FORM S-4/A

Registration of securities issued in business combination transactions [amend]

Filing Date: **1997-12-18**
SEC Accession No. 0000950123-97-010485

(HTML Version on secdatabase.com)

FILER

AMERICAN COMMUNICATIONS SERVICES INC

CIK:**932140**| IRS No.: **521947746** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **S-4/A** | Act: **33** | File No.: **333-41273** | Film No.: **97740513**
SIC: **4813** Telephone communications (no radiotelephone)

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131 NATIONAL BUSINESS PARKWAY
131 NATIONAL BUSINESS PARKWAY
ANNAPOLIS JUNCTION MD 20701

Business Address
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3106174200

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON DECEMBER 18, 1997

REGISTRATION NO. 333-41273

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AMERICAN COMMUNICATIONS SERVICES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>

<S>	<C>	<C>
DELAWARE	4813	52-1947746
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

</TABLE>

131 NATIONAL BUSINESS PARKWAY
ANNAPOLIS JUNCTION, MARYLAND 20701
(301) 617-4200
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING
AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

RILEY M. MURPHY, ESQ.
AMERICAN COMMUNICATIONS SERVICES, INC.
131 NATIONAL BUSINESS PARKWAY
ANNAPOLIS JUNCTION, MARYLAND 20701
(301) 617-4215
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING
AREA CODE, OF AGENT FOR SERVICE)

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with copies to:

GEORGE W. BILICIC, JR., ESQ.
CRAVATH, SWAINE & MOORE
WORLDWIDE PLAZA
825 EIGHTH AVENUE
NEW YORK, NEW YORK 10019-7475
(212) 474-1000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED DISTRIBUTION OF THE SECURITIES TO THE PUBLIC: As soon as practicable after the Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME

EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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PROSPECTUS SUBJECT TO COMPLETION, DATED DECEMBER 18, 1977

$150,000,000

[ACSI LOGO]

OFFER TO EXCHANGE ITS 12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009, WHICH HAS BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, FOR ANY AND ALL OUTSTANDING SHARES OF ITS 12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009

The Exchange Offer will expire at 5:00p.m., New York City time, on , 1998, unless extended.

American Communications Services, Inc. (the "Company" or "ACSI") hereby offers, upon the terms and subject to the conditions set forth in this Prospectus and the accompanying letter of transmittal (the "Letter of Transmittal" and, together with this Prospectus, the "Exchange Offer"), to exchange its 12 3/4% Junior Redeemable Preferred Stock due 2009 (the "New Preferred Stock") which has been registered under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to a Registration Statement of which this Prospectus is a part, for any and all outstanding shares of its 12 3/4% Junior Redeemable Preferred Stock due 2009 (the "Old Preferred Stock"), of which 150,000 shares are outstanding as of the date hereof. The New Preferred Stock will have and the Old Preferred Stock has a liquidation preference of $1,000 per share (the "Liquidation Preference"). The New Preferred Stock and the Old Preferred Stock are collectively referred to herein as the "Preferred Stock."

The Company will accept for exchange any and all Old Preferred Stock that is validly tendered and not withdrawn on or prior to 5:00 P.M., New York City time, on the date the Exchange Offer expires (the "Expiration Date"), which will be , 1998 (20 business days following the commencement of the Exchange Offer), unless the Exchange Offer is extended. Tenders of Old Notes may be withdrawn at any time prior to 5:00 P.M., New York City time, on the Expiration Date. The Exchange Offer is not conditioned upon any minimum number of shares of Old Preferred Stock being tendered for exchange. No fractional shares of Old Preferred Stock may be tendered. See "The Exchange Offer."

The obligations of the Company with respect to the New Preferred Stock will be identical to the obligations of the Company with respect to the Old Preferred Stock and holders will be entitled to the benefits of the same Certificate of Designation (as defined), which governs both the Old Preferred Stock and the New Preferred Stock. The form and terms of the New Preferred Stock are generally the same as the form and terms of the Old Preferred Stock, except that the New Preferred Stock does not contain terms with respect to dividend rate step-up provisions and the New Preferred Stock has been registered under the Securities Act and therefore will not bear legends restricting the transfer thereof. See "Description of the Preferred Stock." The dividend rate step-up provisions are intended to benefit holders of the Old Preferred Stock if the Company breaches its obligations under the Registration Rights Agreement (as defined). By consummating the Exchange Offer, the Company will satisfy its obligations to the holders of the Old Preferred Stock, and hence the New Preferred Stock will not contain dividend rate step-up provisions. See "Description of the Preferred Stock -- Exchange Offer; Registration Rights."

Dividends on the New Preferred Stock will accrue from the date of issuance, are cumulative and will be payable quarterly, in arrears, on January 15, April 15, July 15 and October 15 of each year (each, a "Dividend Payment Date") commencing January 15, 1998, at a rate per annum of 12 3/4% of the Liquidation Preference thereof. Dividends will also accrue and cumulate on any accrued and unpaid dividends. Dividends may be paid, at the Company's option, on any Dividend Payment Date, either in cash or by the issuance of additional shares of New Preferred Stock (and, at the Company's option, payment of cash in lieu of fractional shares) with an aggregate Liquidation Preference equal to the amount of such dividends; provided, however, that after October 15, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the New Preferred Stock by the terms of any agreement or instrument governing any of its then outstanding indebtedness, the Company shall pay dividends in cash. The New Preferred Stock will be redeemable at the Company's option, in whole or in part, at any time on or after October 15, 2003 at the redemption prices set forth herein, plus, without duplication, accrued and unpaid dividends to the date of redemption. In addition, prior to October 15, 2000, the Company may, at its option, redeem shares of New Preferred Stock having a Liquidation Preference of up to an aggregate of 35% of the initial aggregate Liquidation Preference at a redemption price of 112.75%, plus, without duplication, accrued and unpaid dividends to the date of redemption, with the net proceeds of (i) one or more public common equity offerings generating cash proceeds of at least $25 million or (ii) the sale of capital stock generating cash proceeds of at least $25 million to an Eligible Equity Investor (as defined herein); provided that after any such redemption shares of New Preferred Stock having a Liquidation Preference of at least 65% of the initial aggregate Liquidation Preference remain outstanding. The Company is required to redeem all the New Preferred Stock outstanding on October 15, 2009 at a redemption price equal to 100% of the Liquidation Preference thereof, plus, without duplication, accrued and unpaid dividends to the date of redemption. Upon a Change of Control (as defined), the Company will be required, subject to certain conditions, to offer to purchase all outstanding shares of the New Preferred Stock at a price equal to 101% of the Liquidation Preference thereof, or, if such offer to purchase cannot be made, to reset the dividend rate on the New Preferred Stock so that, after such reset, the Preferred Stock would have a market value of 101% of the Liquidation Preference thereof. See "Description of the Preferred Stock."

The New Preferred Stock will rank (i) senior to all existing and future Junior Stock (as defined), (ii) on a parity with all existing and future Parity Stock (as defined) and (iii) junior to the Company's 14 3/4% Redeemable Preferred Stock due 2008 (of which approximately $77.5 million aggregate liquidation preference was outstanding at September 30, 1997). In addition, the New Preferred Stock will rank junior in right of payment to all indebtedness and other obligations of the Company and its subsidiaries. As of September 30, 1997, there was approximately $474.4 million of outstanding indebtedness (including trade payables and other liabilities) of the Company and its subsidiaries.

Based on interpretations by the staff of the SEC, as set forth in no-action letters issued to third parties, the Company believes that the New Preferred Stock issued pursuant to the Exchange Offer may be offered for resale, resold or otherwise transferred by holders thereof (other than any holder that is an "affiliate" of the Company as defined under Rule 405 of the Securities Act), provided that such New Preferred Stock is acquired in the ordinary course of such holders' business and such holders are not engaged in, and do not intend to engage in, a distribution of such New Preferred Stock and have no arrangement with any person to participate in the distribution of such New Preferred Stock. However, the staff of the SEC has not considered the Exchange Offer in the context of a no-action letter and there can be no assurance that the staff of the SEC would make a similar determination with respect to the Exchange Offer as in such other circumstances. By tendering the Old Preferred Stock in exchange for New Preferred Stock, each holder, other than a broker-dealer, will represent to the Company that: (i) it is not an "affiliate" of the Company (as defined under Rule 405 of the Securities Act); (ii) any New Preferred Stock to be received by it were acquired in its ordinary business; and (iii) it is not engaged in, and does not intend to engage in, a distribution of such New Preferred Stock and has no arrangement or understanding to participate in a distribution of the New Preferred Stock. Each broker-dealer that receives New Preferred Stock for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Preferred Stock. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Preferred Stock received in exchange for Old Preferred Stock where such Old Preferred Stock was acquired by such broker-dealer as a result of market-making activities or other trading activities. The Company has agreed that, starting on the Expiration Date and ending on the close of business 180 days after the Expiration Date, it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

Prior to this Exchange Offer, there has been no public market for the Old Preferred Stock or the New Preferred Stock. If such a market were to develop, the New Preferred Stock could trade at prices that may be higher or lower than its liquidation preference. The Company does not intend to apply for listing or quotation of the New Preferred Stock on any securities exchange or stock market. Therefore, there can be no assurance as to the liquidity of any trading market for the New Preferred Stock or that an active public market for the New Preferred Stock will develop. See "Risk Factors -- Lack of Public Market; Exchange Offer."

