shares; issued and outstanding none	—	—
Common stock — $.01 par value; authorized 75,000,000 shares; issued and outstanding 13,199,000 shares	132,000	—
Additional paid-in capital	185,420,000	—
(Deficit)	(16,255,000)	—
Parent's investment	—	321,000
	169,297,000	321,000
	$176,526,000	$1,731,000

See accompanying notes.

CORECOMM LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Period From April 1, 1998 (Date Operations Commenced) to December 31, 1998	The Predecessor (OCOM)		
		For the Period From January 1, 1998 to May 31, 1998	Year Ended December 31,	
			1997	1996
REVENUES	$ 6,713,000	$ 1,452,000	$ 3,579,000	$ 5,103,000
COSTS AND EXPENSES				
Operating	5,584,000	772,000	1,581,000	3,065,000
Selling, general and administrative	13,989,000	3,205,000	5,934,000	3,119,000
Compensation charge from the issuance of stock options	4,586,000	—	—	—
Depreciation	749,000	255,000	428,000	138,000
Amortization	231,000	2,000	11,000	11,000
	25,139,000	4,234,000	7,954,000	6,333,000
Operating (loss)	(18,426,000)	(2,782,000)	(4,375,000)	(1,230,000)
OTHER INCOME (EXPENSE)				
Interest income and other, net	2,632,000	—	(4,000)	133,000
Interest expense	(21,000)	—	—	—
(Loss) before income tax provision	(15,815,000)	(2,782,000)	(4,379,000)	(1,097,000)
Income tax provision	(440,000)	—	—	—
Net (loss)	$(16,255,000)	$(2,782,000)	$(4,379,000)	$(1,097,000)
Basic and diluted net (loss) per share	$ (1.23)	$ (.21)	$ (.33)	$ (.08)

See accompanying notes.

CORECOMM LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM APRIL 1, 1998 (DATE OPERATIONS COMMENCED) TO DECEMBER 31, 1998

	Common Stock			
	Shares	Par	Additional Paid-In Capital	(Deficit)
Initial contribution	1,200,000	$ 12,000	$ 22,173,000	
Capital contributions	11,998,000	120,000	158,658,000	
Issuance of stock options			4,586,000	
Exercise of warrants	1,000		3,000	
Net (loss) for the period from April 1, 1998 (date operations commenced) to December 31, 1998				$(16,255,000)
Balance, December 31, 1998	13,199,000	$132,000	$185,420,000	$(16,255,000)

See accompanying notes.

Corecomm Limited and Subsidiaries

OCOM Corporation Telecoms Division (The Predecessor)

Statement of Parent's Investment (Deficiency)
For the Period from January 1, 1998 through May 31, 1998 and for the Years Ended December 31, 1997 and 1996

Balance, December 31, 1995	$ 207,000
Capital contributions	682,000
Net loss for the year ended December 31, 1996	(1,097,000)
Balance, December 31, 1996	(208,000)
Capital contributions	4,908,000
Net loss for the year ended December 31, 1997	(4,379,000)
Balance, December 31, 1997	321,000
Capital contributions	4,261,000
Net loss for the period ended May 31, 1998	(2,782,000)
Balance, May 31, 1998	$ 1,800,000

See accompanying notes.

CORECOMM LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Period From April 1, 1998 (Date Operations Commenced) To December 31, 1998	The Predecessor (OCOM) For The Period From January 1, 1998 To May 31, 1998	Year Ended December 31, 1997	1996
OPERATING ACTIVITIES				
Net (loss)	$ (16,255,000)	$(2,782,000)	$(4,379,000)	$(1,097,000)
Adjustments to reconcile net (loss) to net cash used in operating activities:				
Depreciation and amortization	980,000	257,000	439,000	149,000
Compensation charge from the issuance of stock options	4,586,000	—	—	—
(Gain) loss on disposal of fixed assets	2,000	—	4,000	(1,000)
Inventory reserve	—	—	78,000	—
Provision for losses on accounts receivable	501,000	92,000	46,000	—
Accretion of interest on marketable securities	(639,000)	—	—	—
Other	(121,000)	—	—	—
Changes in operating assets and liabilities, net of effect from business acquisitions:				
Accounts receivable	(480,000)	(262,000)	129,000	129,000
Due from affiliates	(1,954,000)	—	—	—
Inventory	(82,000)	20,000	(158,000)	—
Other current assets	(205,000)	(199,000)	79,000	7,000
Other assets	(2,824,000)	—	—	—
Accounts payable	1,261,000	(311,000)	169,000	82,000
Accrued expenses	2,814,000	(453,000)	116,000	230,000
Deferred revenue	94,000			
Net cash (used in) operating activities	(12,322,000)	(3,638,000)	(3,477,000)	(501,000)
INVESTING ACTIVITIES				
Purchase of fixed assets	(2,344,000)	(623,000)	(1,435,000)	(183,000)
Proceeds from disposal of fixed assets	3,000	—	4,000	2,000
Purchase of marketable securities	(110,079,000)	—	—	—
Net cash (used in) investing activities	(112,420,000)	(623,000)	(1,431,000)	(181,000)
FINANCING ACTIVITIES				
Capital contributions	150,904,000	4,261,000	4,908,000	682,000
Exercise of warrants	3,000	—	—	—
Principal payments of capital lease obligations	(4,000)	—	—	—
Net cash provided by financing activities	150,903,000	4,261,000	4,908,000	682,000
Increase in cash and cash equivalents	26,161,000	—	—	—
Cash and cash equivalents at beginning of period	—	—	—	—
Cash and cash equivalents at end of period	$ 26,161,000	$ —	$ —	$ —
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid for interest	$ 4,000	$ —	$ —	$ —
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES				
Capital contributions of noncash net assets	$ 30,059,000	$ —	$ —	$ —
Liabilities incurred to acquire fixed assets	175,000	—	—	—

See accompanying notes.

CORECOMM LIMITED AND SUBSIDIARIES
AND ITS PREDECESSOR OCOM CORPORATION TELECOMS DIVISION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

CoreComm Limited (the "Company"), formerly a wholly-owned subsidiary of Cellular Communications of Puerto Rico, Inc. ("CCPR"), was formed in March 1998 (operations commenced in April 1998) in order to succeed to the businesses and assets that were operated by OCOM Corporation and as an appropriate vehicle to pursue new telecommunications opportunities outside of Puerto Rico and the U.S. Virgin Islands. In September 1998, CCPR made a cash contribution to the Company of $150,000,000 and distributed 100% of the outstanding shares of the Company on a one-for-one basis to CCPR's shareholders.

The Company's competitive local exchange carrier ("CLEC"), cellular long distance, landline long distance and cellular resale businesses were formerly owned and operated by OCOM Corporation Telecoms Division ("OCOM"). CCPR acquired the operating assets and related liabilities of these businesses from OCOM on June 1, 1998. OCOM is the predecessor business to the Company.

In addition to the businesses acquired from OCOM, the Company also sells pre-paid cellular service through the sale of pre-paid cards, provides centralized telecommunications services ("Centrex"), provides a full range of Internet services for both home and business customers through its Internet Service Provider ("ISP") subsidiary and provides paging service and pager repairs. The Company's customers are located throughout the United States, although much of the Company's business is conducted in Ohio. The Company does not own any facilities, except for certain ISP facilities. Instead, it purchases capacity on a wholesale basis pursuant to contracts and sells it at retail rates to end users. The Company depends upon the facilities-based carriers to maintain the quality of their service to the Company's customers. Also, except for pre-paid cellular service, the Company depends upon the facilities-based carriers for accurate and prompt billing information in order for the Company to bill its customers. In addition, all of the Company's lines of business are highly competitive which results in pricing pressure and increasing customer acquisition costs, and primarily all are dependent upon trends in the use of communications service.

The following are the revenues from external customers for each of the Company's communications services:

	For the Period From April 1, 1998 (Date Operations Commenced) to December 31, 1998	The Predecessor (OCOM)		
		For the Period From January 1, 1998 to May 31, 1998	Year Ended December 31, 1997	Year Ended December 31, 1996
CLEC and landline long distance	$1,976,000	$ 217,000	$ 167,000	$ 104,000
Cellular long distance	1,035,000	1,034,000	3,352,000	4,999,000
Centrex	1,017,000	—	—	—
Wireless (including pre-paid cellular)	2,530,000	201,000	60,000	—
ISP	155,000	—	—	—
	$6,713,000	$1,452,000	$3,579,000	$5,103,000

In February 1999, the Company entered into an agreement to acquire MegsInet, Inc., a national Internet network and regional telecommunications provider. The Company will purchase 100% of MegsInet's stock for a total consideration of approximately $16.75million in cash plus approximately 1.4 million shares of the Company's common stock. This transaction is subject to certain conditions, including the registration of the Company's stock to be issued.

1. Organization and Business (continued)

Also in February 1999, the Company entered into an agreement to acquire certain assets of USN Communications, Inc., a CLEC reseller. Completion of this transaction is conditioned upon approval by the Bankruptcy Court presiding over USN's Chapter 11 case, in which third parties may bid for the same assets.

2. Significant Accounting Policies

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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and those entities where the Company's interest is greater than 50%. Significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

Cash equivalents are short-term highly liquid investments purchased with a maturity of three months or less. Cash equivalents were $20,995,000 at December 31, 1998 and consisted of corporate commercial paper.

Marketable Securities

Marketable securities are classified as available-for-sale, which are carried at fair value. Unrealized holding gains and losses on securities, net of tax, are carried as a separate component of shareholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other than temporary will be included in interest income. The cost of securities sold or matured is based on the specific identification method. Interest on securities is included in interest income.

Marketable securities at December 31, 1998 consisted of a certificate of deposit and corporate commercial paper. During the period from April 1, 1998 (date operations commenced) to December 31, 1998, there were no realized gains or losses on sales of securities. All of the marketable securities as of December 31, 1998 had a contractual maturity of less than one year.

Inventory

Inventory consists principally of telephones, pagers and accessories and is stated at the lower of cost or market. Cost is determined by specific identification or the first-in, first-out method.

Financial Instruments

The carrying value of all financial instruments approximates their fair value due to the short maturity of the respective instruments.

Fixed Assets

Fixed assets are stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows: operating equipment — 5 or 15 years, computer

2. Significant Accounting Policies (continued)

hardware and software — 3 or 5 years and other equipment — 2 to 7 years, except for leasehold improvements for which the estimated useful lives are the term of the lease.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Goodwill

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Goodwill is amortized on a straight-line basis over the 10 year period benefited. The Company continually reviews the recoverability of the carrying value of goodwill using the same methodology that it uses for the evaluation of its other long-lived assets.

LMDS License Costs

The costs incurred to acquire the Local Multipoint Distribution Service ("LMDS") licenses from the Federal Communications Commission (the "FCC") were deferred and will be amortized on a straight-line basis over the term of the licenses upon the commencement of operations. The Company continually reviews the recoverability of the carrying value of LMDS licenses using the same methodology that it uses for the evaluation of its other long-lived assets.

Noncompetition Agreements

Other assets include noncompetition agreements obtained in connection with an acquisition which were valued at an aggregate of $100,000. The noncompetition agreements are being charged to expense on a straight-line basis over the noncompetition period of 5 years.

Net (Loss) Per Share

The Company reports its net (loss) per share in accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". The denominator for the basic and diluted net loss per common share computations was 13,190,000, 13,184,000, 13,075,000 and 13,196,000 for the period from April 1, 1998 (date operations commenced) to December 31, 1998, for the period from January 1, 1998 to May 31, 1998 and for the years ended December 31, 1997 and 1996, respectively. These weighted average shares are equivalent to CCPR's historical weighted average shares (since CCPR shareholders received one share of the Company for each CCPR share owned), plus the Company's weighted average shares in the 1998 period. The shares issuable upon the exercise of stock options and warrants are excluded from the calculation of net loss per share as their effect would be antidilutive.

Revenue Recognition

Telecommunications revenue is recognized at the time service is provided to the customer. Charges for services that are billed in advance are deferred and recognized when earned.

2. Significant Accounting Policies (continued)

Advertising Expense

The Company charges the cost of advertising to expense as incurred. Advertising expense for the period from April 1, 1998 (date operations commenced) to December 31, 1998, for the period from January 1, 1998 to May 31, 1998 and for the years ended December 31, 1997 and 1996 were $812,000, $79,000, $127,000 and $350,000, respectively.

Stock-Based Compensation

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock option plans.

3. Recent Accounting Pronouncements

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company adopted SFAS No. 130 in 1998, which had no effect on the consolidated financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the way that public enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company adopted SFAS No. 131 in 1998, which had no effect on the consolidated financial statements since the Company operates in one business segment.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is required to be adopted in fiscal years beginning after June 15, 1999. Management does not anticipate that the adoption of the new standard will have a significant effect on the results of operations, financial condition or cash flows of the Company.

4. Acquisitions

In April and June 1998, CCPR acquired the stock of Digicom, Inc. and certain operating assets and related liabilities of JeffRand Corp. (known as the Wireless Outlet) and OCOM Corporation. CCPR contributed these businesses to the Company. These acquisitions were accounted for as purchases by CCPR, and, accordingly, the net assets and results of operations of the acquired businesses have been included in the consolidated financial statements from the dates of acquisition. The contribution of the assets from CCPR to the Company was accounted for at historical cost in a manner consistent with a transfer of entities under common control which is similar to that used in a "pooling of interests". The Company's financial statements include the results of the contributed companies for all periods owned by CCPR. In November 1998, a wholly-owned subsidiary of the Company acquired substantially all of the assets and certain liabilities of Stratos Internet Group, Inc. ("Stratos"), an ISP in the Cleveland-Akron, Ohio area. This acquisition has been accounted for as a purchase, and, accordingly, the net assets and results of operations of Stratos have been included in the consolidated financial statements from the date of acquisition.

4. Acquisitions (continued)

A summary of the allocation of the aggregate purchase price is as follows:

Cash	$4,887,000
Note payable	362,000
Aggregate purchase price	5,249,000
Net assets acquired:	
Current assets	1,600,000
Fixed assets	1,817,000
Current liabilities	(2,251,000)
Capital lease obligations	(275,000)
	891,000
Excess purchase price	4,358,000
Allocated to:	
Noncompetition agreements	100,000
Goodwill	$4,258,000

The pro forma unaudited consolidated results of operations for the years ended December 31, 1998 and 1997 assuming consummation of the acquisitions and receipt of the capital contributions from CCPR as of January 1, 1997 are as follows. The pro forma net (loss) and basic and diluted net (loss) per share do not give effect to interest income that may have been earned had the $150,000,000 cash capital contribution from CCPR been made on January 1, 1997.

	Year Ended December 31,	
	1998	1997
	(Unaudited)	
Total revenue	$11,499,000	$9,829,000
Net (loss)	(19,132,000)	(7,303,000)
Basic and diluted net (loss) per share	(1.45)	(.56)

5. LMDS License Costs

A wholly-owned subsidiary of CCPR, Cortelyou Communications Corp. ("Cortelyou") was the successful bidder, for an aggregate of $25,241,000, for 15 Block A LMDS licenses in Ohio. LMDS frequencies are expected to be used for the provision of voice, data, video and Internet services to businesses and homes in competition with incumbent local exchange telephone companies and/or cable television operators. The FCC has allocated two blocks of frequencies to be licensed in each of the 493 Basic Trading Areas in the United States and its territories based on an auction that commenced in February 1998 and ended in March 1998. In June 1998, CCPR funded Cortelyou's payment of its bid and the FCC issued the licenses. Costs of $125,000 were incurred in connection with the auction and the license acquisition. CCPR contributed Cortelyou to the Company.

6. Fixed Assets

Fixed assets consist of:

	December 31, 1998	December 31, 1997
Operating equipment	$ 720,000	$ —
Computer hardware and software	2,450,000	1,640,000
Other equipment	987,000	566,000
Construction in progress	5,000	—
	4,162,000	2,206,000
Accumulated depreciation	(580,000)	(937,000)
	$3,582,000	$1,269,000

7. Accrued Expenses

Accrued expenses consist of:

	December 31, 1998	December 31, 1997
Payroll and related	$1,263,000	$ 433,000
Professional fees	527,000	204,000
Taxes excluding income taxes	1,246,000	108,000
Advertising	175,000	115,000
Other	1,036,000	202,000
	$4,247,000	$1,062,000

8. Note Payable

The Company issued a note payable in the amount of $362,000 in connection with the Stratos acquisition. Interest on the note accrues at 5.542% per annum. The note is payable in twelve consecutive quarterly payments of principal and interest of $33,000 commencing in May 1999 and is collateralized by the assets acquired from Stratos. The Company recorded approximately $1,000 of interest expense in 1998. As of December 31, 1998, $80,000 of the balance was included in current liabilities and $283,000 was recorded as note payable.

9. Leases

The Company has capital leases for certain of its operating equipment. At December 31, 1998, leased property included in operating equipment aggregated $258,000 with accumulated depreciation of $7,000. Future minimum annual payments under these leases at December 31, 1998 are as follows:

Year Ending December 31,	
1999	$ 81,000
2000	81,000
2001	81,000
2002	81,000
2003	21,000
	345,000
Interest at 11.5%	(74,000)
Present value of minimum obligations	271,000
Current portion	(53,000)
	$218,000

As of December 31, 1998, the Company had leases for office space and equipment which extend through 2009. Total rent expense for the period from April 1, 1998 (date operations commenced) to December 31, 1998, the period from January 1, 1998 to May 31, 1998 and for the years ended December 31, 1997 and 1996 under operating leases was $354,000, $98,000, $131,000 and $60,000, respectively.

Future minimum annual lease payments under noncancellable operating leases at December 31, 1998 are: $1,559,000 (1999); $1,764,000 (2000); $1,740,000 (2001); $1,753,000 (2002); $1,467,000 (2003) and $5,909,000 thereafter.

10. Compensation Charge

The compensation charge of $4,586,000 in 1998 is a non-cash charge recorded in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," as a one time charge related to the issuance of the Company's stock options to holders of CCPR's stock options in connection with the Company's distribution to CCPR's shareholders.

11. Related Party Transactions

Certain officers and directors of the Company are also officers or directors of NTL Incorporated ("NTL"). NTL provides certain corporate management, financial, legal and technical services to the Company. Amounts charged to the Company by NTL consist of salaries and direct costs where identifiable and 30% of NTL's corporate overhead. It is not practicable to determine the amount of expenses that would have been incurred had the Company operated as an unaffiliated entity. In the opinion of management, this allocation method is reasonable. In 1998, NTL charged the Company $313,000 which is included in general and administrative expenses.