Bear Stearns & Co. Inc. (the "Initial Purchaser") has agreed that it will act as a market-maker for the New Preferred Stock. However, the Initial Purchaser is not obligated to so act and it may discontinue any such market-making at any time without notice. The Company will not receive any proceeds from this Exchange Offer. The Company has agreed to pay the expenses of the Exchange Offer. No underwriter is being used in connection with this Exchange Offer.

FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY HOLDERS OF OLD PREFERRED STOCK WHO TENDER THEIR OLD PREFERRED STOCK IN THE EXCHANGE OFFER, SEE "RISK FACTORS" BEGINNING ON PAGE 14 OF THIS PROSPECTUS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE

ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is , 1997.

ADDITIONAL INFORMATION

The Company is subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and in accordance therewith files reports, proxy and information statements and other information with the SEC. Such reports, proxy and information statements and other information may be inspected and copied at the public reference facilities of the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, or at its regional offices located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of such material can be obtained from the SEC by mail at prescribed rates, or in certain cases by accessing the SEC's World Wide Web site at http://www.sec.gov. Requests should be directed to the SEC's Public Reference Section, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The Company's Common Stock is quoted on the Nasdaq National Market and material filed by the Company can be inspected at the offices of the National Association of Securities Dealers, Inc., 1735 K Street N.W., Washington, D.C. 20006.

The Company has filed with the SEC a registration statement on Form S-4 (herein, together with all amendments and exhibits, referred to as the "Registration Statement") under the Securities Act with respect to the New Preferred Stock offered hereby. This Prospectus, which forms a part of the Registration Statement, does not contain all of the information set forth or incorporated by reference in the Registration Statement and the exhibits and schedules thereto, certain parts of which are omitted in accordance with the rules and regulations of the SEC. For further information with respect to the Company and the New Preferred Stock offered hereby, reference is made to the Registration Statement. This Prospectus contains summaries of the material terms and provisions of certain documents and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement. Copies of the Registration Statement and the exhibits thereto may be inspected, without charge, at the offices of the SEC at the address set forth above.

Certain statements contained in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," including statements regarding the development of the Company's businesses, the markets for the Company's services and products, the Company's anticipated capital expenditures, regulatory reform and other statements contained herein regarding matters that are not historical facts, are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, those discussed under "Risk Factors." The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any of the forward-looking statements contained herein to reflect any change in the Company's expectations, with regard thereto or any changes in events, conditions or circumstances on which any statement is based.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents previously filed with the SEC (File No. 0-25314) are hereby incorporated by reference into this Prospectus:

(i) the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1996;

(ii) the Company's Annual Report on Form 10-KSB/A for the fiscal year ended June 30, 1996;

(iii) the Company's Transition Report on Form 10-KSB for the fiscal period from July 1, 1996 to December 31, 1996;

(iv) the Company's Transition Report on Form 10-KSB/A for the fiscal period from July 1, 1996 to December 31, 1996;

(v) the Company's Quarterly Reports on Form 10-QSB for the quarterly periods ended March 31, June 30 and September 30, 1997;

(vi) the Company's Current Reports on Form 8-K, dated January 8, 1997, January 9, 1997, February 7, 1997, July 29, 1997, October 24, 1997 and

November 7, 1997; and

(vii) the description of the Company's Common Stock contained in its registration statement on Form 8-A filed with the SEC on December 23, 1994, including any amendments or reports filed for the purpose of updating such description.

All documents subsequently filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the Expiration Date to which this Prospectus relates shall be deemed to be incorporated by reference into this Prospectus and to be part hereof from the date of filing thereof.

Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated herein modifies or replaces such statement. Any statement so modified or superseded shall not be deemed, in its unmodified form, to constitute a part of this Prospectus.

This Prospectus incorporates documents by reference which are not presented herein or delivered herewith. These documents are available from Riley M. Murphy, Executive Vice President -- Legal and Regulatory Affairs, American Communications Services, Inc., at the Company's executive offices located at 131 National Business Parkway, Suite 100, Annapolis Junction, MD 20701, telephone (301) 617-4200. In order to ensure timely delivery of the documents, any request should be made by   , 1998.

SUMMARY

The following summary is qualified in its entirety by the more detailed information and Consolidated Financial Statements and notes thereto appearing elsewhere or incorporated by reference in this Prospectus. Subsequent to June 30, 1996, the Company changed its fiscal year-end from June 30 to December 31. Accordingly, all data for the fiscal period ended December 31, 1996 are for the six-month period then ended. Please refer to the "Glossary" for the definitions of certain capitalized terms used herein and elsewhere in this Prospectus. As used in this Prospectus, unless the context otherwise requires, "ACSI" or the "Company" refers to American Communications Services, Inc. and its subsidiaries.

THE COMPANY

American Communications Services, Inc. ("ACSI" or the "Company") provides a broad range of integrated local voice and data communications services primarily to commercial customers in mid-sized markets in the southern United States. As a competitive local exchange carrier ("CLEC"), the Company has constructed its own local fiber optic networks in 32 markets, is now evaluating additional markets in which it may construct local networks and expects to offer services on its own networks or on a resale basis in up to 50 markets by the end of 1998. The Company uses its own facilities and leases network capacity from others to provide long distance carriers, Internet service providers ("ISPs") and business, government and institutional end-users with an alternative to the incumbent local phone companies for high-quality voice, data, video transport and other telecommunications services. The Company believes that its customers choose ACSI's telecommunications services because of the reliability and breadth of the Company's services, discounted pricing relative to the incumbent local exchange carrier ("ILEC") and a high level of customer service.

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

PRODUCTS AND SERVICES

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

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

- Local Switched Voice Services. The Company began offering local switched voice services (including dial tone) in late 1996. As of September 30, 1997, the Company offered such local switched services using its own facilities in 9 markets and offered such services on a resale basis in a total of 32 markets. The Company expects to offer facilities-based services in 16 of the markets in which it has operational local networks by the end of 1997, and it expects to offer local services on a resale basis in additional markets. As an adjunct to its local switched services, the Company anticipates providing calling card and other interLATA services by the end of fiscal 1997.

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

STRATEGY

The Company's objective is to become a full-service alternative to the ILEC primarily for business, government and institutional end-users in its markets by offering superior products with excellent customer service at competitive prices. In order to achieve this objective, the Company seeks to:

Leverage Existing Infrastructure.

The Company believes that its integrated telecommunications networks, both its local fiber networks and ACSINet, are capable of providing a broad range of voice and data communications services to its customers. The Company is focusing its efforts on improving penetration in the markets it already serves by continuing to offer additional services. The Company believes that providing switched local voice services permits it to increase the traffic and revenue associated with its networks. The Company also recently began providing calling-card, teleconferencing and other long distance services. In markets in which it does have operational networks, the Company's decision to pursue a resale strategy would help position the Company as a full-service provider, capable of providing its customers with a one-stop-shopping alternative to the ILEC. In markets in which it does not currently have an operational network, this resale strategy may position the Company to eventually construct networks in those markets, which networks would benefit immediately from an existing customer base.

Develop Direct and Indirect Sales Channels to Commercial End-Users.

The Company has divided its sales and marketing efforts into three different channels: direct sales to end-users, sales to IXCs and ISPs and sales of private-label services through alternative distribution channels.

- Direct Sales. The Company's local sales force continues to focus on the commercial end-users in each of the markets it serves. The Company believes that its local, customer-oriented, single point-of-service sales structure facilitates greater customer care in both the sales and customer service processes and helps the Company differentiate itself as a customer-focused telecommunications services provider. The Company's major account sales force targets large national accounts. As of September 30, 1997, the Company's sales force in this area was made up of 178 sales people, which represents an increase of 123 sales people since December 31, 1996, and is expected to increase to 210 sales people by the end of 1997.

- Sales to IXCs and ISPs. The Company sells dedicated services to long distance carriers and ISPs who use the Company's products and services to provide local access for their own products. For example, the Company recently entered into an agreement with MCImetro in which, subject to certain conditions, MCI has agreed to name ACSI as its preferred local provider for dedicated and transport services in 21 ACSI markets for at least a five-year period. See "Recent Developments."

- Sales Through Alternative Distribution Channels. As of September 30, 1997, the Company had executed 63 sales agency agreements and is actively recruiting additional telecommunications sales agents to market the Company's services. In addition, the Company intends to expand distribution of its services by attempting to contract with IXCs, utilities, cable television service providers ("CATVs"), out-of-region regional Bell operating companies ("RBOCs"), other ILECs and cellular and other wireless communication providers to resell the Company's products and services under their own private labels. The Company is presently recruiting a dedicated sales force to serve in the support of sales through these and other alternative distribution channels.

Market the Company's Services Under the ACSI Brand Name.

The Company is establishing the ACSI brand name by marketing and packaging its broad array of communications services directly to end-users. In markets in which it has local networks established, both switched services and data services are marketed under the ACSI brand name; in markets in which the Company has no network installed, it resells local switched services under the ACSI brand name. In both types of markets, the Company also pursues opportunities to bundle its services together to strengthen the ACSI identity as a full-service provider of telecommunications services.