The Company's relationship with CCPR is governed by agreements entered into in connection with the distribution, including a Tax Disaffiliation Agreement. The Tax Disaffiliation Agreement details the respective obligations concerning various tax liabilities and provides for cooperation with respect to certain tax matters, the exchange of information and the retention of records.

11. Related Party Transactions (continued)

OCOM provided, and now a subsidiary of the Company provides, billing and software development services to subsidiaries of CCPR and subsidiaries of NTL. Certain officers and directors of the Company are officers and directors of CCPR. Beginning in 1997, the Company charged amounts in excess of its costs to provide these services. General and administrative expenses were reduced by $275,000, $138,000, and $217,000 for the period from April 1, 1998 (date operations commenced) to December 31, 1998, the period from January 1, 1998 to May 31, 1998 and for the year ended December 31, 1997, respectively, as a result of these charges.

At December 31, 1998, due from affiliates included $128,000 due from CCPR and $1,826,000 due from NTL.

12. 401(k) Plan

A subsidiary of the Company sponsors a 401(k) Plan in which all full-time employees of that subsidiary who have completed 90 days of employment and are 21 years of age may participate. The Company's matching contribution is determined annually by the Board of Directors. Participants may make salary deferral contributions of 1% to 15% of their compensation not to exceed the maximum allowed by law. The expense for the period from April 1, 1998 (date operations commenced) to December 31, 1998, the period from January 1, 1998 to May 31, 1998 and for the years ended December 31, 1997 and 1996 was $103,000, $29,000, $126,000 and $46,000, respectively.

13. Shareholders' Equity

Shareholder Rights Plan

The Rights Agreement provides that one Right will be issued with each share of common stock issued on or after the date of distribution. The Rights become exercisable upon the occurrence of certain potential takeover events and will expire in December 2010 unless previously redeemed by the Company. When exercisable, each Right entitles the owner to purchase from the Company 1/100 of a share of Series A Junior Participating Preferred Stock ("Series A Preferred Stock") at a purchase price of $100.

The Series A Preferred Stock will be entitled to a minimum preferential quarterly dividend payment of $.01 per share and will be entitled to an aggregate dividend of 100 times the dividend, if any, declared per share of common stock. In the event of liquidation, the holders of Series A Preferred Stock will be entitled to a minimum preferential liquidation payment of $100 per share and will be entitled to an aggregate payment of 100 times the payment made per share of the common stock. Each share of Series A Preferred Stock will have 100 votes and will vote together with the common stock. In the event of any merger, consolidation or other transaction in which shares of common stock are changed or exchanged, each share of Series A Preferred Stock will be entitled to receive 100 times the amount received per share of common stock. The rights are protected by customary antidilution provisions.

The 1,000,000 authorized shares of Series Preferred Stock are designated Series A Preferred Stock. No shares of Series A Preferred Stock are issued or outstanding.

Warrants and Stock Options

In connection with the distribution of the Company to CCPR's shareholders, the Company issued warrants to purchase shares of common stock to holders of CCPR stock options who elected to receive warrants as follows: (1) warrants to purchase an aggregate of 1,913,000 shares of common stock at an exercise price of $13.18 per share which expire in 2005, (2) warrants to purchase an aggregate of 4,000 shares of

13. Shareholders' Equity (continued)

common stock at an exercise price of $13.18 per share which expire in 2003 and (3) warrants to purchase an aggregate of 819,000 shares of common stock at an exercise price of $15.82 which expire in 2005. As of December 31, 1998, there were 2,735,000 shares of common stock reserved for issuance upon the exercise of warrants.

There are 6,000,000 shares of common stock reserved for issuance under the 1998 Stock Option Plan (the "Plan"). The Plan provides that incentive stock options be granted at the fair market value of the Company's common stock on the date of grant, and nonqualified stock options be granted at a price determined by the Compensation and Option Committee. Options are exercisable as to 20% of the shares subject thereto on the date of grant and become exercisable as to an additional 20% of the shares subject thereto on each January 1 thereafter, while the optionee remains an employee of the Company. Options will expire ten years after the date of the grant.

In connection with the distribution of the Company to CCPR's shareholders, the Company issued approximately 834,000 options to purchase shares of the Company's common stock to holders of CCPR stock options who elected to receive options.

Pro forma information regarding net loss and net loss per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee warrants and stock options under the fair value method of that Statement. The fair value for these warrants and options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 1998: risk-free interest rate of 5.02%, dividend yield of 0%, volatility factor of the expected market price of the Company's common stock of .810, and a weighted-average expected life of the warrants and options of 8.1 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 warrants and 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 warrants and stock options.

For purposes of pro forma disclosures, the estimated fair value of the warrants and options is amortized to expense over the warrants and options' vesting periods. Following is the Company's pro forma information for the period from April 1, 1998 (date operations commenced) to December 31, 1998:

Pro forma net (loss)	$(48,015,000)
Pro forma net (loss) per share — basic and diluted	$ (3.64)

13. Shareholders' Equity (continued)

A summary of the Company's warrants and stock option activity and related information for the period from April 1, 1998 (date operations commenced) to December 31, 1998 follows:

	Number of Warrants and Options	Weighted-Average Exercise Price
Granted	4,341,000	$12.39
Exercised	(1,000)	13.18
Forfeited	—	—
Outstanding — end of period	4,340,000	$12.39
Exercisable at end of period	3,056,000	$13.52

Weighted-average fair value of warrants and options, calculated using the Black-Scholes option pricing model, granted during 1998 is $9.74.

The following table summarizes the status of the stock options outstanding and exercisable at December 31, 1998:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted-Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
$ 0.05 to $ 0.66	414,000	9.7 Years	$ 0.382	83,000	$ 0.382
$ 6.22 to $ 6.81	43,000	9.7 Years	$ 6.660	8,000	$ 6.660
$11.88 to $13.18	1,148,000	9.7 Years	$13.157	230,000	$13.157
Total	1,605,000			321,000	

14. Income Taxes

The provision for income taxes for the period from April 1, 1998 (date operations commenced) to December 31, 1998 consists of the following:

Current:	
Federal	$ —
State and local	440,000
Total current	440,000
Deferred:	
Federal	—
State and local	—
Total deferred	—
	$440,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

14. Income Taxes (continued)

Significant components of the Company's deferred tax liabilities and assets as of December 31, 1998 are as follows:

Deferred tax liabilities:	
Tax over book depreciation and amortization	$ 58,000
Deferred tax assets:	
Net operating losses	5,419,000
Allowance for doubtful accounts	301,000
Amortization of goodwill	24,000
	5,744,000
Valuation allowance for deferred tax assets	(5,686,000)
Net deferred tax assets	58,000
Net deferred tax liabilities	$ —

At December 31, 1998, the Company had net operating loss carryforwards of approximately $13,400,000 for federal income tax purposes that expire in 2018. Since the Company cannot file a consolidated federal income tax return, the net operating loss carryforward can only be utilized by the subsidiary that generated the loss. The net deferred tax assets of $5,686,000 have been fully offset by a valuation allowance due to the uncertainty of realizing such tax benefit.

The reconciliation of income taxes computed at U.S. federal statutory rates to income tax expense for the period from April 1, 1998 (date operations commenced) to December 31, 1998 is as follows:

Benefit at federal statutory rate (35%)	$ 5,689,000
State and local income taxes	440,000
Expenses not deductible for tax purposes	(1,623,000)
Foreign income not subject to U.S. tax	846,000
U.S. losses with no benefit	(4,912,000)
	$ 440,000

15. Commitments and Contingent Liabilities

As of December 31, 1998, the Company has purchase commitments of approximately $2,200,000 outstanding.

The Company is involved in various disputes, arising in the ordinary course of its business, which may result in pending or threatened litigation. None of these matters are expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

CORECOMM LIMITED AND SUBSIDIARIES

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts-Describe	Deductions-Describe	Balance at End of Period
For the period from April 1, 1998 (date operations commenced) to December 31, 1998:					
Allowance for doubtful accounts	$—	$501,000	$—	$241,000(a)	$742,000

(a) Uncollectible accounts written off, net of recoveries, of $117,000 offset by $358,000 allowance for doubtful accounts as of acquisition date from business combinations.

QCOM CORPORATION TELECOMS DIVISION

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts-Describe	Deductions-Describe	Balance at End of Period
For the period from January 1, 1998 to May 31, 1998:					
Allowance for doubtful accounts	$46,000	$92,000	$—	$60,000(a)	$78,000
For the year ended December 31, 1997:					
Allowance for doubtful accounts	$ —	$46,000	$—	$ —	$46,000

(a) Uncollectible accounts written off, net of recoveries.

EXHIBIT 11

CORECOMM LIMITED

CALCULATION OF NET (LOSS) PER SHARE

Date Issued	Description of Issuance	Weighted Average Number of Shares(1) Total Outstanding	Year Ended 31-Dec-98	Year Ended 31-Dec-97	Year Ended 31-Dec-96
12/31/95	Common Stock	12,595,562	12,595,562	12,595,562	12,595,562
02/07/96	Common Stock	821,124	821,124	821,124	735,225
02/13/96	Common Stock	2,084	2,084	2,084	1,833
02/27/96	Common Stock	3,500	3,500	3,500	2,945
03/06/96	Common Stock	513	513	513	257
03/12/96	Common Stock	5,555	5,555	5,555	4,462
04/23/96	Treasury Stock	(15,000)	(15,000)	(15,000)	(10,328)
04/24/96	Treasury Stock	(53,000)	(53,000)	(53,000)	(36,417)
04/25/96	Treasury Stock	(25,000)	(25,000)	(25,000)	(17,077)
04/26/96	Treasury Stock	(35,000)	(35,000)	(35,000)	(23,811)
04/29/96	Treasury Stock	(25,000)	(25,000)	(25,000)	(16,803)
04/30/96	Treasury Stock	(12,500)	(12,500)	(12,500)	(8,367)
05/01/96	Treasury Stock	(5,000)	(5,000)	(5,000)	(3,333)
05/02/96	Treasury Stock	(22,500)	(22,500)	(22,500)	(14,939)
06/10/96	Common Stock	642	642	642	302
06/11/96	Common Stock	3,000	3,000	3,000	1,664
09/20/96	Common Stock	1,042	1,042	1,042	280
11/06/96	Common Stock	42	42	42	6
11/01/96	Treasury Stock	(15,000)	(15,000)	(15,000)	(2,459)
11/04/96	Treasury Stock	(35,000)	(35,000)	(35,000)	(5,451)
11/05/96	Treasury Stock	(6,000)	(6,000)	(6,000)	(765)
11/12/96	Treasury Stock	(25,000)	(25,000)	(25,000)	(3,347)
11/27/96	Treasury Stock	(25,000)	(25,000)	(25,000)	(2,322)
12/06/96	Treasury Stock	(15,000)	(15,000)	(15,000)	(1,025)
12/23/96	Treasury Stock	(20,000)	(20,000)	(20,000)	(437)
12/24/96	Treasury Stock	(2,500)	(2,500)	(2,500)	(48)
12/26/96	Treasury Stock	(7,500)	(7,500)	(7,500)	(102)
01/03/97	Treasury Stock	(20,000)	(20,000)	(19,836)	
01/06/97	Treasury Stock	(10,000)	(10,000)	(9,836)	
01/08/97	Treasury Stock	(5,000)	(5,000)	(4,890)	
01/17/97	Common Stock	834	834	795	
01/21/97	Common Stock	18,750	18,750	17,671	
03/06/97	Common Stock	208	208	171	
10/08/97	Common Stock	7,725	7,725	1,778	
11/25/97	Common Stock	521	521	51	
12/23/97	Common Stock	1,875	1,875	41	
12/30/97	Treasury Stock	(5,000)	(5,000)	(14)	
12/31/97	Common Stock	103,276	103,276		

Date Issued	Description of Issuance	Weighted Average Number of Shares(1) Total Outstanding	Year Ended 31-Dec-98	Year Ended 31-Dec-97	Year Ended 31-Dec-96
02/11/98	Common Stock	83	73		
04/13/98	Common Stock	2,000	1,436		
05/31/98	Total	13,184,336	13,183,762	13,074,995	13,195,505
07/16/98	Common Stock	4,000	1,841		
07/23/98	Common Stock	1,000	441		
07/24/98	Common Stock	1,000	438		
07/24/98	Common Stock	6,000	2,630		
08/13/98	Common Stock	2,000	767		
11/02/98	Common Stock	250	40		
	Total	13,198,586	13,189,919	13,074,995	13,195,505

	For the Period from April 1, 1998 (date operations commenced) to December 31, 1998	The Predecessor(OCOM) For the Period from January 1, 1998 to May 31, 1998	Year Ended December 31, 1997	1996
Net loss	($16,255,000)	($2,782,000)	($4,379,000)	($1,097,000)
Basic and diluted net loss per share	($ 1.23)	($ 0.21)	($ 0.33)	($ 0.08)

(1) The weighted average number of shares are equivalent to Cellular Communications of Puerto Rico Inc.'s historical weighted average shares on a one-for-one basis, plus CoreComm Limited's weighted average shares in the 1998 period.

EXHIBIT 21

SUBSIDIARIES OF CORECOMM LIMITED

All of the corporations listed below were incorporated in Delaware except where otherwise noted, and are wholly owned subsidiaries of CoreComm:

CoreComm Acquisition Co., Inc.
CoreComm Operating Co. Ltd. (Bermuda)
CoreComm Ohio Ltd. (Bermuda)
CoreComm Internet Group, Inc.
Stratos Internet Group, Inc.
Digicom, Inc. (Ohio)
FCC Holdco I, Inc.
Cortelyou Communications Corp.
CoreComm Newco, Inc.
Navy Acquisition Co. Inc.
CoreComm Michigan, Inc.
CoreComm Billing, Inc.
CoreComm Telco, Inc.
CoreComm Communications Group Ltd. (Bermuda)
CoreComm Communications, Inc.
CoreComm Group Sub 1, Inc.
Prepaid Communications Corp.
CoreComm Services, Inc.
Q.east Holding Limited (Bermuda)
Q.east Hong Kong Limited (Bermuda)
Q.east Limited (Bermuda)
CoreComm Alabama, Inc.
CoreComm Arizona, Inc.
CoreComm Arkansas, Inc.
CoreComm California, Inc.
CoreComm Colorado, Inc.
CoreComm Connecticut, Inc.
CoreComm Delaware, Inc.
CoreComm Florida, Inc.
CoreComm Georgia, Inc.
CoreComm Idaho, Inc.
CoreComm Illinois, Inc.
CoreComm Indiana, Inc.
CoreComm Iowa, Inc.
CoreComm Kansas, Inc.
CoreComm Kentucky, Inc.
CoreComm Louisiana, Inc.
CoreComm Maine, Inc.
CoreComm Maryland, Inc.
CoreComm Massachusetts, Inc.
CoreComm Michigan, Inc.
CoreComm Minnesota, Inc.
CoreComm Mississippi, Inc.
CoreComm Missouri, Inc.

CoreComm Montana, Inc.
CoreComm Nebraska, Inc.
CoreComm Nevada, Inc.
CoreComm New Hampshire, Inc.
CoreComm New Jersey, Inc.
CoreComm New Mexico, Inc.
CoreComm New York, Inc.
CoreComm North Carolina, Inc.
CoreComm North Dakota, Inc.
CoreComm Ohio, Inc.
CoreComm Oklahoma, Inc.
CoreComm Oregon, Inc.
CoreComm Pennsylvania, Inc.
CoreComm Rhode Island, Inc.
CoreComm South Carolina, Inc.
CoreComm South Dakota, Inc.
CoreComm Tennessee, Inc.
CoreComm Texas, Inc.
CoreComm Utah, Inc.
CoreComm Vermont, Inc.
CoreComm Virginia, Inc.
CoreComm Washington, Inc.
CoreComm West Virginia, Inc.
CoreComm Wisconsin, Inc.
CoreComm Wyoming, Inc.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 1997

OR

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

For the Transition Period From _________ to ________

Commission File No. 19869-99

CORECOMM INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-3927257 (I.R.S. Employer Identification No.)
110 East 59th Street, New York, New York (Address of principal executive offices)	10022 (Zip Code)

(212) 906-8485
(Registrant's telephone number, including area code)

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
(Title of Class)

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. [X] 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 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. [ ]

The aggregate market value of the Registrant's common stock held by non-affiliates at March 20, 1998, valued in accordance with the Nasdaq Stock Market's National Market closing sale price for the Registrant's common stock, was approximately $183,027,000.

Number of shares of Common Stock outstanding as at March 20, 1998: 13,181,336

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of 10-K in which Incorporated
Definitive proxy statement for the 1998 Annual Meeting of the Stockholders of CoreComm Incorporated	Part III

* * * * *

This Annual Report on Form 10-K for the year ended December 31, 1997, at the time of filing with the Securities and Exchange Commission, modifies and supersedes all prior documents filed pursuant to Section 13, 14 and 15(d) of the Securities Exchange Act of 1934 for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement or Prospectus filed pursuant to the Securities Act of 1933 which incorporates by reference this Annual Report.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

Certain statements contained herein constitute "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. When used herein, the words, "believe," "anticipate," "should," "intend," "plan," "will," "expects," "estimates," "projects," "positioned," "strategy," and similar expressions identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Registrant, or industry results, to be materially different from those contemplated or projected, forecast, estimated or budgeted in or expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, industry trends, the Registrant's ability to continue to design and build its network, install facilities, obtain and maintain any required government licenses or approvals and finance construction and development, all in a timely manner, at reasonable costs and on satisfactory terms and conditions, as well as assumptions about customer acceptance, churn rates, overall market penetration and competition from providers of alternative services, and availability, terms and deployment of capital.

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PART I

ITEM 1. BUSINESS

General

The Company, through wholly and majority owned entities, owns, operates and markets cellular and paging systems in the Commonwealth of Puerto Rico and the U.S. Virgin Islands and conducts other cellular and paging related operations described below. From time to time the Company reviews opportunities in other telecommunications related industries both inside and outside of Puerto Rico and the U.S. Virgin Islands. A wholly-owned subsidiary of the Company was the high bidder in auctions held by the Federal Communications Commission ("FCC") for Local Multipoint Distribution Service ("LMDS") Block A licenses in 15 markets in Ohio. See "-Local Multipoint Distribution Service." The Company's executive offices are located at 110 East 59th Street, New York, New York 10022 and its telephone number is (212) 906-8485.