Provide Superior Customer Service.

The Company is developing and implementing an integrated customer care strategy that is intended to provide a heightened level of responsive customer service across its full range of existing and planned products and services. This strategy comprises infrastructure, training, performance monitoring and image/brand recognition and would serve to leverage the Company's operational support systems, other information/financial systems and customer care organizations. For example, the Company has made significant capital investments in its integrated network management platform, which monitors and manages all voice and data network elements. The Company expects to have completed customer care and billing systems by as early as the end of 1998, which are intended to improve the Company's provision of integrated customer service on a cost efficient basis. These and other quality management and improvement programs, when implemented, are expected to enable the Company to differentiate itself in the marketplace by providing a level of customer care and customer service that is of a higher quality than that which is available in today's market.

Expand Resale of Exchanged Local Voice Services.

Management believes that the Company can successfully enter new markets with lower capital investment by acting as a reseller of either local switched voice or data services. This strategy is intended to allow the Company to build brand name awareness and develop a customer base without incurring the initial capital costs typically incurred by facilities-based entrants. This strategy also enables the Company to make capital decisions based on where its customers are most highly concentrated. Once the Company has established a customer base, the Company plans to invest in extending its network infrastructure in those markets that it already serves.

Accelerate Financial Return on Incremental Expenditures.

The Company is pursuing opportunities that accelerate the return on the Company's invested capital. The Company believes that it will achieve an earlier return on its investment by focusing on new customer applications in existing markets rather than continuing to increase the number of new networks built. For this reason, the Company has modified its earlier goal of constructing 50 local networks by the end of 1998, is now evaluating additional markets in which it may construct local networks and is establishing a presence in additional markets through resale of switched services and data POPs. The Company plans to redeploy into customer applications in existing markets the capital that was scheduled to be used to develop those additional networks. While management continues to believe in the long-term return on capital afforded by the constructed networks, it believes that the investment in customer applications will have a more immediate return. As part of this strategy, the Company has also implemented a shift in its incentive-based compensation for a number of its key executives away from new network development and growth to revenue and EBITDA (as defined herein).

MANAGEMENT TEAM

The Company's senior management is among the most experienced in the emerging competitive local telecommunications industry. Members of ACSI's executive team developed and/or operated CAP networks in 25 major metropolitan markets for companies such as MFS Communications and Teleport Communications

Group. Key executives include:

ANTHONY J. POMPLIANO, CHAIRMAN OF THE BOARD OF DIRECTORS, had more than 30 years of experience in the telecommunications industry before joining ACSI in August 1993. He was co-founder and President of Metropolitan Fiber Systems, the predecessor organization to MFS Communications, a publicly-traded CLEC that was acquired by WorldCom, Inc. in December 1996. Mr. Pompliano served as President, CEO and Vice Chairman of MFS Communications from April 1988 until March 1991.

JACK E. REICH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, had 22 years of telecommunications industry and management experience before joining ACSI in December 1996. For two and one-half years prior to joining ACSI, Mr. Reich was employed by Ameritech, Inc. as President of its Custom Business Service Organization, where he was responsible for full business marketing to Ameritech's largest customers for telecommunications services, advanced data services, electronic commerce and managed services/outsource initiatives. Prior to that, he served as President of MCI's Multinational Accounts organization and also served as MCI's Vice President of Products Marketing.

DAVID L. PIAZZA, CHIEF FINANCIAL OFFICER, joined the Company on March 24, 1997. For ten years prior to joining the Company, Mr. Piazza was employed by MFS Communications in a variety of finance and senior management positions, most recently as the Senior Vice President and Chief Financial Officer of MFS Telecom, Inc., a subsidiary of MFS Communications.

RILEY M. MURPHY, GENERAL COUNSEL, EXECUTIVE VICE PRESIDENT -- LEGAL AND REGULATORY AFFAIRS AND SECRETARY, had 12 years of experience in the private practice of telecommunications regulatory law for interexchange, cellular, paging and other competitive telecommunications services prior to joining the Company in April 1994. Since February 1995, she has served as an officer and director of the Association for Local Telecommunications Services.

RECENT DEVELOPMENTS

Junior Preferred Stock Offering. On October 16, 1997, the Company consummated the sale of 150,000 shares (the "Junior Preferred Stock Offering" and, together with the Unit Offering and the Debt Offering, the "Recent Offerings") of the Old Preferred Stock. Total net proceeds to the Company from the Junior Preferred Stock Offering were approximately $145.7 million.

Management Change. Effective September 3, 1997, George M. Tronsrue, III resigned from his position as President and Chief Operating Officer -- Strategy and Technology Development. The Company and Mr. Tronsrue have entered into a separation agreement.

Debt Offering. On July 23, 1997, the Company consummated the sale of $220 million aggregate principal amount (the "Debt Offering") of its 13 3/4% Senior Notes due 2007 (the "2007 Notes"). Of the total net proceeds of $208 million, the Company placed approximately $70 million, representing funds sufficient to pay the first five semi-annual interest payments on the 2007 Notes, into an escrow account for the benefit of the holders thereof.

Unit Offering. On July 10, 1997, the Company consummated the issuance and sale of 75,000 units (the "Unit Offering"), consisting of its 14 3/4% Redeemable Preferred Stock due 2008 (the "14 3/4% Preferred Stock") and warrants (the "Warrants") to purchase approximately 6,023,800 shares (subject to adjustment) of common stock (the "Common Stock"). Total net proceeds to the Company from the Unit Offering were approximately $67 million.

Common Equity Offering. On April 15, 1997, the Company consummated (i) the issuance and sale of 5,060,000 shares of Common Stock (inclusive of the May 14, 1997 exercise by the underwriters of their over-

allotment option) at a price per share of $5.00 in an underwritten public offering and (ii) the issuance and sale directly to certain of its principal stockholders of 3,600,000 shares of Common Stock at a purchase price of $4.70 per share (together, the "Common Stock Offering"). Total net proceeds to the Company from the Common Stock Offering were approximately $40 million.

MCImetro Agreement. Effective March 6, 1997, the Company and MCImetro entered into an agreement in which MCI named ACSI as its preferred local provider for dedicated and transport services in 21 ACSI markets for at least a five year period. Pursuant to this preferred provider agreement, MCI will migrate current dedicated transport circuits in these markets to ACSI and ACSI will be listed as the first choice provider in MCI's provisioning system for all new dedicated access circuits in the designated markets and on June 19, 1997, executed an agreement giving MCI the option to purchase loop transport services from ACSI where ACSI has collocations with the ILEC and MCI has deployed its own local switch. The parties also have agreed to use their best efforts to execute an agreement pursuant to which MCI will resell local switched services in at least 10 of the 21 identified markets on a wholesale basis. In connection with these agreements (collectively, the "MCI Transaction"), ACSI issued MCI warrants to purchase up to 620,000 shares of ACSI's Common Stock at $9.86 per share, subject to number and price adjustment in certain circumstances. ACSI has also agreed to issue warrants to purchase up to an aggregate of approximately 1.7 million additional shares of ACSI's Common Stock at fair market value on the date of grant in tranches every six months after execution of the preferred provider agreement, subject to, and based upon, certain increases in revenues to ACSI generated under that agreement. On September 30, 1997, the Company issued 37,582 of such warrants with an exercise price of $9.503 per share. Of the 620,000 warrants issued to MCI on March 6, 1997, 360,000 warrants have vested and the remaining 260,000 warrants will vest only upon execution of the switched services resale agreement. MCI has certain registration rights with respect to any shares of Common Stock issued to MCI in connection with the MCI Transaction.

Cybergate Acquisition. On January 17, 1997, the Company acquired 100% of the outstanding capital stock of Cybergate, Inc. in exchange for 1,030,000 shares of Common Stock plus up to an additional 150,000 shares if certain performance goals are achieved (the "Cybergate Acquisition"). Cybergate, a Florida-based ISP, delivers high-speed data communications services, including computer network connections and related infrastructure services, that provide both commercial and residential customers access to the Internet through their personal computers and the use of a modem. Cybergate had over 200 commercial dedicated line accounts and 13,000 consumer accounts at December 31, 1996 compared to 25 commercial accounts and 7,500 consumer accounts at December 31, 1995. Cybergate had revenues of approximately $4.9 million and EBITDA of approximately $750,000 for the year ended December 31, 1996. The Company believes the Cybergate Acquisition will help ACSI achieve its goal of becoming a major provider of high-speed data communications services in the southern United States. The Cybergate Acquisition provides ACSI with the ability to offer direct Internet access to end-user commercial and consumer customers as well as to provide private label Internet services for the Company's strategic distribution partners throughout all of the Company's markets.

THE EXCHANGE OFFER

REGISTRATION RIGHTS AGREEMENT............... The Old Preferred Stock was sold by the Company on October 16, 1997, to the Initial Purchaser, which placed the Old Preferred Stock with institutional investors. In connection therewith, the Company executed and delivered for the benefit of the holders of the Old Preferred Stock the Registration Rights Agreement (as defined) providing, among other things, for the Exchange Offer.