Prior to January 31, 1997 (the "Merger Date") CoreComm Incorporated ("CoreComm" or the "Company") was known as Cellular Communications of Puerto Rico, Inc. ("CCPR"). CoreComm is a Delaware corporation that was incorporated on January 13, 1997. From its date of incorporation until the Merger Date CoreComm was a wholly-owned subsidiary of CCPR. On the Merger Date CCPR effected a corporate restructuring (the "Restructuring") whereby shareholders of CCPR became shareholders of CoreComm on a one-for-one basis upon the completion of a merger of CCPR with and into a subsidiary of CoreComm. As a result of the Restructuring CoreComm replaced CCPR as the publicly traded entity and CCPR became a wholly-owned subsidiary of CoreComm.

Commonwealth of Puerto Rico

The Commonwealth of Puerto Rico has been a territory of the United States since 1898 and a Commonwealth since 1952. Puerto Ricans are U.S. citizens with non-voting representation in Congress, who cannot vote in national elections unless they reside in the United States. The system of government is modeled after the state governments of the United States, with an executive branch headed by a Governor and a legislature consisting of a 27-member Senate and a 53-member House of Representatives. The judicial system is closely linked to the United States system. Most United States laws apply in Puerto Rico and Puerto Rico is under the jurisdiction of the First Circuit, United States Court of Appeals, which maintains a United States District Court in Puerto Rico. Judicial decisions may be appealed to the Supreme Court of the United States in the same manner that decisions are appealed from state courts. The United States and Puerto Rico also share common monetary, defense and postal systems.

The Commonwealth of Puerto Rico has a land area approximately 70 percent the size of Connecticut and has a population of approximately 3.8 million people. The population is concentrated primarily in the coastal regions, in particular in the San Juan metropolitan area. Puerto Rico maintains a highway and road network of approximately 8,600 miles, including a partially completed all island beltway loop.

The U.S. Virgin Islands

The U.S. Virgin Islands has been a territory of the United States since 1917. Virgin Islanders are U.S. citizens with non-voting representation in Congress, who cannot vote in national elections unless they reside in the United States. The system of government is modeled after the state governments of the United States, with three main branches of government. The executive branch is headed by a Governor, elected every four years through a direct vote. The legislative branch consists of one chamber having 14 members. The judicial system is closely linked to the United States system with a Territorial Court that has jurisdiction over local matters and a United States District Court, which falls under the jurisdiction of the Third Circuit, United States Court of Appeals. Judicial decisions may be appealed to the Supreme Court of the United States in the same manner that decisions are appealed from state courts. United States Federal law applies in the U.S. Virgin Islands. The United States and the U. S. Virgin Islands share common monetary, defense and postal systems.

The U.S. Virgin Islands has a land area of approximately 84 square miles and has a population of approximately 102,000 people. The population is divided in three islands: St. Thomas (with a population of approximately 46,000 people), St. Croix (with a population of approximately 50,000 people) and St. John (with a population of approximately 6,000 people).

Cellular Telephone Ownership Interests

The following table sets forth the Company's cellular Metropolitan Statistical Area ("MSA") and Rural Service Area ("RSA") markets and approximate percentage ownership as of March 20, 1998:

Market	Population(1)(2)	Ownership	Pops (3)
San Juan/Caguas MSA	2,124,891	100.00%	2,124,891
Aguadilla MSA	180,687	99.01	178,898
Mayaguez MSA	227,941	100.00	227,941
Ponce MSA	261,585	100.00	261,585
Arecibo MSA	195,843	100.00	195,843
PR-1 Rincon RSA	13,726	100.00	13,726
PR-2 Adjuntas RSA	276,517	100.00	276,517
PR-3 Ciales RSA	126,052	100.00	126,052
PR-4 Aibonito RSA(4)	295,140	100.00	295,140
PR-5 Ceiba RSA(5)	42,172	0.00	0
PR-6 Vieques RSA	8,975	100.00	8,975
PR-7 Culebra RSA	1,598	100.00	1,598
U.S. Virgin Islands-1 St. Thomas/St. John	51,670	100.00	51,670
U.S. Virgin Islands-2 St. Croix	50,139	100.00	50,139
Total	3,856,936		3,812,975

(1) 1995 U.S. Census Bureau Population Estimates for Puerto Rico.
(2) 1990 U.S. Census Bureau Population Estimates for the U.S. Virgin Islands.

(3) A cellular system operator's "pops" is currently the most common technique for measuring the relative size of different companies in the cellular telephone business. Pops are defined as the estimated population of a market multiplied by a company's ownership interest in the entity operating the system in that market. The number of pops owned by a cellular operator does not represent the number of users of cellular service and is not necessarily indicative of the number of potential subscribers. Rather, this term is used only as a basis for comparison of the current size of cellular system operators.

(4) In January 1998, a subsidiary of the Company acquired all of the assets of Cellular Uno Limited Partnership, the entity that held the license to own and operate the non-wireline system for PR-4 Aibonito-RSA.

(5) The Company has received interim operating authority in the PR-5 Ceiba RSA from the FCC and from Puerto Rico authorities. In 1997, the U.S. Congress directed the FCC to use the auction mechanism to grant permanent operating authority with this and other RSA's if and when the FCC decided to grant such licenses.

The Company had, as of December 31, 1997, an aggregate of approximately 196,400 subscribers which represents a penetration rate (i.e., the number of subscribers divided by the total estimated population of the Company's markets) for the Company of approximately 5.1% See "Sales and Marketing".

Paging

A subsidiary of the Company has received authorization from the FCC to operate two 900 MHz paging systems to serve Puerto Rico and the U.S. Virgin Islands. The Company completed the construction of the Puerto Rico paging system and began operations during March 1995. The Company completed construction of the U.S. Virgin Islands paging system and began operations in November 1995. As of December 31, 1997, the Company's paging operations had approximately 49,000 pagers in use.

Sales and Marketing

The Company attracts subscribers through direct and indirect distribution channels and aggressive advertising. The Company relies on its direct sales force, indirect channels such as dealers, retailers and resellers, sales literature, sponsorship of local events, and substantial television, print and radio advertising campaigns to create awareness of its services and to communicate the benefits and promotional offers associated with them.

Sales are targeted at two primary segments: individual and corporate accounts. Each segment has its own dedicated direct sales force. The Company introduced prepaid service (primarily for low usage individual users) in 1997. This payment option eliminates the necessity of credit checks and billing and allows users to closely monitor their usage.

The Company has over 300 employees in sales and marketing functions. Direct sales, including corporate accounts, represented over 60% of the Company's total sales in 1997. The 180-person direct sales force is distributed among 12 fixed sales and service centers throughout Puerto Rico and the U.S. Virgin Islands, with five in San Juan/Caguas, one in Ponce, one in Fajardo, one in Arecibo, one in Mayaguez and three in the U.S. Virgin Islands, as well as six kiosks located in major shopping centers, 31 mini-kiosks inside large retail stores (e.g., WalMart, Sams, Western Auto, Sears, Blockbuster Video) and four mobile units. The sales and service centers are designed for up-market consumers, have convenient hours of operation, and the ability to sell and service cellular telephones while the customer waits. The sales and service centers also play a major role in the Company's ability to provide superior customer service. See "Customer Service". In addition, the Company utilizes a network of carefully selected independent dealers and large retailers (such as Let's Talk Cellular) which accounted for over 30% of the Company's new activations in 1997. Currently, resellers account for only a small percentage of new activations.

The use of a broad mix of different distribution channels in Puerto Rico gives the Company a widespread marketing presence and provides easy access to its subscriber base while maintaining a high quality of service to its subscribers. In addition, the Company's growing network of direct sales, dealers and large retailers provide it with a strong presence in the telecommunications market. The Company markets its services under the nationally recognized CELLULAR ONE® brand name and its sales and marketing strategy carefully promotes CELLULAR ONE®'s premium brand image.

Although the Company employs a segmented pricing approach whereby specific pricing plans are developed to attract different segments of the market, the Company has differentiated itself from the Puerto Rico Telephone Company ("PRTC"), the Company's significant competitor and the landline telephone service provider in Puerto Rico, primarily by offering premium services at premium prices and directing significant efforts toward customer service, technical excellence and advanced calling features. In contrast, the Company believes that the PRTC has tended to compete on the basis of name recognition and appeal to local sentiment. Centennial de Puerto Rico, Inc., a subsidiary of Centennial Cellular Corp. ("Centennial") was a new Personal Communications Systems ("PCS") entrant to the market in late 1996 and has competed successfully with the Company and the PRTC on the bases of price and its all digital network.

Customer Service

An important element in the Company's business strategy is to provide the highest quality, localized customer service in the individual markets it serves. This is especially significant because, in the Company's view, customer service has not been emphasized by the PRTC.

The Company's commitment to superior quality service is reflected by the 92% overall satisfaction rating it received from its subscribers in an annual independent survey of customer satisfaction conducted by the Cellular One Group in 1997. This rating far exceeded the 85% United States national average.

The Company has introduced a full-service program utilizing customer service representatives and local customer service centers in all of its major markets. Customer service centers are located within existing sales and service distribution outlets, offering a specific, non-sales-oriented point of contact where existing customers can pay their bills, ask questions about their cellular service or hardware, etc. In addition, the Company provides a 24-hour customer service hotline. This full-service policy means that a customer service person is available at all times to answer inquiries and to respond rapidly to customer emergencies.

The Company also employs a proactive, segment-driven approach to customer retention and loyalty, beginning with a "welcome call" shortly after a subscriber receives its first bill. Subsequently, each subscriber is classed according to segment (corporate or individual), usage (high, medium, low), tenure, payment history, etc., and subsequent contact patterns and methods depend on a subscriber's class.. This allows the Company to service and satisfy its subscriber base according to their value to the Company in a cost effective manner.

The Company proactively implements fraud detection and sophisticated prevention mechanisms to protect its subscribers from fraud. In 1992 the Company implemented fraud identification software and has recently implemented the additional state-of-the-art fraud detection and prevention systems known as fingerprinting and authentication. The Company has also taken a leading role in the industry to educate the public about the growing problem of cellular telephone fraud and how to detect and prevent its occurrence. In addition, through its participation in the North American Cellular Network ("NACN"), the Company is assured that only bona-fide subscribers enjoy roaming services.

Cellular Technology

Cellular mobile radio technology was developed to provide high quality, high capacity mobile and portable telephone systems. In a cellular telephone system, the service area is subdivided into smaller geographic areas or "cells." Each cell has its own relatively low power transmitter and receiver that communicates by radio signal with cellular telephones located in the cell. Each cell is connected by microwave or telephone line to a mobile telephone switching office ("MTSO"), which in turn is connected to the worldwide telephone network. See "—Regulation—Federal Communications Commission Regulation" for the interconnection arrangements with the worldwide telephone network.

When a cellular subscriber in a particular cell dials a number, the mobile telephone sends the call by radio to the cell's transmitter/receiver, where it is sent to the MTSO. The MTSO then completes the call through its connection with the landline telephone network. Conversely, incoming calls are received by the MTSO, which instructs the appropriate cell to complete the communications link by radio signal between the cell's transmitter/receiver and the cellular telephone.

The MTSO controls communications within the cellular system, including the "hand-off" process as a cellular telephone moves from one cell to another. In this process, the system recognizes that a cell boundary has been crossed, finds an available channel in the new cell, and transfers the call to that channel—all within a fraction of a second.

Cellular telephone systems have a high capacity because of the substantial frequency spectrum generally allocated for the purpose of cellular service by the FCC and because all frequencies can be reused throughout the system. Frequency reuse is possible because the transmission power of cell site equipment and mobile units is relatively low and signals on the same channel will not interfere with each other if they are transmitted in cells that are sufficiently far apart. Reuse multiplies the number of channels available to the system operator and thereby increases the telephone calling capacity. A cellular licensee may also use its cellular frequencies to provide paging, data transmission, and other services so long as the provision of these services does not impair its ability to provide cellular service, cause interference to other cellular licensees and, when required, has the appropriate regulatory approval.

Network and System Construction

The Company's network was designed specifically for the Puerto Rico and U.S. Virgin Islands markets using extensive geographic and engineering studies. The Company continually updates its network in order to ensure quality service and maximum geographic coverage. The Company has completed a network that as of December 31, 1997, included approximately 99 cell sites and two MTSOs covering over 90% of the population of Puerto Rico and the U.S. Virgin Islands. Engineering and system construction is carried out by approximately 80 employees.

Cell sites are equipped with both analog and dual mode (i.e. digital or analog cellular) radio transceivers. Digital Time Division Multiple Access ("TDMA") was originally installed in 1995 and commercially implemented in 1997. Digital technology offers many advantages over analog technology, including substantially increased capacity, lower costs and the opportunity to provide enhanced services such as data transmission. In early 1997 the Company initiated the use of an enhanced voice coder in its TDMA system. The enhanced voice coder provides this system with improved voice quality. The Company has introduced and distributed to selected groups of subscribers, including internal users, dual mode phones using the TDMA format for digital signaling. Because existing analog cellular telephones will not be able to receive digital transmissions from the base station, the Company expects that the transition from analog to digital will be phased in over a number of years, during which time the system will maintain both analog and digital transmitting equipment and will thus be able to serve both analog and digital forms of cellular telephones and transmitting equipment.

In order to hasten cell site commissioning, increase network reliability and reduce ongoing operating costs, the Company has built its own digital microwave transmission network to connect its cell sites and switches. The backbone of the network is a ring around the mountainous regions of the island, providing substantial capacity (135 Mb/sec). The ring network provides redundant communication paths to ensure minimal network disruption in the event of a cell site outage and spurs provide at least 6 Mb/sec of capacity to each cell site. The Company resells spare capacity on this network to major telecommunications users.

In 1997, the Company began to use a Network Management Center ("NMC") provided by C-Net, Inc. The NMC enables the Company to monitor the entire system on a 24 hour basis and allows for nearly instant detection of any system malfunction or failure.

The Company uses a Computer Automated Design system to choose the proper network configuration that will provide maximum capacity and service reliability in the island's heavily populated coastal areas. The design is based on the ring network concept, which provides a good fit with Puerto Rico's topography. In addition, to test the network design, the Company uses a performance testing system to predict and measure signal levels. By utilizing sophisticated network design and system testing techniques, the Company's completed network provides similar geographic coverage to the PRTC with fewer cell sites and with greater service reliability.

Cellular systems are capital intensive, requiring significant levels of investment for equipment, construction and cell site acquisition. As of December 31, 1997, the Company had operating plant and equipment and construction-in-progress with an historical cost of approximately $142,000,000.

Interconnection Agreement

Effective September 2, 1997, after negotiations between PRTC and the Company and arbitration by the Telecommunications Regulatory Board of Puerto Rico, the Company and PRTC entered into an interconnection agreement. The agreement is for a two year term. The agreement establishes the rate at which the Company will pay PRTC for calls placed by the Company's subscribers to PRTC's customers. In addition, the agreement provides that PRTC is obligated to pay the Company the same amount for calls made by its customers to the Company's subscribers. This agreement reflects a reduction in the Company's interconnection rate of almost 50% and, unlike the previous contract between the parties, requires PRTC to pay the Company for calls originated on PRTC's network. Moreover, the Company is no longer required to pay PRTC for the telephone numbers the Company supplies to its customers.

The interconnection agreement gives PRTC the right to assess long-distance toll charges on any of its own customers who call from outside the Metro area to any of the Company's subscribers. The agreement further provides, however, that PRTC will not assess such charges on its customers if the Company either agrees to assume the long distance charges or if the Company interconnects with, and picks up PRTC's incoming calls, at each of the 17 host end offices outside the Metro area. The Company chose the option of end office interconnection but, in November 1997, before PRTC installed such points of interconnection, PRTC began assessing, retroactively to September 2, 1997 and without warning to its customers, toll charges to its customers who had placed calls to the Company's subscribers. By December 17, 1997, PRTC had installed all the point of interconnection requested by the Company. On December 24, 1997, the Board ruled that PRTC had violated its good faith duty to its customers by assessing charges to them retroactively and without any advance notice. Accordingly, the Board ordered PRTC to refund any payments already collected and to cease and desist from attempting to collect charges not yet rendered. PRTC subsequently filed a complaint in Federal District Court for the District of Puerto Rico against the Board and the Company and asked for a preliminary injunction. Both the complaint and preliminary injunction request remain pending. The Company believes there is no merit to PRTC's lawsuit and intends to defend itself vigorously.

Sources of Revenue

The cellular mobile telephone services available to customers and the sources of revenue available to a system operator are similar to those available with standard home and office telephones. Cellular telephone subscribers are generally charged separately for monthly access, air time, toll calls and custom calling features such as voice mail, call forwarding, call waiting and third party conferencing. Cellular telephone subscribers are generally responsible for purchasing or otherwise obtaining their own cellular mobile telephone. The Company introduced prepaid service (primarily for low usage individual users) in 1997. This payment option eliminates the necessity of credit checks and billing and allows users to closely monitor their usage. Paging subscribers are charged on a monthly basis for service and are generally responsible for purchasing their own pager. The Company also generates some revenue from the resale of its digital microwave transmission network.

When service is provided to "roamers" (i.e., registered customers of a cellular system other than the Company's cellular system who place calls on the Company's cellular system), the Company charges a daily access fee and the roamer air time rate, which is typically higher than standard usage rates. Roaming is an added service offered by the Company which allows a customer to place or receive a call in a cellular service area away from the customer's home market area. The Company has entered into "roaming agreements" with operators of other cellular systems covering most of the United States cellular systems. These reciprocal agreements allow a subscriber of a participating system to roam or travel into a Company market and make and receive calls on the Company's system. The charge for this service is billed by the Company to the subscriber's home system, which then bills the subscriber. Roamers from systems that do not participate in this arrangement are routed to an outside service bureau which completes the call upon the receipt of a valid credit card number. The Company receives a fee from the service bureau for each completed call. The Company provides roaming services under the NACN, which allows calls to and from roamers from systems who participate in NACN to be delivered automatically without the use of access codes. NACN also provides such roamers the ability to use their custom calling features in roaming markets.

The cellular telephone industry is typically characterized by high fixed costs and low variable costs. Therefore, once revenues exceed fixed costs, incremental revenues should yield a high incremental operating profit. In addition, once initial system capacity has been reached, additional cellular system capacity can be added in increments that closely match demand and at less than the proportionate cost of the initial capacity.

Patents, Copyrights and Licenses

The Company does not have any patents or copyrights nor does the Company believe patents or copyrights play a material role in its business. Other than the Company's FCC licenses, the Company's only license is for the use of the service mark and trademark CELLULAR ONE®, which is also licensed to many of the non-wireline systems in the United States. In 1992, the owners of such mark entered into a new agreement with the Company, with an effective twenty-year term, under which the Company is required to maintain certain service quality standards. Under this agreement, the Company is required to pay licensing and other fees for the use of the service mark. The total fees paid in the year ended December 31, 1997 were $216,000, which were determined by the size of the Company's markets.

Competition

FCC rules formerly provided that two licensees will be authorized to provide wireless communications service in each market. PRTC is one of the licensees (the "Wireline Licensee") in each Puerto Rico market. VitelCellular, Inc., an affiliate of Virgin Islands Telephone Company (the provider of landline telephone service in each market in the U.S. Virgin Islands) is the Wireline Licensee in each U.S. Virgin Islands market. The second authorization in each of Puerto Rico and the U.S. Virgin Islands was available for applications by a non-telephone company carrier (the "Non-Wireline Licensees"). The Company is a Non-Wireline Licensee. The FCC's regulation of cellular system licensing, construction and operation is substantially the same for both the Non-Wireline Licensee and the Wireline Licensee. Each Licensee is assigned 25 megahertz of the radio spectrum, which is further divided into 416 two-way channels. Given the cellular market duopoly, the Company faces facilities-based competition in each of its Puerto Rico markets from the PRTC and in each of its U.S. Virgin Islands markets from VitelCellular, Inc. Although the cellular services offered by the Company, the PRTC and VitelCellular, Inc. are similar in terms of price, the Company has attempted to differentiate itself from the PRTC and VitelCellular, Inc. by directing significant efforts toward customer service, technical services and calling features.

The PRTC and VitelCellular, Inc. are significantly larger and better capitalized than the Company. The Company believes the PRTC currently provides service to less than approximately 40% of the subscribers of wireless service in Puerto Rico. In the U.S. Virgin Islands, the Company believes that VitelCellular, Inc. currently provides service to approximately 45% of the subscribers of cellular service in the U.S. Virgin Islands. In Puerto Rico, Centennial, a competitor using PCS frequencies, had approximately 15% of the wireless market at year end 1997.

In 1990, the Commonwealth of Puerto Rico attempted to sell the PRTC to an independent third party, but did not consummate such a transaction. In 1997, the Commonwealth announced that it intended to restart this process and indicated that it intended to complete such sale by the end of 1998. Such sale could be to another experienced cellular operator or to a telecommunications company, such as an affiliate of a Bell Operating Company. Given that the FCC-defined markets and the technical standards are the same for both licensees in a market, the Company believes that its ability to make and implement decisions rapidly and its customer service oriented strategy should enable it to compete effectively with the PRTC or any other competitor.

Broadband PCS has become increasingly competitive with cellular services. Broadband PCS is a digital, wireless communications service consisting of a variety of new mobile and portable services and technologies, such as small, lightweight telephone handsets that work at home, in the office, or on the streets; portable, wireless facsimile machines; wireless electronic mail services; advanced paging techniques; and other wireless communications services. Broadband PCS providers are deploying a large number of low power base stations to take advantage of the radio propagation characteristics of the 2 GHz spectrum. Accordingly, more PCS base stations than cellular base stations are needed to cover a particular area, although PCS facilities cost less than comparable cellular facilities.

The FCC completed the first auction process for broadband PCS in March 1995. In the Puerto Rico-Virgin Islands MTA, the three high bidders were AT&T, Centennial and PCS 2000, now known as Clear Comm, Inc. Centennial began marketing its PCS services in December 1996 and as of December 31, 1997 had approximately 55,000 subscribers. Centennial's network provides a single seamless system substantially overlapping the Company's system. None of the other PCS licensees have commenced operations, although AT&T has begun limited construction.

In the D-F block PCS auction, the PRTC and VitelCom, Inc., an affiliate of VitelCellular, Inc., each purchased 10 MHz licenses that cover their respective cellular service areas. Accordingly, after the FCC completes the licensing process, each of these companies will hold 35 MHz of wireless spectrum in their regions. The remaining D, E, and F blocks PCS licenses were acquired by entities which include Sprint Communications Inc. and Omnipoint Corp. in Puerto Rico and the U.S. Virgin Islands.

In total, the FCC awarded six broadband PCS licenses by auction in each market, with each licensee holding either 10 MHz, 20 MHz, 30 MHz, or 40 MHz of spectrum in service areas larger than most individual cellular markets. Eligible entities are permitted to aggregate up to 45 MHz of commercial mobile radio services spectrum in any given area. Thus, the Company, the PRTC, and VitelCellular, Inc. are eligible to own 20 MHz each of PCS spectrum in their cellular markets. Like cellular licensees, PCS licensees will also be permitted to aggregate markets to create regional and national systems. In addition, the FCC recently modified its rules to permit broadband PCS licensees to disaggregate their spectrum or geographically partition their service areas. Therefore, the auction winners in Puerto Rico and the U.S. Virgin Islands may now sell blocks of their spectrum or portions of their service areas to other competitors.

The FCC has also issued local and nationwide licenses in the 220-222 MHz band for the provision of land mobile service. These licenses are expected to provide various one-way acknowledgment, and certain two-way voice and data services. Further, the FCC has completed the licensing of "narrowband PCS" in the 900 MHz band, which includes, among other services, data messaging, advanced one-way and two-way paging, and facsimile. The messaging and paging services are expected to include electronic mail and digitized voice messages. These licenses were issued by auction on a local, regional, and national basis, including in the Company's markets. Narrowband PCS will likely be competitive with the Company's paging operations.

Cellular telephone systems also face competition from specialized mobile radio ("SMR") systems. Although the rules for SMR service permit interconnection with the landline network, the Company believes that SMR has been most effective as a two-way radio (i.e., dispatch) service. The FCC promulgation of certain rules have permitted SMR companies to overcome certain regulatory limitations and replace analog SMR systems with advanced digital mobile systems known as enhanced SMR ("ESMR"). In 1995 the FCC adopted rules applicable to SMR services in both the 800 and 900 MHz bands that facilitate the growth of seamless regional or national SMR systems. The FCC established 175 economic-areas ("EAs") as the geographic area for licensing the upper 10 MHz block of the 800 MHz SMR band and provided for 3 SMR licenses (120, 60, and 20 channel blocks) per EA for a total of 525 EA licenses. The FCC established a licensing scheme which divided the 900 MHz band into 20 ten-channel blocks in each of 51 MTAs. Similar to other commercial wireless services, 800 Mhz and 900 MHz SMR licensees may construct, operate or modify systems without obtaining prior FCC approval. The FCC has tentatively scheduled an auction for the lower 80 MHz block of 800 MHz SMR spectrum and "general category" channels for the third quarter of 1998. In addition, the FCC has tentatively scheduled an auction of 220 MHz SMR licenses for May 19, 1998. The auction will consist of 908 licenses (3 nationwide, 30 regional economic-area groupings and 875 EA).

Technological advances in the communications field continue to make it impossible to predict the extent of future competition for cellular services. For example, the FCC has licensed four mobile satellite systems in which transmissions from mobile units to satellites would augment or replace transmissions to cell sites. There are a number of large, well-financed entities involved in the mobile satellite business. One international investment consortium, Iridium LLC, has stated its intent to provide a cellular-type telephone service via satellite technology that will be available anywhere in the world beginning in September 1998. Iridium also plans to offer a means of roaming among the world's major ground-based cellular phone standards. Other mobile satellite service providers are expected to include Globalstar LP, which has announced its intention to be in operation by 1999, and ICO Global Communications LP. The FCC has also authorized Basic Exchange Telecommunications Radio Service to make basic telephone service more accessible to rural households and businesses.

Further, various other FCC rulemaking proceedings may affect the manner in which radio frequency spectrum will be allocated among the various potential competitors of cellular service. For example, the FCC has adopted rules allocating 25 MHz below 5 GHz for commercial fixed and mobile radio services which could eventually compete with cellular. The FCC has also adopted rules allocating a portion of the spectrum above 40 GHz for commercial radio service some of which could compete with cellular. There can be no assurance that existing cellular operators will be permitted to receive licenses for such spectrum, or that the adoption of auctions would not increase the cost to the Company of obtaining such licenses or their renewal. In addition, 30 MHz of spectrum in the 2.3 GHz band has been licensed for wireless communication services ("WCS"), and the FCC has adopted rules permitting licensees to offer virtually any wireless service on this band, subject to specific technical rules to prevent interference with services in adjacent bands. Because the FCC has adopted restrictive out-of-band emission limits for WCS spectrum, which it believes will render WCS spectrum technologically infeasible for mobile operations, WCS licensees will probably not present significant competition to the Company's operations for the foreseeable future. Other technological advances or regulatory changes in the future may make available other alternatives to cellular service, thereby creating additional sources of competition.

Local Multipoint Distribution Service

The FCC has allocated two blocks of frequencies in the 28 GHz and 30 GHz bands for Local Multipoint Distribution Service ("LMDS"): Block A, with 1,150 megahertz of spectrum, and Block B, with 150 megahertz. Each block of LMDS spectrum will be licensed in each of 493 Basic Trading Areas ("ETAs") and BTA-like areas in the United States and its territories. Licenses will be awarded to the high bidders in a simultaneous multiple-round auction that began on February 18, 1998. The FCC has adopted liberal service rules for LMDS, permitting any type of two-way communications service on a common carrier or private basis. Because of the propagation characteristics of frequencies in these bands, LMDS is not expected to be used for mobile communications, but is expected to be viable for the transmission of voice, data, and video between multiple fixed points. Plans for LMDS include the use of "cells" that permit frequency reuse within BTAs. One LMDS operator has been using the Block A frequencies to provide multichannel video service in portions of New York City and intends to implement telecommunications services there in the future. Because LMDS may develop into a competitor to local exchange telephone service or cable service or both, incumbent local exchange carriers ("LECs") and cable operators are prohibited from owning Block A LMDS licenses for three years.

A subsidiary of the Company, Cortelyou Communications Corp. ("Cortelyou"), participated in the LMDS auction and was high bidder for Block A licenses in 15 markets in Ohio totaling approximately 10.5 million Pops for approximately $25 million. Other bidders included affiliates of wireless telecommunications carriers, LECs, and Competitive Local Exchange Carriers ("CLECs") as well as start-up companies, some of which were organized by experienced communications executives. The auction rules provided bidding credits of up to 45% for participants that had, along with their controlling principals and affiliates, revenues below certain levels. Cortelyou did not qualify for any bidding credit. Auction participants were required to submit upfront payments that determined bidding eligibility. In February 1998, Cortelyou submitted an upfront payment of $20 million. FCC rules require high bidders to submit a down payment of 20% of their total bids, adjusted for bidding credits, shortly after the completion of the auction. Funds submitted as upfront payments may be credited toward the down payment. High bidders must also submit "long form" applications demonstrating their qualifications to hold the licenses they have won at auction. The remaining amount of the high bids must be paid within ten business days of the announcement by the FCC that long form applications are acceptable and it is prepared to grant licenses.

The Company expects that LMDS licensees will use the A Block spectrum for the provision of various voice, data, video, and Internet services to businesses and homes. Such services will be provided in competition to LECs and cable operators who have established networks and customers and who have greater resources than the Company. Nevertheless, recent changes in telecommunications regulation initiated by the Telecommunications Act of 1996 (the "1996 Act") are intended to promote the development of competition in telecommunications and multichannel video distribution services.

Regulation

Federal Communications Commission Regulation. The Communications Act of 1934 (the "Communications Act") requires cellular system, paging system and microwave station operators such as the Company to obtain authorization from the FCC prior to constructing or operating their systems.

For cellular licensing purposes, the FCC divided the United States, including Puerto Rico and other areas under the FCC's jurisdiction, into separate geographic markets, known as MSAs and RSAs. Licenses have been issued in all 306 MSAs and in all 428 RSAs. There are no pre-designated microwave markets. Applicants may apply for microwave licenses anywhere they seek to provide microwave services, provided that operation of the microwave facility at that location will not cause interference to other parties.

When the initial phase of a cellular system has been constructed in an authorized manner, the licensee is required to notify the FCC that construction has been completed before it is authorized to offer commercial service to the public. The licensee then is said to have "operating authority" and is issued an operating license. The Company has obtained operating authority for each of its currently operating cellular systems. Initial licenses are granted for 10-year periods and are renewable upon application to the FCC for periods of 10 years.

The Company's initial operating licenses for its systems were issued in 1988 through 1993. Licenses may be revoked and license renewal applications denied for cause. Prior to the expiration of its license term, each cellular licensee seeking renewal must file an application. Other parties seeking authorization to serve the licensee's market may also file competing applications. The FCC has ruled that an incumbent licensee would receive a "renewal expectancy" if, during its license term, (i) its performance has been "substantial," defined as "sound, favorable, and substantially above a level of mediocre service;" and (ii) it had substantially complied with applicable FCC rules, policies, and the Communications Act. The FCC may award an incumbent its license renewal and not require a full comparative hearing if the incumbent qualifies for a renewal expectancy. If the licensee does not qualify for a renewal expectancy, the FCC will consider all competing applications in a comparative hearing. The FCC may grant an uncontested renewal application without conducting a comparative hearing or finding a renewal expectancy. There can be no assurance that a license will be renewed.

On January 22, 1998, the Company successfully renewed its licenses for the Ponce and Mayaguez MSAs for additional ten year terms. During 1998, the Company will apply for renewal of its licenses in the San Juan and Aguadilla MSAs, to which it does not expect any significant challenge.

The FCC has adopted regulations regarding auctions for the award of radio spectrum licenses. Pursuant to such rules, the FCC at any time may require auctions for new or existing services prior to the award of any license. Accordingly, the Company can give no assurance with respect to its continued ability to procure additional frequencies or to expand existing services using frequencies for which the Company is licensed into new geographic areas.

Under FCC rules, the authorized cellular service area for the Company in each of its markets is referred to as the "cellular geographic service area" or "CGSA". The boundaries of the CGSA are determined by a mathematical formula that is a function of transmitting station effective radiated power and antenna height. The CGSA may be coincident with, smaller than, or in some cases larger than the related MSA or RSA boundary. The right to serve areas which fall within the licensee's MSA or RSA but outside of its CGSA is exclusive to such licensee for a period of five years from the grant of its initial construction permit. As licensees serve such areas, their CGSAs will be extended to cover the additional served areas inside the MSA or RSA and, in some cases, area beyond the MSA/RSA boundary. Although overlapping service areas are common, under rules adopted by the FCC in 1993, service area extensions into the CGSA of a neighboring system on the same frequency block must be withdrawn from such CGSA at the request of the neighboring licensee. At the conclusion of the initial five-year construction period any entity, including the licensee, may file with the FCC an application to serve the "unserved areas," of that MSA or RSA which are outside of the licensee's CGSA, subject to certain restrictions. The Company has determined that there are no significant unserved areas within its licensed markets.

The Communications Act requires telecommunications common carriers to file and maintain with the FCC tariffs describing rates, terms and conditions under which their international and certain interstate telecommunications services are offered to the public. Accordingly, the Company must file tariffs for certain telecommunications services that it proposes to offer.

The FCC's rules also prohibit common carrier licensees from imposing restrictions on the resale of service by third parties who purchase blocks of mobile telephone numbers from an operational system and then resell them to the public. The Company currently provides service to third party resellers. The FCC recently extended this nondiscriminatory resale requirement to broadband PCS and certain SMR licensees. Further, under this new policy, all resale obligations for cellular, broadband PCS and SMR operators will terminate five years after the date that the last group of initial PCS licenses are granted.

On February 8, 1996, Congress enacted the 1996 Act, which effected a sweeping overhaul of the Communications Act. In particular, the 1996 Act substantially amended Title II of the Communications Act, which governs common carriers. The 1996 Act imposes a duty on all telecommunications carriers, including cellular, to interconnect with the facilities of other telecommunications carriers. Only incumbent LECs are required to provide "direct" interconnection with their facilities, however. In addition, the 1996 Act requires that interconnection be the subject of good faith negotiations leading to voluntary agreements that must be filed with and approved by state commissions. Moreover, the 1996 Act establishes certain guidelines for the manner in which LECs may charge for providing interconnection services (e.g., tandem switching, transport and termination) and provides that LECs must pay wireless providers, including cellular and paging operators, for termination of landline-originated calls. On September 2, 1997, the Company entered into a new interconnection agreement with the PRTC.

In exchange for opening their local loops to competition, the 1996 Act permits the Bell Operating Companies ("BOCs"), which previously had been prohibited from providing interLATA services (i.e., long distance services), to provide such services, including, but not limited to, the provision of interLATA services in connection with commercial mobile radio service ("CMRS"). In addition, the 1996 Act permits registered public utilities to provide cellular and other telecommunications services through separate affiliates authorized by the FCC as "exempt telecommunications companies."

As directed by the 1996 Act, in August 1996, the FCC issued comprehensive rules regarding the introduction of competition into the local telephone market. These rules address most aspects of the provision of competitive local telephony services from both facilities-based and non-facilities-based competitors, including cellular and paging operators. The rules address the process by which potential competitors negotiate with incumbent telephone companies for interconnection, the facilities that must be available for interconnection, the use of components of the incumbents' networks (referred to as "unbundled access"), the resale of services of others, and the pricing of interconnection and other services and facilities used for offering competitive local telephone services. The rules also provide that incumbent LECs, such as the PRTC and the Virgin Islands Telephone Company, must begin paying the Company and other wireless providers immediately for terminating landline-originated traffic on the wireless facilities.