THE EXCHANGE OFFER...... The New Preferred Stock is being offered in exchange for any and all outstanding shares of Old Preferred Stock. As of the date hereof, 150,000 shares of Old Preferred Stock, with an aggregate Liquidation Preference of $150,000,000, are outstanding. Since the New Preferred Stock will be recorded in the Company's accounting records at the same carrying value as the Old Preferred Stock, no gain or loss will be recognized by the Company upon the consummation of the Exchange Offer. See "The Exchange Offer -- Accounting Treatment." Holders of the Old Preferred Stock do not have appraisal or dissenter's rights in connection with the Exchange Offer under the Delaware General Corporation Law, the governing law of the state of incorporation of the Company.

Based on interpretations by the staff of the SEC, as set forth in no-action letters issued to third parties, the Company believes that holders of Old Preferred Stock (other than any holder who is an "affiliate" of the Company within the meaning of Rule 405 under the Securities Act) who exchange their Old Preferred Stock for New Preferred Stock pursuant to the Exchange Offer may offer such New Preferred Stock for resale, resell such New Preferred Stock and otherwise transfer such New Preferred Stock without compliance with the registration and prospectus delivery provisions of the Securities Act; provided such New Preferred Stock is acquired in the ordinary course of the holder's business and such holders are not engaged in, and do not intend to engage in, a distribution of such New Preferred Stock and have no arrangement or understanding with any person to participate in a distribution of such New Preferred Stock. The staff of the SEC has not considered the Exchange Offer in the context of a no-action letter and there can be no assurance that the staff of the SEC would make a similar determination with respect to the Exchange Offer. Each broker-dealer that receives New

Preferred Stock for its own account in exchange for Old Preferred Stock, where such Old Preferred Stock was acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such New Preferred Stock. See "Plan of Distribution." To comply with the securities laws of certain jurisdictions, it may be necessary to qualify for sale or register the New Preferred Stock prior to offering or selling such New Preferred Stock. The Company has agreed, pursuant to the Registration Rights Agreement and subject to certain specified limitations therein, to register or qualify the New Preferred Stock for offer or sale under the securities or "blue sky" laws of such jurisdictions as may be necessary to permit the holders of New Preferred Stock to trade the New Preferred Stock without any restrictions or limitations under the securities laws of the several states of the United States. If a holder of Old Preferred Stock does not exchange such Old Preferred Stock for New Preferred Stock pursuant to the Exchange Offer, such Old Preferred Stock will continue to be subject to the restrictions on transfer contained in the legend thereon. In general, the Old Preferred Stock may not be offered or sold, unless registered under the

Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. See "Risk Factors -- Consequences of Failure to Exchange" and "Description of the Preferred Stock -- Exchange Offer; Registration Rights."

EXPIRATION DATE......... 5:00 p.m., New York City time, on , 1998 (20 business days following the commencement of the Exchange Offer), unless the Exchange Offer is extended, in which case the term "Expiration Date" means the latest date and time to which the Exchange Offer is extended.

CONDITIONS TO THE EXCHANGE OFFER.......... The Exchange Offer is subject to certain customary conditions, which may be waived by the Company. See "The Exchange Offer -- Conditions." Except for the requirements of applicable Federal and state securities laws, there are no Federal or state regulatory requirements to be complied with or obtained by the Company in connection with the Exchange Offer. NO VOTE OF THE COMPANY'S SECURITYHOLDERS IS REQUIRED TO EFFECT THE EXCHANGE OFFER AND NO SUCH VOTE (OR PROXY THEREFOR) IS BEING SOUGHT HEREBY.

PROCEDURES FOR TENDERING OLD PREFERRED STOCK..... Each holder of Old Preferred Stock wishing to accept the Exchange Offer must complete, sign and date the Letter of Transmittal, or a facsimile thereof, in accordance with the instructions contained herein and therein, and mail or otherwise deliver such Letter of Transmittal, or such facsimile, together with the Old Preferred Stock to be exchanged and any other required documentation to the Exchange Agent (as defined) at the address set forth herein and therein. See "The Exchange Offer -- Procedures for Tendering."

WITHDRAWAL RIGHTS....... Tenders of Old Preferred Stock may be withdrawn at any time prior to 5:00 p.m., New York City time, on the Expiration Date. To withdraw a tender of Old Preferred Stock, a written or facsimile transmission notice of withdrawal must be received by the Exchange Agent at its address set forth below under "Exchange Agent" prior to 5:00 p.m., New York City time, on the Expiration Date.

ACCEPTANCE OF OLD PREFERRED STOCK AND DELIVERY OF NEW PREFERRED STOCK..... Subject to certain conditions, the Company will accept for exchange any and all shares of Old Preferred Stock which are properly tendered in the Exchange Offer prior to 5:00 p.m., New York City time, on the Expiration Date. The New Preferred Stock issued pursuant to the Exchange Offer will be delivered promptly following the

Expiration Date. See "The Exchange Offer -- Terms of the Exchange Offer."

CERTAIN TAX CONSIDERATIONS.......... The exchange of New Preferred Stock for Old Preferred Stock will not constitute a taxable exchange for U.S. Federal income tax purposes. See "Certain Federal Income Tax Considerations."

EXCHANGE AGENT.......... The Bank of New York is serving as exchange agent (the "Exchange Agent") in connection with the Exchange Offer.

USE OF PROCEEDS......... There will be no proceeds to the Company from the Exchange Offer. The net proceeds to the Company from the Junior Preferred Stock Offering were approximately $145.7 million, after deducting discounts and other offering expenses payable by the Company. The Company plans to continue to use the net proceeds from the Junior Preferred Stock Offering to fund sales, marketing, and product development costs incurred in connection with the Company's growth, to expand voice and data network density and to fund negative operating cash flow. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

SUMMARY OF TERMS OF NEW PREFERRED STOCK

The Exchange Offer relates to the exchange of up to 150,000 shares of Old Preferred Stock, having an aggregate Liquidation Preference of $150,000,000, for up to an equal number of shares of New Preferred Stock. The obligations of the Company with respect to the New Preferred Stock will be identical to the obligations of the Company with respect to the Old Preferred Stock and holders will be entitled to the benefits of the same Certificate of Designation, which governs both the Old Preferred Stock and the New Preferred Stock. The form and terms of the New Preferred Stock are generally the same as the form and terms of the Old Preferred Stock, except that the New Preferred Stock does not contain terms with respect to dividend rate step-up provisions and the New Preferred Stock has been registered under the Securities Act and therefore will not bear legends restricting the transfer thereof. See "Description of the Preferred Stock."

COMPARISON WITH OLD PREFERRED STOCK

FREELY TRANSFERABLE........ Generally, the New Preferred Stock will be freely transferable under the Securities Act by holders who are not "affiliates" of the Company. The New Preferred Stock otherwise will be substantially identical in all material respects (including dividend rate and maturity) to the Old Preferred Stock (except with respect to the dividend rate step-up provisions). See "The Exchange Offer -- Terms of the Exchange Offer."

REGISTRATION RIGHTS........ The holders of Old Preferred Stock currently are entitled to certain registration rights pursuant to a registration rights agreement (the "Registration Rights Agreement") dated as of October 16, 1997, between the Company and the Initial Purchaser. However, upon consummation of the Exchange Offer, subject to certain exceptions, holders of Old Preferred Stock who do not exchange their Old Preferred Stock for New Preferred Stock in the Exchange Offer will no longer be entitled to registration rights and will not be able to offer or sell their Old Preferred Stock, unless such Old Preferred Stock is subsequently registered under the Securities Act (which, subject to certain limited exceptions, the Company will have no obligation to do), except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. See "Risk Factors -- Consequences of Failure to Exchange."

THE NEW PREFERRED STOCK

LIQUIDATION PREFERENCE...	$1,000 per share.
DIVIDENDS................	Cumulative dividends at the rate per annum of 12 3/4% of the Liquidation Preference and payable quarterly beginning January 15, 1998, and accruing from the date of issuance. Dividends will also accrue and cumulate on any accrued and unpaid dividends. Dividends may be paid, at the Company's option, on any dividend payment date either in cash or by the issuance of additional shares of New Preferred Stock (and, at the Company's option, payment of cash in lieu of fractional shares); provided, however, that after October 15, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the New Preferred Stock by the terms of any agreement or instrument governing any of its then outstanding indebtedness, the Company shall pay dividends in cash.
OPTIONAL REDEMPTION......	The New Preferred Stock will be redeemable at the option of the Company, in whole or in part, at any time on or after October 15, 2003, at the redemption prices set forth herein, plus, without duplication, accrued and unpaid dividends to the date of redemption. In addition, prior to October 15, 2000, the Company may, at its option, redeem shares of New Preferred Stock having a Liquidation Preference of up to an aggregate of 35% of the initial aggregate Liquidation Preference at a redemption price of 112.75% plus, without duplication, accrued and unpaid dividends to the date of redemption, with the net proceeds of (i) one or more public common equity offerings generating cash proceeds of at least $25 million or (ii) the sale of capital stock generating cash proceeds of at least $25 million to an Eligible Equity Investor (as defined herein); provided that after any such redemption shares of Preferred Stock having an aggregate Liquidation Preference of at least 65% of the initial aggregate Liquidation Preference remain outstanding.
MANDATORY REDEMPTION.....	The Company is required to redeem the New Preferred Stock outstanding on October 15, 2009 at a redemption price equal to 100% of the Liquidation Preference thereof, plus, without duplication, accrued and unpaid dividends to the date of redemption.
RANKING..................	The New Preferred Stock will rank (i) senior to all existing and future Junior Stock; (ii) on a parity with all existing and future Parity Stock; and (iii) junior to the 14 3/4% Preferred Stock and any future Senior Stock (each as defined) that may be issued upon the prior consent of holders of two-thirds of the outstanding shares of New Preferred Stock. In addition, the New Preferred Stock will rank junior in right of payment to all indebtedness and other obligations of the Company and its subsidiaries. As of September 30, 1997 (after giving effect to certain transactions effected subsequent thereto), there was outstanding approximately $474.4 million of indebtedness (including trade payables and other liabilities) of the Company and its subsidiaries. See "Description of the Preferred Stock -- Ranking."
VOTING RIGHTS............	The New Preferred Stock will be non-voting, except that the affirmative vote of holders of two-thirds of the outstanding shares of New Preferred Stock, voting as a class, will be necessary to (i) amend certain rights of the holders of the New Preferred Stock (other than the covenants