A number of parties appealed the FCC's order adopting its interconnection rules in Federal court seeking to vacate some or all of the rules. In a July 18, 1997 decision, the United States Court of Appeals for the Eighth Circuit vacated significant portions of the Interconnection Order, including its provisions governing the pricing of local telecommunications services and unbundled network elements, certain of its unbundling requirements and its "pick and choose" provision (which enabled a telecommunications carrier to demand any term of an incumbent LEC's ("ILEC's") interconnection contract with another carrier). The Eighth Circuit's October 14 decision vacated an FCC rule that obligated ILECs, under certain circumstances, to provide combinations of network elements, rather than provide them individually. This decision may make it more difficult or expensive for competitors to use combinations of ILEC elements. The FCC, numerous interexchange carriers ("IXCs") and various other parties filed petitions for certiorari with the U.S. Supreme Court, which accepted the case for review on January 26, 1998. The Supreme Court is not expected to issue a decision before the end of 1998. Some of the same parties and certain other parties also have asked the FCC to reconsider these and other regulations implementing the Telecommunications Act. On January 22, 1998, the Eighth Circuit Court of Appeals ruled that the FCC cannot apply its local competition pricing rules in reviewing applications of the BOCs for authorization to provide long distance service that originates and certain long distance services that terminate in one of their in-region states. If upheld, this decision could make it somewhat easier for the BOCs to enter the market for in-region long distance services.

On December 31, 1997, a U.S. District Court judge in Texas held unconstitutional certain sections of the Telecommunications Act, including Section 271, which prohibits BOCs from providing long distance service that originates (or in certain cases terminates) in one of its in-region states until the BOC has satisfied certain statutory conditions in that state and has received the approval of the FCC. This decision would permit the three BOCs that are parties to the case immediately to begin offering widespread in-region long-distance services. The District Court has granted the request of the FCC and certain IXCs for a stay, and the FCC and certain IXCs have filed appeals of the decision with the U.S. Court of Appeals for the Fifth Circuit.

Following enactment of the 1996 Act, no CMRS providers, including those owned or affiliated with BOCs, are required to provide equal access to long distance service providers. The 1996 Act, however, does permit the FCC to impose rules requiring CMRS providers to afford subscribers unblocked access to a long distance provider of their choice through the use of carrier identification codes or other mechanisms, but only if the FCC determines that cellular and other CMRS subscribers are being denied access to their chosen long distance providers and that such denial is contrary to the public interest. It cannot be predicted whether the FCC will subsequently order cellular carriers and other CMRS providers to provide such unblocked access.

The overall impact of the 1996 Act on the business of the Company is unclear and will likely remain so for the foreseeable future. The Company may benefit from reduced costs in acquiring required communications services, such as LEC interconnection. However, other provisions of the 1996 Act relating to interconnection, telephone number portability, equal access and resale could subject the Company to increased competition.

In addition, pursuant to the 1996 Act the FCC issued new regulations in 1997 regarding the implementation of the universal service program. In 1998, the FCC established a nationwide universal service fund ("USF") to subsidize telecommunications carriers operating in high-cost and rural areas and to help provide telecommunications services to schools and libraries. The company has to pay into the federal high cost/rural fund based upon its interstate gross revenues and into the school/libraries fund based upon its interstate and intra-island gross revenues. The government will reassess the contribution factors for each fund on a quarterly basis. The company's first quarter contribution was approximately $279,000. The company might seek to be certified as eligible to receive money from the USF by the Puerto Rico Telecommunications Regulatory Board (the "Board"). To do so, it must provide certain services to customers in specified areas in Puerto Rico.

Puerto Rico is currently eligible for contributions from the high cost/rural USF in the amount of approximately $110,000,000. On January 1, 1999, all non-rural telephone companies will receive support from the federal fund based on forward-looking, rather than historical, costs. In addition, the federal government will cover only 25% of the costs and states are expected to collect remaining 75% by establishing state universal service funds. PRTC has estimated that, under the FCC's forward looking proxy models, Puerto Rico's federal universal service funding would decrease to anywhere between $171,000 and $9,000,000. In that case, the Board would likely establish its own USF program. Given the small number of carriers operating in Puerto Rico, each carrier's contribution to the Puerto Rico fund would probably be significantly larger than the current contributions to the federal fund. For this reason, PRTC has requested that the FCC continue to provide Puerto Rico with the funding at current levels until 2001, the date on which rural carriers are required to begin the transition to a forward-looking cost methodology and participate in the 25%-75% federal/state split. It cannot be predicted how the FCC will rule on PRTC's request.

Subsidiaries of the Company also hold point-to-point common carrier microwave licenses to transport the Company's traffic. These licenses have been issued by the FCC for specified terms, and the licensed facilities, as well as proposed new microwave facilities, must be authorized by the FCC and operated in accordance with the FCC regulations. FCC rules had provided for a universal expiration date every 10 years for all common carrier microwave licenses, regardless of when they had been issued, with the next expiration occurring in February 2001. Under new rules that became effective in August 1996, licensees may select either a full 10-year license term dating from the original issuance, modification or renewal of license or a term of less than 10 years to allow for consolidated renewal application filings. Microwave renewal applications are not subject to comparative proceedings. There can be no assurance that a license will be renewed.

Alien Ownership. Section 310(b) of the Communications Act places significant restrictions on alien ownership in and involvement with any companies that use electromagnetic spectrum frequencies under the FCC's broadcast or common carrier authority. Section 310(b)(3) of the Communications Act places an absolute prohibition on aliens owning or voting more than 20 percent of the capital stock of any corporation holding such a license. Section 310(b)(4) prohibits aliens from owning or voting more than 25% of the capital stock of any holding company of such a corporate licensee. The FCC has statutory discretion to refrain from applying the holding company proscriptions of Section 310(b)(4) in a particular case if it determines that doing so would not adversely affect the public interest. Since February 9, 1998, FCC rules have provided for a rebuttable presumption that greater than 25% indirect ownership or control of a common carrier licensee by citizens or companies from a country that is a signatory to the Telecommunications Annex to the World Trade Organization General Agreement on Trade in Services ("WTO Agreement") serves the public interest. With regard to investors from countries that are not signatories to the WTO Agreement, the FCC continues to apply an "effective competitive opportunities" ("ECO") test. Under this ECO test, if U.S. investors are permitted to own an interest greater than 25% in a communications carrier offering similar services in the alien investor's home market and such market satisfies certain other open competition criteria, the FCC will generally permit that alien to own an equivalent interest in a U.S.-licensed common carrier. Other factors, such as the promotion of competition in the U.S. market and U.S. national security concerns, may affect this determination. Through examination of a recent list of the record holders of the outstanding stock, the Company is not aware of alien ownership of its outstanding stock that would cause it to be in violation of the Communications Act. However, a large percentage of the Common Stock is held in nominee name and, accordingly, the Company is not aware of the citizenship of the actual beneficial owners of such shares.

Puerto Rico and U.S. Virgin Islands Regulation. On September 12, 1996, the Governor of Puerto Rico signed into law Puerto Rico Bill 1500, the Puerto Rico Telecommunications Act of 1996 ("P.R. Telecom Act"). The P.R. Telecom Act created the Board. The Board has primary regulatory jurisdiction in Puerto Rico over all telecommunications services, all service providers, and all persons with a direct or indirect interest in said services or providers. On October 17, 1996, the three members of the Board, having been selected by the Governor of Puerto Rico, were sworn in. Among other things, the P.R. Telecom Act provides the Board with the power to guarantee the availability of universal service, ensure the reliability of telecommunications services, guarantee services to rural areas, and promote competition. In this regard, the law requires all providers of telecommunications services, except commercial mobile radio services providers, to obtain certification to do business in Puerto Rico and directs the Board to adopt regulations specifying the form, contents, and procedures for such certification. Entities must be certified to obtain access to government-owned property or notice of proposed Board regulations. In addition, the P.R. Telecom Act provides interconnection to the PRTC's facilities at any technically feasible point in PRTC's networks at cost-based rates. The P.R. Telecom Act requires that telecommunication carriers provide detailed instructions regarding the procedures for interconnection between the PRTC and other telecommunications providers. Finally, the P.R. Telecom Act requires telecommunications providers to submit fee and price lists to the Board and gives the Board jurisdiction to impose fines if rates to end users are not cost-based.

On March 2, 1998, the FCC approved the withdrawal by the Company of a petition which it had filed with the FCC alleging, among other things, that the P.R. Telecom Act constitutes impermissible regulation of CMRS providers by enacting numerous statutory provisions that operate as barriers to entry and to the continued participation of CMRS providers in Puerto Rico.

The foregoing does not purport to be a complete summary of all the provisions of the Communications Act or the 1996 Act or the regulations and policies of the FCC promulgated thereunder or of all the provisions of the applicable Puerto Rico and U.S. Virgin Islands local laws, regulations or policies that relate to cellular telecommunications services.

Other Regulation; Safety. In addition to FCC and other regulatory approvals discussed above, the siting and construction of the cellular transmitter towers and antennas are subject to certain Federal Aviation Administration ("FAA") regulations. The Company has obtained FAA clearance for the construction of antenna structures where such approval is necessary. The siting and construction of cellular communications facilities requires land use and construction approval in Puerto Rico and in the U.S. Virgin Islands. In the past the Company has experienced delays in receiving the required approvals in Puerto Rico. The 1996 Act prohibits the FCC from preempting local and state regulations of the siting and construction of antenna towers for commercial mobile radio service providers except in certain limited circumstances.

Media reports have suggested that certain radio frequency emissions from portable cellular telephones might be linked to cancer. The Cellular Telecommunications Industry Association, as a result of industry concern, has asked the Federal Food and Drug Administration and the Environmental Protection Agency to appoint a panel of experts to review and revalidate the previously existing research that established the safety of cellular telephones, and which had resulted in an FCC determination in 1987 that microwave and cellular radio transmissions did not pose a material health hazard. The FCC enforces standards governing the emission of electromagnetic frequencies, including those used by cellular systems and portable cellular telephones. The Company believes that its facilities and all cellular telephones currently marketed and in use by its subscribers comply with those standards.

Customer Dependence and Seasonality

The Company is not dependent upon any single customer for any significant portion of its business. The Company's business, as well as the cellular communications industry, is not generally characterized as having a material seasonal element and it is not expected to become seasonal in the foreseeable future.

Employees

As of December 31, 1997, the Company and its subsidiaries had an aggregate of approximately 750 employees. No employees are represented by any labor organization. The Company believes that its relationship with its employees is excellent.

ITEM 2. PROPERTY

Certain of the Company's subsidiaries lease office space, sales and service centers and warehouse space in the Commonwealth of Puerto Rico and in the U.S. Virgin Islands. In addition, certain subsidiaries either own or lease transmitter sites and lease a cellular switch site. The loss of any of these leases, either because of a failure to obtain a renewal of a lease or for any reason not known or anticipated by the Company, could have an adverse effect on the Company's cellular operations until a substitute site could be found.

The Company believes that the properties that are currently under lease or owned by the Company are adequate to serve its present business operations and its goals of providing continuous coverage throughout Puerto Rico and the U.S. Virgin Islands, although the Company may require additional properties for new cell sites and sales and service centers as demand for cellular service increases. See the Notes to the Company's Consolidated ~~Financial~~ Statements included elsewhere in this Form 10-K for information concerning lease commitments.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various disputes, arising in the ordinary course of business, which may result in pending or threatened litigation. The Company's management expects no material adverse effect on the Company's financial condition to result from these matters.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

No matter was submitted to a vote of security holders of the Company during the quarter ended December 31, 1997.

PART II

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

CoreComm's Common Stock began trading on the Nasdaq Stock Market's National Market on February 3, 1997, under the Nasdaq symbol "COMM". CoreComm is the successor issuer to Cellular Communications of Puerto Rico, Inc. whose common stock traded under the Nasdaq symbol "CCPR" from February 28, 1992 until January 31, 1997. The following table sets forth for the periods indicated, the high and low last sale prices on the Nasdaq Stock Market's National Market.

	Last Sale Price	
	High	**Low**
1996		
First Quarter	$28.50	$22.88
Second Quarter	32.50	26.00
Third Quarter	32.65	24.75
Fourth Quarter	26.25	19.25
1997		
First Quarter	21.50	14.50
Second Quarter	18.50	14.00
Third Quarter	16.75	14.00
Fourth Quarter	16.50	10.00
1998		
First Quarter (through March 20)	15.38	10.50

On March 20, 1998, the last sales price for the Common Stock on the Nasdaq Stock Market's National Market was $14.625. As of March 20, 1998, there were approximately 322 record holders of the Common Stock. This figure does not reflect beneficial ownership of shares held in nominee names.

The Company has never declared or paid any cash dividends on the Common Stock. The Company anticipates that it will retain earnings, if any, for use in the operation and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain financial data for the years ended December 31, 1997, 1996, 1995, 1994 and 1993. This information should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

	Year Ended December 31,				
	1997	1996	1995	1994	1993
	(In thousands, except per share data)				
Income statement data:					
Revenues	$148,494	$133,818	$108,668	$67,141	$29,146
Operating expenses	130,969	115,817	97,647	65,187	42,023
Operating income (loss)	17,525	18,001	11,021	1,954	(12,877)
Income (loss) before extraordinary item	(2,014)	5,114	(1,451)	(4,812)	(18,731)
Net income (loss)	(5,340)	5,114	(1,451)	(4,812)	(18,731)
Income (loss) per common share before extraordinary item:					
Basic	(.15)	.39	(.13)	(.49)	(1.93)
Diluted	(.15)	.36	(.13)	(.49)	(1.93)
Net income (loss) per common share:					
Basic	(.40)	.39	(.13)	(.49)	(1.93)
Diluted	(.40)	.36	(.13)	(.49)	(1.93)
Weighted average number of common shares:					
Basic	13,075	13,196	11,070	9,867	9,699
Diluted	13,075	14,027	11,070	9,867	9,699

	December 31,				
	1997	1996	1995 (1)	1994	1993
Balance sheet data:					
Working capital	$72,562	$11,078	$12,444	$10,808	$18,658
Property, plant and equipment-net	128,451	97,945	75,769	55,077	42,653
Total assets	397,276	300,722	256,997	231,371	218,669
Long-term debt	200,000	115,000	90,000	101,212	95,506
Shareholders' equity	156,861	162,608	144,152	112,784	111,621

(1) In 1995, the $40,000,000 principal amount Convertible Senior Subordinated Notes were converted into approximately 2,778,000 shares of common stock.

The Company did not declare or pay any cash dividends during the periods indicated.

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

Prior to January 31, 1997, CoreComm Incorporated ("CoreComm" or the "Company") was known as Cellular Communications of Puerto Rico, Inc. ("CCPR"). On January 31, 1997, CCPR effected a corporate restructuring whereby shareholders of CCPR became shareholders of CoreComm on a one-for-one basis upon the completion of a merger of CCPR with and into a subsidiary of CoreComm. As a result of this restructuring, CoreComm replaced CCPR as the publicly traded entity and CCPR became a wholly-owned subsidiary of CoreComm.

RESULTS OF OPERATIONS

Years Ended December 31, 1997 and 1996

Service revenue increased to $131,882,000 from $119,839,000 as a result of subscriber growth. Lower average revenue of new prepaid subscribers, a migration of subscribers to less expensive rate plans, and a decrease in minutes of use of existing subscribers resulted in average monthly revenue per cellular subscriber for the year ended December 31 decreasing to $62 in 1997 from $73 in 1996. Ending subscribers were 196,400 and 159,300 as of December 31, 1997 and 1996, respectively. Ending pagers in use were 49,000 and 31,000 as of December 31, 1997 and 1996, respectively.

The loss from equipment, before depreciation of rental equipment, decreased to $2,477,000 from $3,983,000 primarily because the Company is not selling telephones below their cost to prepaid subscribers. Reductions in the cost of cellular telephones also contributed to this decrease.

Operating expenses decreased to $14,949,000 from $15,214,000 primarily due to a reduction in interconnection charges offset by additional costs associated with the expanded network (including paging operations). Operating expenses as a percentage of service revenue decreased to 11.3% in 1997 from 12.7% in 1996.

Late in the fourth quarter of 1997, the Puerto Rico Telecommunications Regulatory Board announced that the proposed retroactive application of a universal service charge to January 1997 had been eliminated. As a result, in the fourth quarter, subsidiaries of the Company reversed a $1,644,000 expense accrual for this proposed charge which had been recorded in operating expenses during the prior quarters of 1997. The Company anticipates that any universal service charge adopted in Puerto Rico in 1998 will not be retroactive.

Selling, general and administrative expenses increased to $71,271,000 from $63,223,000 as a result of increased selling and marketing to increase the customer base and additional personnel to service the expanding customer base. Increases in property taxes and subscriber billing expense also contributed to this increase. The increases in selling and marketing costs, personnel costs, property taxes and subscriber billing expense were 42%, 18%, 8% and 11%, respectively, of the total $8,048,000 increase.

Depreciation of rental equipment increased to $855,000 from $521,000 due to an increase in the number of rental pagers.

Depreciation expense increased to $18,390,000 from $12,710,000 primarily because of an increase in property, plant and equipment.

Amortization expense increased to $6,415,000 from $6,187,000 primarily due to increases in license acquisition costs.

Interest income and other, net, increased to $2,020,000 from $646,000 primarily due to an increase in interest income on short term investments.

Interest expense increased to $19,400,000 from $8,181,000 as a result of the increase in long-term debt at a higher effective interest rate.

The provision for income taxes decreased to $2,159,000 from $5,352,000 primarily as a result of a decrease in Puerto Rico or U.S. Virgin Islands taxable income of certain of the Company's consolidated subsidiaries.

In connection with the termination of the bank loan, the Company recorded an extraordinary loss of $4,067,000 ($3,326,000 net of income tax benefit) from the write-off of unamortized deferred financing costs.

Years Ended December 31, 1996 and 1995

Service revenue increased to $119,839,000 from $94,409,000 as a result of subscriber growth that increased the Company's current revenue stream. Average monthly revenue per subscriber decreased to $73 in 1996 from $86 in 1995. Ending subscribers were 159,300 and 115,500 as of December 31, 1996 and 1995, respectively.

The loss from equipment, before depreciation of rental equipment, decreased to $3,983,000 from $6,376,000 primarily because of reductions in the cost of cellular telephones offset by an increase in the loss from pager sales. The Company sells cellular telephones and pagers below cost in response to competition and to generate subscriber growth.

Operating expenses increased to $15,214,000 from $10,207,000 primarily due to increased usage of the network and additional costs associated with the expanded network (including paging operations), which account for 90% and 10% of the increase, respectively.