contained in the Certificate of Designation (as defined), as to which the affirmative vote of the holders of a majority of the outstanding shares will be required) and (ii) permit the issuance of any class of preferred stock that ranks senior to the New Preferred Stock (other than any shares of 14 3/4% Preferred Stock issued as dividends thereon, including as Additional Dividends (as defined in the Certificate of Designation relating to the 14 3/4% Preferred Stock)).

In addition, if the Company (i) fails to pay cash dividends for six or more quarterly dividend periods (whether or not consecutive) beginning October 15, 2002, (ii) fails to pay dividends, either in cash or by the issuance of additional shares of New Preferred Stock, for six or more quarterly dividend periods (whether or not consecutive), whether before or after October 15, 2002, (iii) fails to comply with the Change of Control covenant contained in the Certificate of Designation, (iv) fails to comply with any other covenant contained in the Certificate of Designation for a period of 30 days after notice of such failure, (v) is subject to certain material defaults on its outstanding debt or (vi) fails to redeem all of the outstanding New Preferred Stock on October 15, 2009, then the holders of a majority of the then outstanding shares of New Preferred Stock, voting as a class, shall be entitled to elect the lesser of (x) two directors to the Company's Board of Directors and (y) such number of directors as will constitute 25% of the number of members of the Company's Board of Directors, and the Company shall take such action as may be required to cause the total number of directors of the Company to be increased by such number.

CHANGE OF CONTROL........ Within 30 days of the occurrence of a Change of Control (as defined herein), the Company will be required to offer to purchase all outstanding shares of New Preferred Stock (a "Change of Control Offer") at a purchase price in cash equal to 101% of the Liquidation Preference thereof, plus, without duplication, accumulated and unpaid dividends and Additional Dividends, if any, thereon to the date of purchase; provided, however, that no such Change of Control Offer shall be required to be made prior to the later of (i) the Stated Maturity (as defined in the indentures relating to the Existing Notes (as defined)) of the last to mature of the Company's Existing Notes and (ii) the retirement of all of the outstanding 14 3/4% Preferred Stock. If such Change of Control Offer would not be permitted by reason of the foregoing proviso, then, in lieu thereof, the holders of two-thirds of the New Preferred Stock will be entitled to designate an Independent Financial Advisor (as defined) to determine, within 20 days of such designation, in the opinion of such firm, the appropriate dividend rate that the Preferred Stock should bear so that, after such reset, the New Preferred Stock would have a market value of 101% of the Liquidation Preference. If, for any reason and within 5 days of the designation of an Independent Financial Advisor, by the holders, such Independent Financial Advisor is unacceptable to the Company, the Company shall designate a second Independent Financial Advisor to determine, within 15 days of such designation, in its opinion, such an appropriate reset dividend rate for the New Preferred Stock. In the event that the two Independent Financial Advisors cannot agree, within 25 days of the designation of an Independent Financial Advisor by the holders of two-thirds of the New Preferred Stock, on the appropriate reset dividend rate, the two Independent Financial

Advisors shall, within 10 days of such 25th day, designate a third Independent Financial Advisor, which, within 15 days of designation, will determine, in its opinion, such an appropriate reset rate which is between the two rates selected by the first two Independent Financial Advisors; provided, however, that the reset rate shall in no event be less than 12 3/4% per annum or greater than 15 1/4% per annum. The reasonable fees and expenses, including reasonable fees and expenses of legal counsel, if any, and customary indemnification, of each of the three above-referenced Independent Financial Advisors shall be borne by the Company. Upon determination of the reset rate, the New Preferred Stock shall accrue and cumulate dividends at the reset rate as of the date of occurrence of the Change of Control.

CERTAIN COVENANTS........ The Certificate of Designation will contain covenants that limit the ability of the Company and its subsidiaries to incur indebtedness and to impose restrictions on dividends and other payments to the Company by its subsidiaries as well as the ability of the Company to merge or consolidate with or sell all or substantially all of its assets to any other person. The Certificate of Designation will contain provisions that allow for the modification and amendment of the covenants contained in the Certificate of Designation by a vote of holders owning a majority of the outstanding shares of Preferred Stock (including the covenant relating to a Change of Control, except during the pendency of a Change of Control Offer). In addition, the holders of a majority of the outstanding shares of Preferred Stock, on behalf of all holders of Preferred Stock, may waive compliance by the Company with certain provisions of the Certificate of Designation.

RISK FACTORS

See "Risk Factors" for a discussion of certain factors that should be considered by holders of Old Preferred Stock before tendering their Old Preferred Stock in the Exchange Offer.

ACSI is a Delaware corporation. The Company's principal executive offices are located at 131 National Business Parkway, Suite 100, Annapolis Junction, Maryland 20701, and its telephone number is (301) 617-4200.

Certain statements contained in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," including statements regarding the development of the Company's businesses, the markets for the Company's services and products, the Company's anticipated capital expenditures, regulatory reform and other statements contained herein regarding matters that are not historical facts, are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, those discussed under "Risk Factors." The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any of the forward-looking statements contained herein to reflect any change in the Company's expectations, with regard thereto or any changes in events, conditions or circumstances on which any statement is based.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA
(IN THOUSANDS, EXCEPT PER SHARE, NETWORK AND STATISTICAL DATA)

<TABLE>
<CAPTION>

	FISCAL YEAR ENDED JUNE 30,			SIX MONTHS ENDED DECEMBER 31,	FISCAL PERIOD ENDED DECEMBER 31,(1)		NINE MONTHS ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996		1995	1996		1996	1997	
		ACTUAL	PRO FORMA(2)		ACTUAL	PRO FORMA(2)		ACTUAL	PRO FORMA(2)

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:									
Revenues	$ 389	$ 3,415	$ 7,138	$ 989	$ 6,990	$ 9,626	5,239	$ 35,847	$ 36,065
Operating expenses	14,797	24,543	29,027	7,966	34,434	37,548	28,535	94,044	94,290
Loss from operations	(14,408)	(21,128)	(21,889)	(6,977)	(27,444)	(27,922)	(23,296)	(58,197)	(58,225)
Interest and other income	218	4,410	4,410	777	2,757	2,773	5,093	3,893	3,898
Interest and other expense	(170)	(10,477)	(10,824)	(2,835)	(10,390)	(10,619)	(13,653)	(25,336)	(25,338)
Loss before minority interest	(14,746)	(27,195)	(28,303)	(9,035)	(35,077)	(35,768)	(31,856)	(79,640)	(79,665)
Minority interest(3)	48	413	413	156	160	160	353	--	--
Net loss	(14,698)	(26,782)	(27,890)	(8,879)	(34,917)	(35,608)	(31,503)	(79,640)	(79,665)
Net loss per common share	$ (3.30)	$ (4.96)	$ (4.40)	$ (1.82)	$ (5.48)	$ (4.84)	$ (5.22)	$ (3.45)	$ (3.44)
Weighted average shares outstanding	4,772	6,185	7,215	5,901	6,734	7,764	6,614	$ 24,140	24,197
OTHER DATA:									
Deficiency in earnings to cover combined fixed charges and preferred stock dividends(4)	(16,353)	(34,117)	(35,225)	(11,652)	(39,348)	(40,039)	(38,302)	(86,778)	(86,803)
EBITDA(5)	$ (7,443)	$(14,901)	$(14,418)	$ (4,855)	$(21,822)	$(21,620)	$(16,520)	$(40,796)	$(40,766)
Depreciation and amortization	498	3,078	4,322	763	4,912	5,592	4,717	16,077	16,135
Capital expenditures	15,303	60,856	61,667	17,657	64,574	64,832	64,933	103,851	103,851

</TABLE>

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<CAPTION>

	SEPTEMBER 30, 1997	
	ACTUAL	PRO FORMA FOR THE JUNIOR PREFERRED STOCK OFFERING(6)
<S>	<C>	<C>
Balance Sheet Data:		
Cash and cash equivalents	$149,874	$ 295,524
Total assets	500,605	646,255
Long-term liabilities	449,774	449,774
Redeemable stock and options	53,793	199,443
Stockholders' equity (deficit)	(27,583)	(27,583)

</TABLE>

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<CAPTION>

	DECEMBER 31, 1995	MARCH 31, 1996	JUNE 30, 1996	SEPTEMBER 30, 1996	DECEMBER 31, 1996	MARCH 31, 1997	JUNE 30, 1997	SEPTEMBER 30, 1997
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Network and Selected Statistical Data(7):								
Networks in operation	9	10	15	19	21	28	31	32
Route miles	136	200	386	543	697	908	957	977
Fiber miles	5,957	9,466	28,476	32,774	48,792	75,867	82,693	85,976
Buildings connected	100	133	216	532	595	858	1,083	1,239
VGE circuits in service	82,055	125,208	137,431	267,894	384,134	554,883	886,375	989,285
Employees	111	142	199	272	322	502	559	669

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(1) Subsequent to June 30, 1996, the Company changed its fiscal year-end from June 30 to December 31. All data for the fiscal period ended December 31, 1996 is for the six month period ended December 31, 1996.

(2) Pro forma to give effect to the Cybergate Acquisition as if consummated at the beginning of the earliest period presented.

(3) Minority interest represents a 7.25% ownership of AT&T Credit Corporation in the Company's subsidiaries that operate its networks in Louisville, Fort Worth, Greenville, Columbia and El Paso. See "Description of Certain Indebtedness."

(4) For purposes of computing this amount earnings (loss) consists of earnings (loss) before minority interest and fixed charges. Fixed charges consists of interest expense (including amortization of debt issuance costs) and one-third of rent expense which is deemed to be representative of interest expense.

(5) EBITDA consists of net income (loss) before net interest, income taxes, depreciation and amortization, noncash stock compensation and, in fiscal year ended June 30, 1995, debt conversion expense of $385,000. It is a measure commonly used in the telecommunications industry and is presented to assist in understanding the Company's operating results. However, it is not intended to represent cash flow or results of operations in accordance with generally accepted accounting principles ("GAAP"). Noncash compensation expense associated with employee stock options was $6.4 million and $2.7 million in fiscal years ended June 30, 1995 and 1996, respectively, $1.2 million and $550,000 in the six months ended December 31, 1995 and fiscal period ended December 31, 1996, respectively and $1.7 million and $1.3 in the nine months ended September 30, 1996 and 1997, respectively. See Note 6 of "Notes to Consolidated Financial Statements."

(6) As adjusted for the Junior Preferred Stock Offering the net proceeds of which were approximately $145.7 million.

(7) Network and Selected Statistical Data are derived from ACSI's records.

RISK FACTORS

Holders of Old Preferred Stock should carefully consider the following risk factors, as well as other information set forth or incorporated by reference in this Prospectus, before tendering their Old Preferred Stock in the Exchange Offer. The risk factors set forth below (other than "Consequences of Failure to Exchange") are generally applicable to the Old Preferred Stock as well as the New Preferred Stock.

CONSEQUENCES OF FAILURE TO EXCHANGE

Holders of Old Preferred Stock who do not exchange their Old Preferred Stock for New Preferred Stock pursuant to the Exchange Offer will continue to be subject to the restrictions on transfer of such Old Preferred Stock as set forth in the legend thereon as a consequence of the issuance of the Old Preferred Stock pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the Old Preferred Stock may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. The Company does not currently anticipate that it will register the Old Preferred Stock under the Securities Act. Based on interpretations by the staff of the SEC, as set forth in no-action letters to third parties, the Company believes that the New Preferred Stock issued pursuant to the Exchange Offer in exchange for Old Preferred Stock may be offered for resale, resold or otherwise transferred by holders thereof (other than any such holder that is an "affiliate" of the issuer within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act provided that such New Preferred Stock is acquired in the ordinary course of such holders' business and such holders are not engaged in, and do not intend to engage in, a distribution of such New Preferred Stock and have no arrangement or understanding with any person to participate in the distribution of such New Preferred Stock. The staff of the SEC has not considered the Exchange Offer in the context of a no-action letter and there can be no assurance that the staff of the SEC would make a similar determination with respect to the Exchange Offer. Each broker-dealer that receives New Preferred Stock for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Preferred Stock. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Preferred Stock received in exchange for Old Preferred Stock where such Old Preferred Stock were acquired by such broker-dealer as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date, it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution." However, to comply with the securities laws of certain jurisdictions, if applicable, the New Preferred Stock may not be offered or sold unless they have been registered or qualified for sale in such jurisdictions or an exemption from registration or qualification is available and is complied with. To the extent that Old Preferred Stock are tendered and accepted in the Exchange Offer, the trading market for untendered and tendered but unaccepted Old Preferred Stock could be adversely affected.

NEGATIVE CASH FLOW; ANTICIPATED FUTURE LOSSES; SIGNIFICANT FUTURE CAPITAL REQUIREMENTS; NEED FOR ADDITIONAL CASH.

The Company has never been profitable, has never generated positive cash flow from consolidated operations and, since its inception, has incurred significant net operating losses and negative cash flow. As of June 30, 1996, December 31, 1996 and September 30, 1997, the Company had accumulated deficits of $47.5 million, $82.4 million and $162.1 million, respectively. During the fiscal period ended December 31, 1996, the Company incurred a net operating loss of $27.4 million and generated negative cash flow from operations of $6.7 million. During the nine months ended September 30, 1997, the Company incurred a net operating loss of $58.2 million and generated negative cash flow from operations of $69.4 million. The Company expects to continue to incur operating losses and negative cash flow from operations for at least the next several years in connection with implementing and marketing its local switched voice and high-speed data

services and establishing and expanding its local networks. The Company currently expects to begin to generate positive cash flow from operations in the year 2000. However, there can be no assurance that the Company's networks or any of its other services will ever provide a revenue base adequate to achieve or sustain profitability or to generate positive cash flow or that the Company will begin to generate positive cash flow by the year 2000.

The Company's further development and enhancement of new services, including local switched voice and high-speed data services, as well as the continued development, construction, expansion, operation and potential acquisition of local networks, will require substantial capital expenditures. The Company's ability to fund these expenditures is dependent upon the Company's ability to raise substantial financing. As of September 30, 1997, the Company had raised approximately $475 million from debt and equity financings, $31.2 million of which had been advanced under a $31.2 million secured credit facility with AT&T Credit Corporation, a subsidiary of AT&T Corporation (the "AT&T Credit Facility"), approximately $96.1 million of which had been raised from the issuance of $190.0 million principal amount of the Company's 13% Senior Discount Notes due 2005 (the "2005 Notes") and warrants to purchase 2,432,000 shares of Common Stock at $7.15 per share (the "2005 Warrants"), approximately $61.8 million of which had been raised from the issuance of $120.0 million principal amount of the Company's 12 3/4% Senior Discount Notes due 2006 (the "2006 Notes" and, with the 2005 Notes and the 2007 Notes, the "Existing Notes"), approximately $40.0 million of which had been raised in the Common Stock Offering, approximately $67 million of which had been raised in the Unit Offering and approximately $138 million of which had been raised in the Debt Offering. The 2005 Notes were issued under the indenture dated November 14, 1995, the 2006 Notes were issued under the indenture dated March 21, 1996 and the 2007 Notes were issued under an indenture dated July 23, 1997 (collectively, the "Existing Indentures"). The Company estimates that from September 30, 1997 through December 31, 1997 and December 31, 1998, remaining capital required for implementation of its integrated networks and its other services and to fund negative cash flow will be approximately $40.0 million and $144.0 million, respectively. At September 30, 1997, the Company had approximately $149.9 million of cash and cash equivalents available for this purpose. The Company continues to use the estimated net proceeds from Unit Offering, the Debt Offering and the Junior Preferred Stock Offering principally to fund sales, marketing and product development costs incurred in connection with the Company's growth, to expand voice and data network density and to fund negative operating cash flow. The Company continues to consider potential acquisitions or other strategic arrangements that may fit the Company's strategic plan. Any such acquisitions or strategic arrangements that the Company might consider are likely to require additional equity or debt financing, which the Company will seek to obtain as required, and may also require that the Company obtain the consent of its debt holders.