Selling, general and administrative expenses increased to $63,223,000 from $51,148,000 as a result of increased selling and marketing to increase the customer base and additional personnel to service the expanding customer base. Increases in bad debt expense, customer retention expense, property taxes and subscriber billing expense also contributed to this increase. The increases in selling and marketing costs, personnel costs, bad debt expense, customer retention expense, property taxes and subscriber billing expense were 31%, 8%, 12%, 13%, 8%

and 11%, respectively, of the total $12,075,000 increase.

Depreciation of rental equipment increased to $521,000 from $225,000 due to an increase in the number of rental pagers, offset by a decrease in rental telephone depreciation due to rental telephones becoming fully depreciated.

Depreciation expense increased to $12,710,000 from $9,638,000 primarily because of an increase in property, plant and equipment.

Amortization expense increased to $6,187,000 from $5,794,000 primarily due to increases in license acquisition costs.

Interest income and other, net, increased to $646,000 from $358,000 primarily due to an increase in interest income on short term investments.

Interest expense decreased to $8,181,000 from $8,501,000 as a result of lower effective interest rates on long-term debt outstanding during 1996.

The provision for income taxes increased to $5,352,000 from $4,007,000 as a result of an increase in Puerto Rico or U.S. Virgin Islands taxable income of certain of the Company's consolidated subsidiaries and an increase in deferred Puerto Rico income tax liability.

LIQUIDITY AND CAPITAL RESOURCES

The Company requires capital to expand its cellular and paging network, for debt service and potentially, for the acquisition and development of additional wireless licenses or communications businesses. The Company is currently adding cell sites and increasing capacity throughout its Puerto Rico and U.S. Virgin Islands markets. The Company expects to use approximately $26,300,000 in 1998 for contemplated additions to the cellular network, the paging network and for other non-cell site related capital expenditures. The Company's commitments at December 31, 1997 of $4,100,000 for cellular network and other equipment and for construction services are included in the total anticipated expenditures. The Company expects to be able to meet these requirements with cash, cash equivalents and marketable securities on hand and cash from operations.

A subsidiary of the Company, Cortelyou Communications Corp., was the successful bidder, for an aggregate of approximately $25,200,000, for 15 Block A LMDS licenses in Ohio. Auction participants were required to submit upfront payments that determined their bidding eligibility. In February 1998, Cortelyou submitted an upfront payment of $20,000,000. FCC rules require the high bidders to submit a down payment of 20% of their total bids, adjusted for bidding credits, shortly after the completion of the auction. Upfront payments may be credited toward the down payment. High bidders must also submit an application demonstrating their qualifications to hold the licenses they won at auction. The remaining amount of the high bids must be paid within ten business days of the announcement by the FCC that an application was accepted.

In March 1998, the Company entered into an agreement to acquire a reseller of centrex services in Cleveland, Ohio for an aggregate purchase price of $2,000,000. This acquisition is subject to regulatory approval.

In January 1998, a wholly-owned indirect subsidiary of the Company purchased the FCC license to own and operate the non-wireline cellular system in Puerto Rico RSA 4 (Aibonito) and all of the assets of the system in exchange for $8,400,000 in cash and a promissory note in the amount of $8,900,000. The promissory note bears interest at 7.95% per annum payable semiannually beginning in July 1998 and the principal is payable in January 2003.

In January 1997, a wholly-owned subsidiary of CCPR, CCPR Services, Inc. ("Services") issued $200,000,000 principal amount 10% Senior Subordinated Notes due 2007 (the "Notes") and received proceeds of $193,233,000 after discounts, commissions and other related costs. The Notes are unconditionally guaranteed by CCPR. CCPR and Services used approximately $116,000,000 of the proceeds to repay the $115,000,000 principal outstanding plus accrued interest and fees under the bank loan. The Notes are due on February 1, 2007. Interest on the Notes is payable semiannually as of August 1, 1997. The Notes are redeemable, in whole or in part, at the option of Services at any time on or after February 1, 2002, at a redemption price of 105% that declines annually to 100% in 2005, in each case together with accrued and unpaid interest to the redemption date. The Indenture contains certain convenants with respect to Services, CCPR and certain subsidiaries that limit their ability to, among other things: (i) incur additional indebtedness, (ii) pay dividends or make other distributions or restricted payments (except for dividend payments to CCPR and an aggregate of up to $100,000,000 to be used for dividends or restricted payments to the Company), (iii) create liens, (iv) sell assets, (v) enter into mergers or consolidations or (vi) sell or issue stock of subsidiaries.

In April 1995, CCPR and Services entered into a $200,000,000 revolving credit facility with various banks. The line of credit was available until March 31, 1999, on which date it would have converted into a term loan with principal payments based on an amortization schedule until September 30, 2003.

In April 1996, the Board of Directors authorized the repurchase of up to an additional 750,000 shares of the Company's common stock through open market purchases as market conditions warrant. This repurchase plan is in addition to a previously announced repurchase plan for up to 250,000 shares. As of December 31, 1997, the Company has repurchased 590,000 shares for an aggregate of $15,207,000, of which 207,000 shares that cost an aggregate of $6,145,000 were retired.

Cash provided by operating activities was $28,998,000 and $28,912,000 for the years ended December 31, 1997 and 1996, respectively. Purchases of property, plant and equipment of $40,259,000 in 1997 were primarily for additional cell sites and increased capacity in the Company's cellular and paging systems.

Write-offs of accounts receivable, net of recoveries as a percentage of service revenue was 6.7% for the year ended December 31, 1997 compared to 5.8% for the year ended December 31, 1996. This percentage increased because the Company and its subsidiaries have attracted and continue to attract new segments of the market. The Company and its subsidiaries continue to attempt to reduce this percentage by improving credit procedures and instituting innovative forms of payment such as prepaid billing.

The Company may also require additional capital for acquisitions of minority interests in its Aguadilla market, or for the acquisition of certain other RSAs or in other telecommunications related industries, if opportunities for such acquisitions arise. The Company has from time to time engaged in discussions with third parties regarding such acquisitions both inside and outside of Puerto Rico and the U.S. Virgin Islands.

Year 2000

Many computer systems experience problems handling dates beyond the year 1999. Therefore, some computer hardware and software will need to be modified prior to the year 2000 in order to remain functional. The Company is assessing both the internal readiness of its computer systems and the compliance of the computer systems of certain significant customers and vendors for handling the year 2000. The Company expects to implement successfully the systems and programming changes necessary to address year 2000 issues, and does not believe that the cost of such actions will have a material adverse effect on the Company. There can be no assurance, however, that there will not be a delay in, or increased costs associated with, the implementation of such changes, and the Company's inability to implement such changes could have an adverse effect on the Company. In addition, the failure of certain of the Company's significant customers and vendors to address the year 2000 issue could have a material adverse effect on the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The Company is required to provide these disclosures in its Annual Report on Form 10-K for the year ending December 31, 1998.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial Statements are included herein commencing on page F-1.

The following is a summary of the quarterly results of operations for the years ended December 31, 1997 and 1996.

(In thousands, except per share data)

	1997 Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
Revenues	$ 37,271	$38,438	$36,213	$36,572
Operating income	5,013	5,339	1,691	5,482
Income (loss) before extraordinary item	404	1,527	(2,529)	(1,416)
Net income (loss)	(3,426)	1,515	(2,646)	(783)
Income (loss) per common share before extraordinary item:				
Basic	.03	.12	(.19)	(.11)
Diluted	.03	.12	(.19)	(.11)
Net income (loss) per common share:				
Basic	(.26)	.12	(.20)	(.06)
Diluted	(.26)	.11	(.20)	(.06)

	1996 Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
Revenues	$ 31,476	$31,714	$34,914	$35,714
Operating income	4,734	2,120	5,233	5,914
Net income (loss)	1,289	(248)	2,273	1,800
Income (loss) per common share:				
Basic	.10	(.02)	.17	.14
Diluted	.09	(.02)	.16	.13

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

Not applicable.

PART III

ITEMS 10, 11, 12 AND 13.

The information required by Part III is incorporated by reference from the Company's definitive proxy statement involving the election of directors which the Company expects to file, pursuant to Regulation 14A, within 120 days following the end of its fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) (1) Financial Statements - See list of Financial Statements on page F-1.

(2) Financial Statement Schedules - See list of Financial Statement Schedules on page F-1.

(3) Exhibits - See Exhibit Index on page 29.

(b) Reports on Form 8-K. The Company filed no current reports on Form 8-K for the quarter ended December 31, 1997.

(c) Exhibits - The response to this portion of Item 14 is submitted as a separate section of this report.

(d) Financial Statement Schedules - See list of Financial Statement Schedules on page F-1.

EXHIBIT INDEX

Exhibit No.

2 Agreement and Plan of Merger, dated as of January 31, 1997 by and among CCPR, the Company and CoreComm Sub, Inc. (Incorporated by reference from Exhibit 2, 1996 Form 10-K, File Number 19869-99)

3.1 Restated Certificate of Incorporation of the Company. (Incorporated by reference from Exhibit 3.1, 1996 Form 10-K, File Number 19869-99)

3.2 By-laws of the Company. (Incorporated by reference from Exhibit 3.2, 1996 Form 10-K, File Number 19869-99)

4.1 Specimen of Common Stock Certificate. (Incorporated by reference from Exhibit 4.1, 1996 Form 10-K, File Number 19869-99)

4.2 Certificate of Designation with respect to the Series A Junior Participating Preferred Stock of the Registrant (Incorporated by reference to Exhibit 4.1, File Number 33-44420)

4.3 Rights Agreement, dated as of January 24, 1992, between the Company and Continental Stock Transfer & Trust Company, as Rights Agent, as amended by Amendment No. 1 dated January 31, 1997. (Incorporated by reference from Exhibit 4.2, 1996 Form 10-K, File Number 19869-99)

4.4 Indenture dated as of January 31, 1997 by and between Services, CCPR and The Chase Manhattan Bank, N.A. (Incorporated by reference from Exhibit 4.3, 1996 Form 10-K, File Number 19809-99).

4.5 Registration Rights Agreement dated as of January 31, 1997, by and among Services, CCPR and Donaldson, Lufkin & Jenrette Securities Corporation, Salomon Brothers Inc and Wasserstein Perella Securities, Inc. (Incorporated by reference from Exhibit 4.8, 1996 Form 10-K, File Number 19869-99)

10.1 Partnership Agreement relating to San Juan Cellular Telephone Company. (Incorporated by reference to Exhibit 10.4, File Number 33-44420)

10.2 Tax Sharing Agreement dated as of January 31, 1997 by and among the Company, CCPR and CCPR Services. (Incorporated by reference from Exhibit 10.2, 1996 Form 10-K, File Number 19869-99)

10.3 Tax Sharing Agreement, dated as of January 24, 1992 between the Company and Cellular Communications, Inc. (Incorporated by reference to Exhibit 10.8, File Number 33-44420)

10.4 Form of Administration and Management Agreement between CCPR Services, Inc., on the one hand and, on the other hand, individually, each of Aguadilla Cellular Telephone

Company, Inc., CCI PR RSA, Inc., Cellular Communications of Arecibo, Inc., Cellular Ponce, Inc., Gamma Communications, Mayaguez Cellular Telephone Co., Inc., San Juan Cellular Telephone Company and Star Associates, Inc. (Incorporated by reference to Exhibit 10.9, File Number 33-44420)

10.5	Agreement dated as of January 31, 1997, by and between CCPR and CCPR Services, Inc. (Incorporated by reference to Exhibit 10.7, 1996 Form 10-K, File Number 19869-99).
10.6	Compensation Plan Agreements, as amended and restated effective May 1, 1997.
11	Statement re computation of per share earnings
21	Subsidiaries of the Registrant
23	Consent of Ernst & Young LLP
27.1	Financial Data Schedule, for the year ended December 31, 1997
27.2	Restated Financial Data Schedule, for the quarter ended September 30, 1997
27.3	Restated Financial Data Schedule, for the quarter ended June 30, 1997
27.4	Restated Financial Data Schedule, for the quarter ended March 31, 1997
27.5	Restated Financial Data Schedule, for the year ended December 31, 1996

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.

Dated: March 26, 1998

CORECOMM INCORPORATED

By: /s/ Stanton N. Williams
Stanton N. Williams
Vice President and Chief Financial Officer

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 in the capacities and on the date indicated.

Signature	Title	Date
/s/ George S. Blumenthal George S. Blumenthal	Principal Executive Officer and Director	March 26, 1998
/s/ J. Barclay Knapp J. Barclay Knapp	Principal Operating Officer and Director	March 26, 1998
/s/ Stanton N. Williams Stanton N. Williams	Principal Financial Officer	March 26, 1998
/s/ Gregg Gorelick Gregg Gorelick	Principal Accounting Officer	March 26, 1998
/s/ Sidney R. Knafel Sidney R. Knafel	Director	March 26, 1998

/s/ Del Mintz Del Mintz	Director	March 26, 1998
/s/ Alan J. Patricof Alan J. Patricof	Director	March 26, 1998
/s/ Warren Potash Warren Potash	Director	March 26, 1998

Exhibit 21

SUBSIDIARIES OF CORECOMM INCORPORATED

All of the corporations listed below were incorporated in Delaware except where otherwise noted:

Cellular Communications of Puerto Rico, Inc.
CCPR Services, Inc.
CCPR of the Virgin Islands, Inc.
CCPR Paging, Inc.
CoreComm Delaware, Inc.
CoreComm Maryland, Inc.
CoreComm Massachusetts, Inc.
CoreComm New Jersey, Inc.
CoreComm New York, Inc.
CoreComm Pennsylvania, Inc.
CoreComm Puerto Rico, Inc.
CoreComm Telco, Inc.
CoreComm Virginia, Inc.
Cortelyou Communications Corp.
Merrimack Telecommunications Corp. (Florida corporation)
San Juan Cellular Telephone Company (District of Columbia partnership)
SJCT, Inc.
USVI Cellular Telephone Corporation
USVI Paging, Inc.

Form 10-K—Item 14(a)(1) and (2)

CoreComm Incorporated and Subsidiaries

Index to Consolidated Financial Statements and Financial Statement Schedule

The following consolidated financial statements and schedule of CoreComm Incorporated and subsidiaries are included in Item 8:

The following consolidated financial statement schedule of CoreComm Incorporated and subsidiaries is included in Item 14(d):

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Report of Independent Auditors

Shareholders and Board of Directors
CoreComm Incorporated

We have audited the accompanying consolidated balance sheets of CoreComm Incorporated and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included 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 CoreComm Incorporated and subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, 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, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

San Juan, Puerto Rico
February 27, 1998, except for the last
two paragraphs of Note 1, as to which
the date is March 25, 1998

CoreComm Incorporated and Subsidiaries

Consolidated Balance Sheets

	December 31 1997	December 31 1996
Assets		
Current assets:		
Cash and cash equivalents	$ 11,783,000	$ 2,307,000
Marketable securities	62,666,000	5,917,000
Accounts receivable—trade, less allowance for doubtful accounts of $2,106,000 (1997) and $3,767,000 (1996)	19,043,000	20,034,000
Equipment inventory	2,882,000	2,912,000
Prepaid expenses and other current assets	7,147,000	3,022,000
Total current assets	103,521,000	34,192,000
Property, plant and equipment, net	128,451,000	97,945,000
Unamortized license acquisition costs	157,467,000	162,822,000
Deferred financing costs, less accumulated amortization of $584,000 (1997) and $1,065,000 (1996)	6,206,000	4,118,000
Other assets, less accumulated amortization of $1,088,000 (1997) and $723,000 (1996)	1,631,000	1,645,000
	$ 397,276,000	$ 300,722,000
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 6,873,000	$ 7,364,000
Accrued expenses	11,730,000	10,889,000
Due to NTL Incorporated	71,000	102,000
Interest payable	8,333,000	1,678,000
Deferred revenue	3,952,000	3,081,000
Total current liabilities	30,959,000	23,114,000
Long-term debt	200,000,000	115,000,000
Obligation under capital lease	9,456,000	–
Commitments and contingent liabilities		
Shareholders' equity:		
Series preferred stock—$.01 par value; authorized 2,500,000 shares; issued and outstanding none	–	–
Common stock—$.01 par value; authorized 30,000,000 shares; issued 13,565,000 (1997) and 13,432,000 (1996) shares	136,000	134,000
Additional paid-in capital	226,490,000	226,160,000
(Deficit)	(60,703,000)	(55,363,000)
	165,923,000	170,931,000
Treasury stock—at cost, 383,000 (1997) and 343,000 (1996) shares	(9,062,000)	(8,323,000)
	156,861,000	162,608,000
	$ 397,276,000	$ 300,722,000

See accompanying notes.

CoreComm Incorporated and Subsidiaries

Consolidated Statements of Operations

	Year ended December 31		
	1997	1996	1995
Revenues:			
Service revenue	$131,882,000	$119,839,000	$94,409,000
Equipment revenue	16,612,000	13,979,000	14,259,000
	148,494,000	133,818,000	108,668,000
Costs and expenses:			
Cost of equipment sold	19,089,000	17,962,000	20,635,000
Operating expenses	14,949,000	15,214,000	10,207,000
Selling, general and administrative expenses	71,271,000	63,223,000	51,148,000
Depreciation of rental equipment	855,000	521,000	225,000
Depreciation expense	18,390,000	12,710,000	9,638,000
Amortization expense	6,415,000	6,187,000	5,794,000
	130,969,000	115,817,000	97,647,000
Operating income	17,525,000	18,001,000	11,021,000
Other income (expense):			
Interest income and other, net	2,020,000	646,000	358,000
Interest expense	(19,400,000)	(8,181,000)	(8,501,000)
Income before income tax provision, minority interests and extraordinary item	145,000	10,466,000	2,878,000
Income tax provision	(2,159,000)	(5,352,000)	(4,007,000)
Income (loss) before minority interests and extraordinary item	(2,014,000)	5,114,000	(1,129,000)
Minority interests	–	–	(322,000)
Income (loss) before extraordinary item	(2,014,000)	5,114,000	(1,451,000)
Loss from early extinguishment of debt, net of income tax benefit of $741,000	(3,326,000)	–	–
Net income (loss)	$ (5,340,000)	$ 5,114,000	$(1,451,000)
Earnings Per Common Share:			
Income (loss) before extraordinary item	$(.15)	$.39	$(.13)
Extraordinary item	(.25)	–	–
Net income (loss)	$(.40)	$.39	$(.13)
Earnings Per Common Share-Assuming Dilution:			
Income (loss) before extraordinary item	$(.15)	$.36	$(.13)
Extraordinary item	(.25)	–	–
Net income (loss)	$(.40)	$.36	$(.13)

See accompanying notes.

CoreComm Incorporated and Subsidiaries

Consolidated Statement of Shareholders' Equity

	Common Stock		Additional Paid-in		Treasury Stock	
	Shares	Amount	Capital	(Deficit)	Shares	Amount
Balance, December 31, 1994	10,000,000	$100,000	$171,710,000	$(59,026,000)		
Exercise of stock options	25,000		385,000			
Conversion of Senior Subordinated Notes	2,778,000	28,000	38,551,000			
Common stock repurchased, at cost					(207,000)	$(6,145,000)
Net loss for the year ended December 31, 1995				(1,451,000)		
Balance, December 31, 1995	12,803,000	128,000	210,646,000	(60,477,000)	(207,000)	(6,145,000)
Shares issued for interests in cellular license	820,000	8,000	21,528,000			
Exercise of stock options	16,000		129,000			
Common stock repurchased, at cost					(343,000)	(8,323,000)
Retirement of Treasury Stock	(207,000)	(2,000)	(6,143,000)		207,000	6,145,000
Net income for the year ended December 31, 1996				5,114,000		
Balance, December 31, 1996	13,432,000	134,000	226,160,000	(55,363,000)	(343,000)	(8,323,000)
Exercise of stock options	133,000	2,000	330,000			
Common stock repurchased, at cost					(40,000)	(739,000)
Net loss for the year ended December 31, 1997				(5,340,000)		
Balance, December 31, 1997	13,565,000	$136,000	$226,490,000	$(60,703,000)	(383,000)	$(9,062,000)

See accompanying notes.

CoreComm Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended December 31 1997	1996	1995
Operating activities			
Net income (loss)	$ (5,340,000)	$ 5,114,000	$ (1,451,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	25,660,000	19,418,000	15,657,000
Provision for losses on accounts receivable	7,146,000	7,520,000	6,603,000
Loss on disposal of property, plant and equipment	1,873,000	371,000	416,000
Loss from early extinguishment of debt	4,067,000	–	–
Minority interests	–	–	322,000
Interest paid to Cellular Communications of Ohio, Inc.	–	–	(12,978,000)
Changes in operating assets and liabilities net of effects from business acquisitions:			
Accounts receivable	(6,155,000)	(9,625,000)	(15,000,000)
Equipment inventory	30,000	3,476,000	(4,163,000)
Prepaid expenses and other current assets	(4,125,000)	(422,000)	(1,484,000)
Other assets	(265,000)	(292,000)	(461,000)
Accounts payable	(1,008,000)	2,497,000	(2,400,000)
Accrued expenses	(380,000)	(227,000)	5,004,000
Interest payable	6,655,000	1,063,000	(760,000)
Deferred revenue	871,000	227,000	1,237,000
Due to Cellular Communications of Ohio, Inc.	–	–	1,683,000
Due to Cellular Communications, Inc.	–	(310,000)	(4,000)
Due to NTL Incorporated	(31,000)	102,000	–
Net cash provided by (used in) operating activities	28,998,000	28,912,000	(7,779,000)
Investing activities			
Purchase of marketable securities	(132,016,000)	(18,653,000)	(2,058,000)
Proceeds from maturities of marketable securities	75,267,000	12,736,000	11,057,000
Purchase of property, plant and equipment	(40,259,000)	(36,564,000)	(30,725,000)
Cost of cellular license interests	(146,000)	(5,811,000)	–
Net cash (used in) investing activities	(97,154,000)	(48,292,000)	(21,726,000)
Financing activities			
Proceeds from borrowings, net of financing costs	193,233,000	52,000,000	121,946,000
Principal payments	(115,000,000)	(28,975,000)	(37,000,000)
Principal payments of capital lease obligation	(194,000)	–	–
Additional deferred financing costs	–	(22,000)	–
Repayment of amount due to Cellular Communications of Ohio, Inc.	–	–	(47,942,000)
Proceeds from exercise of stock options	332,000	129,000	385,000
Purchase of treasury stock	(739,000)	(8,323,000)	(6,145,000)
Distribution to minority interests holders	–	(1,172,000)	–
Net cash provided by financing activities	77,632,000	13,637,000	31,244,000
Increase (decrease) in cash and cash equivalents	9,476,000	(5,743,000)	1,739,000
Cash and cash equivalents at beginning of year	2,307,000	8,050,000	6,311,000
Cash and cash equivalents at end of year	$ 11,783,000	$ 2,307,000	$ 8,050,000

CoreComm Incorporated and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Year ended December 31		
	1997	1996	1995
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest exclusive of amounts capitalized	$ 12,745,000	$7,118,000	$ 20,556,000
Income taxes paid	4,423,000	7,239,000	620,000
Supplemental schedule of noncash investing activities:			
Liabilities incurred to acquire property, plant and equipment	$ 3,038,000	$1,595,000	$ 2,381,000
Capital lease obligation incurred to acquire office building	9,922,000	–	–
Common stock issued to acquire cellular license interests	–	21,536,000	–
Supplemental schedule of noncash financing activities:			
Conversion of Senior Subordinated Notes, net of unamortized deferred financing costs of $1,421,000	$ –	$ –	$ 38,579,000

See accompanying notes.

1. Organization and Nature of Operations

In January 1997, CoreComm Incorporated (the "Company") was formed, and a subsidiary of the Company was merged with and into Cellular Communications of Puerto Rico, Inc. ("CCPR"). Upon the merger, CCPR became a wholly-owned subsidiary of the Company and shareholders of CCPR became shareholders of the Company on a one for one basis.

The Company, through its subsidiaries, owns licenses to operate cellular telephone and paging systems in Puerto Rico and in the U.S. Virgin Islands. Based on service revenues, the predominant line of business is cellular telephone services. The Company's business is currently dependent on the trends in the use of cellular telephone and paging services and is subject to economic, social, political and governmental conditions in Puerto Rico and the U.S. Virgin Islands. The sale of cellular and paging services in each of the Company's markets is becoming increasingly competitive. The Company previously had one cellular competitor in each market, but it now has many wireless competitors due to the introduction of broadband personal communications services ("PCS") on frequencies auctioned by the Federal Communications Commission ("FCC") and specialized mobile radio ("SMR") services on existing SMR frequencies. Increased competition has resulted in pricing pressure, which contributes to lower revenues per customer and higher customer acquisition costs.

A subsidiary of the Company, Cortelyou Communications Corp. ("Cortelyou"), was the successful bidder, for an aggregate of approximately $25,200,000, for 15 Block A Local Multipoint Distribution Service ("LMDS") licenses in Ohio. The FCC has allocated two blocks of frequencies (Block A and Block B) to be licensed in each of the 493 Basis Trading Areas in the United States and its territories based on an auction that commenced in February 1998 and ended in March 1998. LMDS frequencies are expected to be used for the provision of voice, data, video and Internet services to businesses and homes in competition with incumbent local exchange telephone companies and/or cable television operators. High bidders must submit an application demonstrating their qualifications to hold the licenses they won at auction. The high bids must be paid within ten business days of the announcement by the FCC that an application was accepted.

In March 1998, the Company entered into an agreement to acquire a reseller of centrex services in Cleveland, Ohio for an aggregate purchase price of $2,000,000. This acquisition is subject to regulatory approval.

2. Significant Accounting Policies

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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and those entities where the Company's interest is greater than 50%. Significant intercompany accounts and transactions have been eliminated in consolidation.

License Acquisition Costs

The FCC grants the license to operate a cellular telephone system in a Metropolitan Service Area or a Rural Service Area. Costs incurred to obtain FCC licenses have been deferred and are being amortized by the straight-line method over ten years. In connection with the purchase of license interests, the excess of purchase price paid over the fair value of tangible assets acquired has been classified as license acquisition costs which are amortized through charges to operations by the straight-line method over 40 years. License acquisition costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Net Income (Loss) Per Share

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the SFAS No. 128 requirements.

Revenue Recognition

Service revenue is recognized at the time services are rendered. Charges for services that are billed in advance are deferred and recognized when earned. Equipment sales are recorded when the equipment is shipped to the customer. Rental revenue is billed and recognized on a monthly basis.

2. Significant Accounting Policies (continued)

Cash Equivalents

Cash equivalents are short-term highly liquid investments purchased with a maturity of three months or less.

Marketable Securities

Marketable securities are classified as available-for-sale, which are carried at fair value. Unrealized holding gains and losses on securities, net of tax, are carried as a separate component of shareholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other than temporary will be included in interest income. The cost of securities sold or matured is based on the specific identification method. Interest on securities is included in interest income.

Marketable securities at December 31, 1997 consisted of corporate debt securities. Marketable securities at December 31, 1996 consisted of U.S. Treasury securities and obligations of U.S. government agencies. During the years ended December 31, 1997, 1996 and 1995, there were no realized gains or losses on sales of securities. As of December 31, 1997 and 1996, there were no unrealized gains or losses on securities. All of the marketable securities as of December 31, 1997 had a contractual maturity of less than one year.

Equipment Inventory

Equipment inventory is stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows: office building – 15 years, operating equipment—7 to 25 years, office furniture and other equipment—1 to 5 years, and rental equipment—2 years.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

2. Significant Accounting Policies (continued)

Capitalized Interest

Interest is capitalized as a component of the cost of property, plant and equipment constructed. In 1997, 1996 and 1995, interest of $415,000, $198,000 and $119,000, respectively, was capitalized.

Deferred Financing Costs

Deferred financing costs represent costs incurred relating to the issuance of debt and are amortized over the term of the related debt.

Advertising

The Company charges the cost of advertising to expense as incurred. Advertising expense for the years ended December 31, 1997, 1996 and 1995 was $3,667,000, $3,025,000, and $2,808,000 respectively.

Stock-Based Compensation

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its plans.

3. Recent Accounting Pronouncements

Comprehensive Income

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. The Company will adopt SFAS No. 130 in the first interim period for its fiscal year ending December 31, 1998.

Segment Disclosures

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and

3. Recent Accounting Pronouncements (continued)

services, geographic areas, and major customers. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997. The Company will adopt SFAS No. 131 for its fiscal year ending December 31, 1998.

4. Unamortized License Acquisition Costs

Unamortized license acquisition costs consist of:

	December 31	
	1997	1996
Deferred cellular license costs	$ 5,935,000	$ 5,935,000
Excess of purchase price paid over the fair market value of tangible assets acquired	189,466,000	189,320,000
	195,401,000	195,255,000
Accumulated amortization	37,934,000	32,433,000
	$157,467,000	$162,822,000

In February 1996, CCPR acquired the remaining minority interests aggregating approximately 6% in the San Juan Cellular Telephone Company in exchange for approximately 820,000 shares of the Company's common stock. The stock was valued at $21,536,000, the fair market value on the date of acquisition. In addition, the San Juan Cellular Telephone Company made a special cash distribution of $1,172,000 to the minority interest holders. The aggregate purchase price of $21,536,000 plus expenses of $56,000 and the deficiency in net assets acquired of $850,000 have been classified as license acquisition costs.

In November 1996, a subsidiary of CCPR acquired the remaining interests, aggregating 49%, in Star Associates, Inc., the company which owns the FCC license for the non-wireline cellular system in Adjuntas, Puerto Rico (RSA-2) for cash of $5,755,000 including expenses.

In January 1998, a wholly-owned indirect subsidiary of the Company purchased the FCC license to own and operate the non-wireline cellular system in Puerto Rico RSA-4 (Aibonito) and all of the assets of the system in exchange for $8,400,000 in cash and a promissory note in the amount of $8,900,000. The promissory note bears interest at 7.95% per annum payable semiannually beginning in July 1998 and the principal is payable in January 2003. Costs of $305,000 were incurred in connection with this acquisition.

5. Property, Plant and Equipment

Property, plant and equipment consists of:

	December 31	
	1997	1996
Land	$ 1,951,000	$ 2,027,000
Office building	9,922,000	-
Operating equipment	127,534,000	97,513,000
Office furniture and other equipment	24,546,000	16,521,000
Rental equipment	1,745,000	1,174,000
Construction in progress	12,533,000	18,674,000
	178,231,000	135,909,000
Accumulated depreciation	49,780,000	37,964,000
	$128,451,000	$97,945,000

6. Accrued Expenses

Accrued expenses consists of:

	December 31	
	1997	1996
Accrued compensation	$ 765,000	$ 1,005,000
Accrued franchise, property and income taxes	3,489,000	4,246,000
Commissions payable	1,143,000	1,272,000
Accrued equipment purchases	1,427,000	502,000
Subscriber deposits	1,544,000	1,572,000
Other	3,362,000	2,292,000
	$11,730,000	$10,889,000

7. Long-Term Debt

In January 1997, a wholly-owned subsidiary of CCPR, CCPR Services, Inc. ("Services") issued $200,000,000 principal amount 10% Senior Subordinated Notes due 2007 (the "Notes") and received proceeds of $193,233,000 after discounts, commissions and other related costs. The Notes are unconditionally guaranteed by CCPR. CCPR and Services used approximately $116,000,000 of the proceeds to repay the $115,000,000 principal outstanding plus accrued interest and fees under the bank loan (see below). In connection with the repayment of the bank loan, Services recorded an extraordinary loss of $4,067,000 from the write-off of unamortized deferred financing costs. In addition, Services made a cash payment to CCPR of $80,000,000 in exchange for a 21% interest in the San Juan Cellular Telephone Company, and CCPR distributed the $80,000,000 to the Company.

7. Long-Term Debt (continued)

The Notes are due on February 1, 2007. Interest on the Notes is payable semiannually as of August 1, 1997. The Notes are redeemable, in whole or in part, at the option of Services at any time on or after February 1, 2002, at a redemption price of 105% that declines annually to 100% in 2005, in each case together with accrued and unpaid interest to the redemption date. The Indenture contains certain covenants with respect to Services, CCPR and certain subsidiaries that limit their ability to, among other things, (i) incur additional indebtedness, (ii) pay dividends or make other distributions or restricted payments (except for dividend payments to CCPR and an aggregate of up to $100,000,000 to be used for dividends or restricted payments to the Company), (iii) create liens, (iv) sell assets, (v) enter into mergers or consolidations or (vi) sell or issue stock of subsidiaries. The fair value of the Notes at December 31, 1997 based on the quoted market price was $194,000,000.

In April 1995, CCPR and Services entered into a $200,000,000 revolving credit facility with various banks. A portion of the amount borrowed was used to repay Cellular Communications of Ohio, Inc. ("CCI Ohio"). The line of credit was available until March 31, 1999, on which date it would have converted into a term loan. The terms included the payment of interest each quarter at a floating rate, which was, at the borrower's option, either (a) the higher of the bank's base rate or the Federal Funds Rate plus 1/2%, (b) the London Interbank Offering Rate or (c) the 936 Rate, plus, based on the ratio of CCPR's debt to cash flow and the floating rate in effect, either .25% to 1.875% or 1.25% to 2.875%. The effective rate on the amounts borrowed as of December 31, 1996 and 1995 was 7.01% and 7.23%, respectively. The terms also included an unused commitment fee of 1/2% per annum which was payable quarterly. The carrying amount of the bank loan at December 31, 1996 approximated fair value based on discounted cash flow analysis.

CCPR had a $47,942,000 principal amount note payable to a subsidiary of Cellular Communications, Inc. ("CCI"), CCI Ohio, which was due and payable in full on July 31, 1996. CCPR had been a wholly-owned subsidiary of CCI until February 28, 1992, when CCI distributed to its stockholders all of the outstanding common stock of CCPR. The note payable to CCI Ohio permitted the deferral of interest payments, at CCPR's option, throughout the term of the note. Interest was at a floating rate based on the interest rate in effect under CCI Ohio's bank line of credit and term loan agreement. Interest expense accrued for the year ended December 31, 1995 was $1,683,000. In April 1995, CCPR repaid the principal and deferred interest due to CCI Ohio of $60,920,000.

In connection with license acquisitions, subsidiaries of CCPR issued promissory notes which were paid in full, together with accrued interest, on their maturity dates in 1996.

8. Related Party Transactions

CCI provided management, financial and legal services to CCPR. Amounts charged to CCPR included direct costs where identifiable and allocated corporate overhead based upon the amount of time incurred on CCPR business by the common officers and employees of CCI and CCPR. Amounts charged to CCPR included in general and administrative expenses during the years ended December 31, 1996 and 1995 were $429,000 and $458,000, respectively. In August 1996, upon the merger of CCI with AirTouch Communications, Inc., NTL Incorporated ("NTL") commenced providing management, financial and legal services to CCPR. NTL charged CCPR for direct costs where identifiable and allocated corporate overhead based upon the amount of time incurred on CCPR business by the common officers and employees of NTL and CCPR. The amount charged to CCPR included in general and administrative expenses in 1996 was $207,000.

In January 1997, the Company and NTL agreed to a change in NTL's fee for the provision of management, financial and legal services. NTL charges the Company for direct costs where identifiable and a fixed percentage of its corporate overhead. The amount charged to the Company included in general and administrative expenses in 1997 was $1,780,000. It is not practicable to determine the amount of expenses that would have been incurred had the Company or CCPR operated as an unaffiliated entity. However, in the opinion of management of the Company, the allocation methods are reasonable.

9. Net Income (Loss) Per Common Share

The following table sets forth the computation of basic and diluted net income (loss) per common share:

	Year ended December 31		
	1997	1996	1995
Numerator:			
Income (loss) before extraordinary item	$(2,014,000)	$5,114,000	$(1,451,000)
Extraordinary item	(3,326,000)	–	–
Net income (loss)	$(5,340,000)	$5,114,000	$(1,451,000)
Denominator for basic net income (loss) per common share	13,075,000	13,196,000	11,070,000
Effect of dilutive securities:			
Stock options	–	831,000	–
Denominator for diluted net income (loss) per common share	13,075,000	14,027,000	11,070,000
Basic net income (loss) per common share:			
Income (loss) before extraordinary item	$(.15)	$.39	$(.13)
Extraordinary item	(.25)	–	–
Net income (loss)	$(.40)	$.39	$(.13)
Diluted net income (loss) per common share:			
Income (loss) before extraordinary item	$(.15)	$.36	$(.13)
Extraordinary item	(.25)	–	–
Net income (loss)	$(.40)	$.36	$(.13)

9. Net Income (Loss) Per Common Share (continued)

Stock options and the shares issuable upon the conversion of the Convertible Senior Subordinated Notes prior to conversion are excluded from the calculation of net loss per common share as their effect will be antidilutive.