Management anticipates that the Company's current cash resources are sufficient to fund the Company's continuing negative cash flow and required capital expenditures into the first quarter of 2000. Without an infusion of additional cash, the Company will exhaust its cash resources during the first quarter of 2000. To meet its additional remaining capital requirements and to successfully implement its strategy, the Company will be required to sell additional equity securities, increase its existing credit facility, acquire additional credit facilities or sell additional debt securities, certain of which would require the consent of the Company's debt holders. Accordingly, there can be no assurance that the Company will be able to obtain the additional financing necessary to satisfy its cash requirements or to implement its strategy successfully, in which event the Company will be unable to fund its ongoing operations, which have a material adverse effect on its business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

SUBSTANTIAL LEVERAGE; RECENT DEFAULT; FUTURE CASH OBLIGATIONS

Since inception, the Company's consolidated cash flow from operations has been negative. As a result, the Company has been required to pay its fixed charges (including interest on existing indebtedness) and operating expenses with the proceeds from sales of its debt and equity securities. As a result of the issuance of the Existing Notes, the Company will be required to satisfy substantially higher periodic cash debt service obligations in the future. Commencing in the year 2001, cash interest on the 2005 Notes and 2006 Notes will

be payable semi-annually at the rate of 13% per annum (approximately $24.7 million per year) and 12 3/4% per annum (approximately $15.3 million per year), respectively. The full accreted value of the 2005 Notes and 2006 Notes of $190.0 million and $120.0 million, respectively, will become due on November 1, 2005 and April 1, 2006, respectively. In addition, the Company will have substantial cash interest requirements with respect to the Notes issued in the Private Placement. As of September 30, 1997, the Company (through five of its subsidiaries) had approximately $31.2 million in debt outstanding under the AT&T Credit Facility. The credit provided under the AT&T Credit Facility must be used, if at all, by the five subsidiaries (operating local networks in Louisville, Fort Worth, Greenville, Columbia and El Paso) to which funds have already been advanced. As of September 30, 1997, the Company had approximately $449.8 million of consolidated outstanding long-term indebtedness. As of September 30, 1997, the total consolidated liabilities of the Company were approximately $474.4 million. It is expected that the Company and its subsidiaries will incur additional indebtedness, including increasing the borrowing capacity under the AT&T Credit Facility to $35 million the maximum amount permitted to be incurred under the Indenture (as defined herein) and the Existing Indentures. Many factors, some of which are beyond the Company's control, will affect its performance and, therefore, its ability to meet its ongoing obligations to repay the Notes, the Existing Notes and its other debt. There can be no assurance that the Company will be able to generate sufficient cash flow or otherwise obtain funds in the future to cover interest and principal payments associated with the Existing Notes and its other debt. See "Description of Certain Indebtedness."

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

In addition, in connection with the Unit Offering the Company issued the 14 3/4% Preferred Stock, dividends on which may be paid, at the Company's option, either in cash or by the issuance of additional shares of 14 3/4% Preferred Stock; provided, however, that after June 30, 2002, to the extent and so long as the Company is not precluded from paying cash dividends on the 14 3/4% Preferred Stock by the terms of any then outstanding indebtedness or any other agreement or instrument to which the Company is then subject, the Company shall pay dividends on the 14 3/4% Preferred Stock in cash.

In connection with the Junior Preferred Stock Offering, the Company issued the Preferred Stock, dividends on which may be paid, at the Company's option, either in cash or by the issuance of additional shares of Preferred Stock; provided, however, that after October 15, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the Preferred Stock by the terms of any agreement or instrument governing any of its then outstanding indebtedness, the Company shall pay dividends in cash.

The level of the Company's indebtedness and its other obligations could have important consequences to holders of the Preferred Stock, including the following: (i) the debt service requirements of the Company's existing indebtedness and any additional indebtedness could make it difficult for the Company to make payments in respect of the Preferred Stock; (ii) the ability of the Company to obtain any necessary financing in the future for working capital,

capital expenditures, debt service requirements or other purposes may be limited; (iii) any cash flow from the operations of certain of the Company's subsidiaries may need to be dedicated to debt service payments and might not be available for other purposes; (iv) the Company's level of indebtedness could limit its flexibility in planning for, or reacting to, changes in its business; (v) the Company is more highly leveraged than most of its competitors, which may place it at a competitive disadvantage; and (vi) the Company's high degree of indebtedness will make it more vulnerable to a downturn in its business.

HOLDING COMPANY STRUCTURE; SOURCE OF PAYMENTS IN RESPECT OF PREFERRED STOCK

As a holding company that conducts virtually all of its business through its subsidiaries, ACSI has no source of operating cash flow other than from dividends and distributions from its subsidiaries. In order to pay cash dividends on the Preferred Stock or to redeem or repurchase the Preferred Stock, ACSI will be required to obtain distributions from its subsidiaries, refinance its indebtedness, raise funds in a public or private equity or debt offering, or sell some or all of its or its subsidiaries' assets. As of September 30, 1997, the total liabilities of the Company's subsidiaries (after the elimination of loans and advances by the Company to its subsidiaries) were approximately $54.8 million. Of that amount, approximately $31.2 million in indebtedness was secured by first priority liens in favor of AT&T on all the assets of the borrowing subsidiaries and a pledge of the stock of such subsidiaries. See "Description of Certain Indebtedness." Moreover, the indentures governing the Existing Notes and the Certificate of Designation relating to the Preferred Stock limit the Company's ability to incur additional indebtedness and the AT&T Credit Facility imposes restrictions on the ability of certain subsidiaries of ACSI that incur indebtedness thereunder to transfer funds to ACSI in the form of dividends or other distributions. The AT&T Credit Facility and the indentures governing the Existing Notes also impose restrictions on the ability of such subsidiaries to raise capital by incurring additional indebtedness. These factors could limit ACSI's ability to meet its obligations with respect to the Preferred Stock.

Under Delaware law, the Company is permitted to pay dividends on its capital stock, including the Preferred Stock, only out of its surplus or, in the event that it has no surplus, out of its net profits for the year in which a dividend is declared or for the immediately preceding fiscal year. In order to pay dividends in cash, the Company must have surplus or net profits equal to the full amount of the cash dividend at the time such dividend is declared. In determining the Company's ability to pay dividends, Delaware law permits the board of directors of the Company to revalue the Company's assets and liabilities from time to time to their fair market values in order to establish the amount of the Company's surplus. The Company cannot predict what the value of its assets or the amount of its liabilities will be in the future and, accordingly, there can be no assurance that the Company will be able to pay dividends on the Preferred Stock.

RANKING OF PREFERRED STOCK

The Preferred Stock will, with respect to dividend rights and rights on liquidation, winding-up and dissolution, rank senior to all classes of common stock and junior to the 14 3/4% Preferred Stock and to each other class of capital stock or series of preferred stock that, by its terms, ranks senior to the Preferred Stock. The Company may not authorize any new class of preferred stock that ranks senior to the Preferred Stock (other than any shares of 14 3/4% Preferred Stock issued as dividends thereon, including as Additional Dividends (as defined in the Certificate of Designation relating to the Preferred Stock) without the approval of the holders of at least two-thirds of the shares of Preferred Stock then outstanding, voting or consenting, as the case may be, as one class. However, all claims of the holders of the Preferred Stock, including without limitation, claims with respect to dividend payments, redemption payments, mandatory repurchase payments or rights upon liquidation, winding-up or dissolution, shall rank junior to the claims of the holders of any debt of the Company and all other creditors of the Company. Future agreements of the Company may restrict or prohibit the Company from redeeming the Preferred Stock. See "Description of the Preferred Stock -- Ranking, -- Mandatory Redemption and -- Voting Rights."

CERTAIN FINANCIAL AND OPERATING RESTRICTIONS

The Existing Indentures, the AT&T Credit Facility, the Indenture and the Certificate of Designation relating to the Preferred Stock impose operating and financial restrictions on the Company and its subsidiaries. These restrictions affect, and in certain cases significantly limit or prohibit, among other things, the ability of the Company and its subsidiaries to incur additional indebtedness or create liens on their assets, pay dividends, sell assets, engage in mergers or acquisitions or make investments. Failure to comply with any of these restrictions could limit the availability of borrowings or result in a default thereunder. See "Description of the Preferred Stock -- Certain Covenants" and "Description of Certain Indebtedness." In addition, the terms of any debt or equity financings undertaken by the Company to meet its future cash requirements could restrict

the Company's operational flexibility and thereby adversely affect the Company's business, results of operations and financial condition.

RAPID EXPANSION OF OPERATIONS

Subject to the sufficiency of its cash resources, the Company plans to continue to expand its business rapidly. There can be no assurance that a market will develop for any of the Company's services, that the Company's implementation of these services will be technically or economically feasible, that the Company will be able to market them successfully or that the Company will be able to operate these services profitably. Any failure of the Company to implement its growth strategy or manage its expanded operations effectively will have a material adverse effect on the Company's business, operating results and financial condition.

MANAGEMENT OF RAPID GROWTH

The Company's future performance will depend, in large part, upon its ability to manage its growth effectively. The Company's rapid growth has placed, and in the future will continue to place, a significant strain on its administrative, operational and financial resources. In the past year, the Company has effected a management reorganization in connection with which the Company hired several new members of senior management and saw the departure of several significant employees and former members of senior management. The Company anticipates that continued growth will require it to integrate its newest senior management members successfully and to recruit and hire a substantial number of new managerial, finance, accounting and support personnel. Failure to retain and attract additional management personnel who can manage the Company's growth effectively would have a material adverse effect on the Company and its growth. To manage its growth successfully, the Company will also have to continue to improve and upgrade operational, financial, accounting and information systems, controls and infrastructure as well as expand, train and manage its employee base. In the event the Company is unable to upgrade its financial controls and accounting and reporting systems adequately to support its anticipated growth, the Company's business, results of operation and financial condition would be materially adversely affected. In addition, the demands on the Company's marketing and sales resources have grown rapidly with the Company's rapidly expanding network and service offerings. The Company is taking steps to improve marketing support of its expanded operations and plans to increase its existing sales force during 1997 and 1998. There can be no assurance, however, that the Company will be successful in attracting, retaining or effectively managing and motivating such personnel or that its expanded sales force can successfully market the Company's services or that the failure of either of the foregoing to occur would not have a material adverse effect on the Company's business, operating results and financial condition.