10. Shareholders' Equity

Treasury Stock

In April 1996, the Board of Directors authorized the repurchase of up to an additional 750,000 shares of the Company's Common Stock through open market purchases as market conditions warrant. This repurchase plan is in addition to a previously announced repurchase plan for up to 250,000 shares. As of December 31, 1997, the Company had repurchased 590,000 shares for an aggregate of $15,207,000, of which 207,000 shares that cost an aggregate of $6,145,000 were retired.

Conversion of Senior Subordinated Notes

In August 1992, CCPR issued $40,000,000 principal amount 8-¼% Convertible Senior Subordinated Notes due August 1, 2000 (the "Convertible Notes"). In 1995, primarily as a result of CCPR's issuance of a notice of redemption, the Convertible Notes were converted into approximately 2,778,000 shares of Common Stock. Unamortized deferred financing costs of $1,421,000 were charged to equity upon the conversion. The diluted net income per common share for 1995 assuming the conversion of the Convertible Notes at the beginning of 1995 would have been $.03.

Shareholder Rights Plan

On January 23, 1992, the Board of Directors approved the Rights Agreement, which has become the CoreComm Rights Agreement. The Rights Agreement provides that eight-tenths of a Right will be issued with each share of Common Stock issued (whether originally issued or from treasury) on or after February 28, 1992 and prior to the occurrence of certain potential takeover events ("Rights Distribution Date"). The Rights are not exercisable until the Rights Distribution Date and will expire at the close of business on February 28, 2002 unless previously redeemed by the Company. When exercisable, each Right entitles the owner to purchase from the Company 1/100 of a share of Series A Junior Participating Preferred Stock ("Series A Preferred Stock") at a purchase price of $100.

The Series A Preferred Stock will be entitled to a minimum preferential quarterly dividend payment of $.01 per share and will be entitled to an aggregate dividend of 100 times the dividend, if any, declared per share of Common Stock. In the event of liquidation, the holders of Series A Preferred Stock will be entitled to a minimum preferential liquidation payment of $1 per

10. Shareholders' Equity (continued)

share and will be entitled to an aggregate payment of 100 times the payment made per share of Common Stock. Each share of Series A Preferred Stock will have 100 votes and will vote together with the Common Stock. In the event of any merger, consolidation or other transaction in which shares of Common Stock are changed or exchanged, each share of Series A Preferred Stock will be entitled to receive 100 times the amount received per share of Common Stock. The rights are protected by customary antidilution provisions.

There are 80,000 shares of Series A Preferred Stock designated from the 2,500,000 authorized shares of Series Preferred Stock. No shares of Series A Preferred Stock are issued or outstanding.

Stock Options

There are 1,848,000 shares of Common Stock reserved for issuance under the 1992 Stock Option Plan (the "Plan"). The Plan provides that incentive stock options be granted at the fair market value of the Common Stock on the date of grant, and nonqualified stock options be granted at not less than 85% of the fair market value of the Common Stock on the date of grant. Options are exercisable as to 20% of the shares subject thereto on the date of grant and become exercisable as to an additional 20% of the shares subject thereto on each January 1 thereafter, while the optionee remains an employee. Options will expire ten years after the date of the grant.

There are 295,000 shares of Common Stock reserved for issuance under the Non-Employee Directors Stock Option Plan (the "Directors Plan"). The Directors Plan provides that all options be granted at the fair market value of the Common Stock on the date of grant. Options are exercisable as to 20% of the shares subject thereto on the first anniversary of the date of grant and become exercisable as to an additional 20% of the shares subject thereto on each subsequent anniversary of the grant date, while the optionee remains a director of the Company. Options will expire ten years after the date of the grant.

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 1997, 1996 and 1995: risk-free interest rates of 5.89%, 6.56% and 6.61%, respectively, dividend yield of 0%, volatility factor of the expected market price of the Company's common stock of .319, .258 and .258, respectively, and a weighted-average expected life of the option of 10 years.

10. Shareholders' Equity (continued)

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 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 stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Following is the Company's pro forma information:

	Year ended December 31		
	1997	1996	1995
Pro forma net income (loss)	$(7,581,000)	$ 3,467,000	$ (2,309,000)
Pro forma net income (loss) per share:			
Basic	$(.58)	$.26	$(.21)
Diluted	(.58)	.25	(.21)

A summary of the Company's stock option activity and related information for the years ended December 31, follows:

	1997		1996		1995	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighte Averag Exercis Price
Outstanding-beginning of year	2,453,000	$17.81	2,180,000	$16.41	1,918,000	$14.1
Granted	1,895,000	16.41	289,000	27.87	287,000	31.6
Exercised	(133,000)	2.49	(16,000)	7.64	(25,000)	15.9
Forfeited	(1,869,000)	23.93	0	0.00	0	0.0
Outstanding-end of year	2,346,000	$12.68	2,453,000	$17.81	2,180,000	$16.4
Exercisable at end of year	1,114,000	$9.69	1,690,000	$14.06	1,317,000	$11.6

In 1997, the Company cancelled and reissued options to purchase 1,757,000 shares of common stock. Weighted-average fair value of options, calculated using the Black-Scholes option pricing model, granted during 1997, 1996 and 1995 is $8.64, $15.07 and $17.14, respectively.

10. Shareholders' Equity (continued)

The following table summarizes the status of the stock options outstanding and exercisable at December 31, 1997:

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted-Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
$0.08 to $0.64	204,000	4.2 Years	$0.365	204,000	$0.365
$0.88 to $1.12	210,000	4.2 Years	$0.939	210,000	$0.939
$11.40 to $15.20	1,812,000	8.3 Years	$15.065	682,000	$14.965
$18.25	120,000	9.4 Years	$18.25	18,000	$18.25
Total	2,346,000			1,114,000	

11. Income Taxes

The provision for income taxes consists of the following:

	Year ended December 31 1997	1996	1995
Current:			
Federal	$741,000	$ –	$ –
State	947,000	–	–
Puerto Rico and U.S. Virgin Islands	471,000	4,555,000	4,007,000
Total current	2,159,000	4,555,000	4,007,000
Deferred:			
Federal	–	–	–
Puerto Rico	–	797,000	–
Total deferred	–	797,000	–
	$2,159,000	$5,352,000	$4,007,000

The provision for income taxes differs from the statutory rate principally due to the state and local income taxes from each subsidiary and income taxes on CoreComm Incorporated's income.

11. Income Taxes (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 1997 and 1996 are as follows:

	December 31 1997	1996
Deferred tax liabilities:		
Tax over book depreciation and amortization	$29,094,000	$21,759,000
Deferred tax assets:		
Net operating loss carryforwards	36,352,000	27,125,000
Valuation allowance for deferred tax assets	(8,055,000)	(6,163,000)
Net deferred tax assets	28,297,000	20,962,000
Net deferred tax liabilities	$ 797,000	$ 797,000

At December 31, 1997, the Company had net operating loss carryforwards of $106,900,000 for federal income tax purposes that expire as follows: $3,800,000 in 2004, $3,900,000 in 2006, $20,400,000 in 2007, $26,400,000 in 2008, $14,100,000 in 2009, $9,600,000 in 2010, $5,500,000 in 2011 and $23,200,000 in 2012.

12. Pension Plans

Two subsidiaries of the Company have defined contribution plans covering all employees who have completed six months of employment. The Company's matching contributions are determined annually. Participants can make salary deferral contributions of 1% to 20% of annual compensation not to exceed the maximum allowed by law. The Company's expense for 1997, 1996 and 1995 was $204,000, $168,000 and $134,000, respectively.

13. Leases

Total rent expense during the years ended December 31, 1997, 1996, and 1995 was $3,680,000, $3,085,000 and $2,293,000, respectively.

Future minimum annual lease payments under noncancellable operating leases at December 31, 1997 are: $3,099,000 (1998); $2,887,000 (1999); $2,197,000 (2000); $1,392,000 (2001); $860,000 (2002) and $3,525,000 thereafter.

13. Leases (continued)

In 1997, the Company entered into a lease for office space through 2012 which is classified as a capital lease for financial reporting purposes. Accordingly, an asset of $9,922,000 has been recorded. Future minimum annual payments under this lease at December 31, 1997 are as follows:

1998	$1,196,000
1999	1,196,000
2000	1,196,000
2001	1,196,000
2002	1,257,000
Thereafter	12,169,000
	18,210,000
Interest	(8,482,000)
Present value of net minimum obligations	9,728,000
Current portion	(272,000)
	$9,456,000

14. Commitments and Contingent Liabilities

As of December 31, 1997, the Company was committed to purchase approximately $4,100,000 for cellular network and other equipment and for construction services. In addition, as of December 31, 1997, the Company had commitments to purchase telephones, pagers and accessories of approximately $1,500,000.

In 1992, the Company entered into an agreement which in effect provides for a twenty year license to use a service mark which is also licensed to many of the non-wireline cellular systems in the United States. The Company is required to pay licensing and advertising fees, and to maintain certain service quality standards. The total fees paid for 1997 were $216,000, which were determined by the size of the Company's markets.

The Company is involved in various disputes, arising in the ordinary course of business, which may result in pending or threatened litigation. The Company's management expects no material adverse effect on the Company's financial condition, results of operations or cash flows to result from these matters.

Schedule II – Valuation and Qualifying Accounts

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts-Describe	Deductions - Describe	Balance at End of Period
Year ended December 31, 1997:					
Allowance for doubtful accounts	$3,767,000	$7,146,000	$ -	$(8,807,000) (a)	$2,106,000
Year ended December 31, 1996:					
Allowance for doubtful accounts	$3,233,000	$7,520,000	$ -	$(6,986,000) (a)	$3,767,000
Year ended December 31, 1995:					
Allowance for doubtful accounts	$1,174,000	$6,603,000	$ -	$(4,544,000) (a)	$3,233,000

(a) - Uncollectible accounts written off, net of recoveries.

ATTACHMENT B

MANAGERIAL AND TECHNICAL QUALIFICATIONS

MANAGEMENT

George S. Blumenthal - Chairman of the Board of Directors, CoreComm Florida, Inc.

George S. Blumenthal has been the director of CoreComm Florida, Inc.'s ultimate parent company, CoreComm Limited ("CoreComm"), since March 1998. Mr. Blumenthal was Chairman, Treasurer and a director of Cellular Communications of Puerto Rico ("CCPR") from February 1992 until its sale in 1998 and was Chief Executive Officer from March 1994 until March 1998. In addition, Mr. Blumenthal is Chairman, Treasurer and a director of NTL, Incorporated ("NTL"). Mr. Blumenthal is also a director of Andover Togs, Inc. Mr. Blumenthal was Chairman, Treasurer and a director of Cellular Communications International from its organization until April 1994. Mr. Blumenthal was also Chairman, Treasurer and a director of Cellular Communications, Inc. ("CCI") from its founding in 1981 until its merger in 1996 into a subsidiary of AirTouch Communications, Inc.

J. Barclay Knapp - Chief Executive Officer, CoreComm Florida, Inc.

J. Barclay Knapp has been CoreComm's President, Chief Executive Officer, Chief Financial Officer and director since March 1998. Mr. Knapp was appointed President of CCPR in March 1994 and Chief Executive Officer in March 1998, and remained in those positions until the sale of CCPR. Mr. Knapp has been a director of CCPR since February 1992 and was Chief Financial Officer from that date to 1997. Mr. Knapp was Executive Vice President, Chief Operating Officer and a director of Cellular Communications International from July 1991 until June 1998. He is President, Chief Executive Officer, Chief Financial Officer and a director of NTL. Mr. Knapp was also Executive Vice President, Chief Operating Officer, Chief Financial Officer and a director of CCI until the CCI merger in 1996.

Patty J. Flynt - President, CoreComm Florida, Inc.

Patty J. Flynt has been Chief Operating Officer of CoreComm since 1998. She has worked with CoreComm and its historical affiliates since 1989. She previously served as Group Managing Director - Information Systems for NTL, and Vice President of Information Systems for CCI. Prior to joining CCI, she served in the Information Services division of Blue Cross/Blue Shield of Ohio for 17 years. Flynt is a native of Cleveland, and earned both her undergraduate degree (1984) and her M.B.A. (1987) from Baldwin-Wallace College in Cleveland.

Richard J. Lubasch – Senior Vice President-General Counsel, Secretary, CoreComm-Florida, Inc.

Richard J. Lubasch has been CoreComm's Senior Vice President - General Counsel and Secretary since 1998. Additionally, Mr. Lubasch was CCPR's Senior Vice President - General Counsel and Secretary from February 1992 until its sale. He was also the Senior Vice President - General Counsel, Secretary and Treasurer of Cellular Communications International from July 1991 until its sale, and has been Senior Vice President - General Counsel and Secretary of NTL since its formation. Mr. Lubasch was Vice President - General Counsel and Secretary of CCI from July 1987 until the CCI merger in 1996.

TECHNICAL

Thomas S. Della Rocco - Vice President - Network Design and Build, CoreComm Florida, Inc.

Mr. Della Rocco is Vice President of CoreComm Florida, Inc. Prior to joining CoreComm, Mr. Della Rocco worked as Vice President of CableTel (now known as NTL Incorporated in the U.K.) beginning in June 1993. Mr. Della Rocco was the first employee of that company in the U.K. and assisted in establishing its technical staff in six regions.

Mr. Della Rocco has over fifteen years experience in System Engineering, construction and operations of many types of telecommunications systems world wide, including international and domestic A and B type earth stations, TV broadcast stations, private microwave networks, cellular, analog and digital radio systems, telephony switching and CATV. Prior to joining NTL, Mr. Della Rocco worked for CCI beginning in 1984, eventually being promoted to Senior Vice President of Network Services responsible for all network aspects, including design, build out, maintenance and budgeting.

Mr. Della Rocco began his telecommunications career in 1977 with Harris Corporate in Melborne, Florida as a Field Engineer responsible for constructing and delivering completed international and domestic earth stations in Sudan and Uganda. Dr. Della Rocco graduated with a Mechanical Engineering specialty from Brevard Community College in 1977.

Stefan Eckert – Vice President, CoreComm Florida, Inc.

Stefan Eckert has served as Vice President of CoreComm since its formation. He has worked for CoreComm and its related historical affiliates since 1985. He served as Senior Vice President of Sales for the Southern Region for CCI. Prior to joining CCI, he was General Manager of Aratex, and served in the Air National Guard and Coast Guard Reserves. Eckert is a 1972 graduate of the University of Missouri, St. Louis, with a B.S. in Business Administration.

Beth K. Fisher – Vice President - Customer Relations, CoreComm Florida, Inc.

Since joining CoreComm in August 1996, Beth Fisher's responsibilities have revolved around keeping customers satisfied. Her 14 years of experience in the telecommunications industry lends well to her position as Vice President - Customer Operations. In 1985, Fisher joined Cellular One in Dayton, OH as a controller, and eventually worked her way up to regional controller, general manager and senior vice president of customer operations in Ohio and Michigan. Prior to her start in telecommunications, she worked as a controller for a start-up regional transportation firm, Sawyer Eastern, in Hammond, IN and as a staff auditor for Peat Marwick Mitchell in South Bend, IN. Fisher graduated with an Accounting degree from Manchester College in Indiana in 1982 and earned her CPA the following year.

Hamid R. Heidary – Vice President - Technology, CoreComm Florida, Inc.

Mr. Heidary is Vice President-Technology for CoreComm Florida, Inc. He also serves as Vice President-Network Services Operations of NTL, Inc.'s U.K. operations. Mr. Heidary joined NTL in 1993 and has served as the Group Managing Director of its U.K. operations and Group Director of Network Services. Mr. Heidary was first appointed as a Vice President of NTL in June 1994. He has spent over sixteen years in various technical roles within the cable television and communications industry.

Mr. Heidary was the principal architect of NTL's local loop telephony & CATV networks, covering more than 2.5 million homes and businesses. He was intimately involved in the design and planning of NTL's fiber based SONET network covering England, Scotland, Wales, Northern Scotland and the Republic of Ireland, and was responsible for budgeting, equipment selection, vendor approval and the construction of both the local loop and the nationwide SONET network with an approximate annual capital expenditure budget in excess of $300 million. Prior to joining NTL, Mr. Heidary held the position of Vice President of Engineering at C-Core Electronics, Inc. of Pennsylvania, U.S.A.

Mr. Heidary received an MBA from California Coast University, an MSEE from Southern Illinois University, and a BSEE from Southern Illinois University.

The personnel listed above may be contacted at the following address and phone number:

CoreComm Florida, Inc.
110 East 59th Street
New York, NY 10022,
Phone: (212) 906-8440
Facsimile: (212) 906-8497

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

James J. Valentino
Direct dial 202-434-7363
jjvalentino@mintz.com

617 542 6000
617 542 2241 *fax*

990588

December 29, 1999

Check received with filing and
forwarded ...
Initials of person who forwarded check:

DOCUMENT NUMBER-DATE
15878 DEC 30 99
FPSC-RECORDS/REPORTING

Via Overnight Courier

Florida Public Service Commission
Division of Communications
Certificate & Compliance Section
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0866

Re: CoreComm Florida, Inc. Petition for Certification to Provide Alternative Local Exchange Service

Dear Sir or Madam:

Enclosed for filing are an original and six (6) copies of the application of CoreComm Florida, Inc. For Authority to Provide Alternative Local Exchange Within the State of Florida.

An additional copy of the application is enclosed. Please date stamp it, and return it to us in the enclosed, self-addressed, postage per-paid envelope. Should you have any questions, please contact the undersigned.

Sincerely,

12541

CORECOMM NEWCO, INC.
10 SOUTH RIVERSIDE PLAZA
SUITE 2000
CHICAGO, IL 60606

HARRIS TRUST AND SAVINGS BANK
PRIVATE BANK - CHICAGO
CHICAGO, ILLINOIS 60603
2-28-710

12541
27-DEC-99

PAY TO THE ORDER OF FLORIDA PUBLIC SERVICE COMMISSION $********250.00

Two Hundred Fifty Dollars And 00 Cents***************************** DOLLARS

FLORIDA PUBLIC SERVICE COMMISSION
2540SHUMARD OAK BLVD
TALLAHASSEE, FL 32399-0850

MEMO

Security features included. Details on back.