DEPENDENCE ON BILLING, CUSTOMER SERVICES AND INFORMATION SYSTEMS

Sophisticated information and processing systems are vital to the Company's growth and its ability to monitor costs, bill customers, provision customer orders and achieve operating efficiencies. Billing and information systems for the Company's historical lines of business have been produced largely in-house with partial reliance on third-party vendors. These systems have generally met the Company's needs due in part to the low volume of customer billing. As the Company transitions to the provisioning of local services and as its long distance and Internet operations continue to expand, the need for sophisticated billing and information systems will increase significantly. The Company's plans for the development and implementation of its billing systems rely, for the most part, on the delivery of products and services by third party vendors. Similarly, the Company is developing customer call centers to provision service orders. Information systems are vital to the success of the call centers, and the information systems for these call centers are largely being developed by third party vendors. Failure of these vendors to deliver proposed products and services in a timely and effective manner and at acceptable costs, failure of the Company to adequately identify all of its information and processing needs, failure of the Company's related processing or information systems, or the failure of the Company to upgrade systems as necessary could have a material adverse effect on the ability of the Company to reach its objectives, on its financial condition and on its results of operations.

DEPENDENCE ON A SMALL NUMBER OF MAJOR CUSTOMERS

The Company receives a significant portion of its revenues from a small number of major customers, particularly the IXCs that service the Company's markets. For the fiscal year ended June 30, 1996, the fiscal period ended December 31, 1996 and the nine months ended September 30, 1997, approximately 60%, 40% and 24% of the Company's revenues, respectively, were attributable to access services provided to four of the largest IXCs, including services provided for the benefit of their customers. The Company is, and expects to continue to be, dependent upon such customers, and the loss of any one of them could have a material adverse effect on the Company's business, results of operations and financial condition. Additionally, customers who account for significant portions of the Company's revenues may have the ability to negotiate prices for the Company's services that are more favorable to the customer and that result in lower profit margins for the Company. The Federal Telecommunications Act may also encourage IXCs to construct their own local facilities, repackage unbundled network elements and/or resell the local services of ACSI's competitors, which may materially adversely affect the Company. Additionally, in the nine months ended September 30, 1997, approximately 33% of the Company's revenues were generated by ISPs. See "-- Competition," "Business -- Competition" and "-- Regulation."

DEPENDENCE UPON SUPPLIERS; SOLE AND LIMITED SOURCES OF SUPPLY

The Company relies on other companies to supply certain key components of its network infrastructure, including telecommunications services, network capacity and switching and networking equipment, which, in the quantities and quality demanded by the Company, are available only from sole or limited sources. The Company is also dependent upon ILECs to provide telecommunications services and facilities to the Company and its customers. The Company has from time to time experienced delays in receiving telecommunications services and facilities, and there can be no assurance that the Company will be able to obtain such services or facilities on the scale and within the time frames required by the Company at an affordable cost, or at all. Any failure to obtain such services or additional capacity on a timely basis at an affordable cost, or at all, would have a material adverse effect on the Company's business, financial condition and results of operations. The Company also is dependent on its suppliers' ability to provide necessary products and components that comply with various Internet and telecommunications standards, interoperate with products and components from other vendors and function as intended when installed as part of the network infrastructure. Any failure of the Company's sole or limited source suppliers to provide products or components that comply with Internet standards, interoperate with other products or components used by the Company in its network infrastructure or by its customers or fulfill their intended function as a part of the network infrastructure could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business."

DEPENDENCE UPON NETWORK INFRASTRUCTURE; RISK OF SYSTEM FAILURE; SECURITY RISKS

The Company's success in marketing its services to business and government users requires that the Company provide superior reliability, capacity and security via its network infrastructure. The Company's networks and networks upon which it depends are subject to physical damage, power loss, capacity limitations, software defects, breaches of security (by computer virus, break-ins or otherwise) and other factors, certain of which may cause interruptions in service or reduced capacity for the customers. Interruptions in service, capacity limitations or security breaches could have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON RIGHTS-OF-WAY AND OTHER THIRD PARTY AGREEMENTS

The Company must obtain easements, rights-of-way, franchises and licenses (collectively, "local approvals") from various private parties, actual and potential competitors and local governments in order to construct and maintain its fiber optic local networks. The Company has obtained the local approvals necessary to construct and operate its local networks in the central business districts of all of the markets in which the Company's local networks are presently operating or are under construction. The Company does not yet have all of the local approvals required to implement its local network business plan in prospective new markets or to expand its existing markets, and there can be no assurance that the Company will be able to obtain and

maintain local approvals on acceptable terms or that ILECs, CLECs or other competitors will not obtain similar local approvals that will allow them to compete against the Company or enter a market before the Company or to expand the Company's existing networks to compete effectively. Some of the agreements for local approvals obtained by the Company may be short-term, or revocable at will, and there can be no assurance that the Company will have continued access to local approvals after their expiration. If any of these agreements were terminated or could not be renewed and the Company was forced to remove its fiber from the streets or abandon its local network in place, such termination or non-renewal would be likely to have a material adverse effect on the Company's business, results of operations and financial condition. Furthermore, certain of the Company's pole attachment agreements with private entities are contingent on CLECs being legally entitled to pole access. Certain utilities have challenged the constitutionality of mandatory access to poles and other facilities in ongoing litigation. If ongoing litigation or legislative activity alters current requirements, the Company may be denied access or required to renegotiate the rates and other terms for access in these contracts. In this event, the Company may have to consider alternative means for building out its local networks.

As a condition to granting local approvals to the Company, certain local governments have required the Company to post performance bonds or letters of credit and to pay ongoing fees based upon the gross revenues generated by, or linear footage of, the applicable network. In many markets, ILECs are not required to pay such fees or pay substantially less than those paid by the Company which may put the Company at a competitive disadvantage in its markets. In addition, as of September 30, 1997, the Company had posted approximately $8.3 million in performance bonds and letters of credit and expects to post additional bonds or letters of credit in the future. As of September 30, 1997, the Company had been required to pledge approximately $4.9 million in cash collateral to obtain these bonds and letters of credit, and may be required to pledge substantial collateral to obtain the bonds or letters of credit in the future. See "Business -- Implementation of Integrated Network -- Rights-of-Way" and "-- Regulation."

EFFECT OF REGULATION

As a common carrier, the Company is subject to substantial federal, state and local regulation. The Company's local networks do not require authorization from the Federal Communications Commission (the "FCC") for construction or installation. However, the Company may file FCC tariffs stating its rates, terms and conditions of service for access services, and must file tariffs covering its international traffic. State regulatory agencies regulate intrastate communications, while local authorities control the Company's access to and use of municipal rights-of-way. The Federal Telecommunications Act preempted all state and local legal requirements which prohibit or have the effect of prohibiting any entity from providing any intrastate telecommunications service. However, many states continue to require telecommunications carriers to obtain a certificate, license, permit or similar approval before providing services. Thus, the Company's ability to provide additional intrastate services is dependent upon its receipt of requisite state regulatory approval. The inability to obtain the approvals necessary to provide intrastate switched services could have a material adverse effect on the Company's business, results of operations and financial condition.

The Federal Telecommunications Act imposes a duty upon all ILECs to negotiate in good faith with potential interconnectors such as the Company to provide interconnection to the ILEC network, exchange local traffic, make unbundled basic local network elements available and permit resale of most local services. Some local interconnection agreements must be filed with state Public Service Commissions ("PSC") for approval. In the event that negotiations with the ILECs do not succeed, the Company has a right to seek PSC arbitration of any unresolved issues.

The Federal Telecommunications Act also has increased local competition by IXCs, CATVs and public utility companies, which may have a material adverse effect on the Company. In addition, the Federal Telecommunications Act has granted important regulatory relief to the ILECs, including providing ILECs substantial new pricing flexibility, restoring the ability of RBOCs to provide long distance services and allowing RBOCs to provide certain cable television services. Moreover, the FCC recently has taken a number of actions intended ultimately to reduce regulation of ILECs, restructure the manner in which ILECs charge for interexchange access services, reduce interexchange access service rate levels and reform the current

methods used to fund universal service goals. These changes will tend to enhance the competitive position of the ILECs, which may materially adversely affect the Company. Furthermore, no assurance can be given that court decisions or changes in current or future federal or state legislation or regulations would not materially adversely affect the Company. See "-- Competition" and "Business -- Regulation."

Internet-related information services are not currently subject to direct regulation by the FCC or any other U.S. agency other than regulation applicable to businesses generally. The FCC is considering whether additional regulations should be applied to Internet services and whether Internet service providers should pay interexchange access charges. Moreover, as discussed hereafter, the

Federal Telecommunications Act and similar State laws create civil and criminal penalties for the knowing transmission of "indecent" material over the Internet. Additionally, the Federal Telecommunications Act may permit telecommunications companies, RBOCs or others to increase the scope or reduce the cost of their Internet access services. These and other changes in the regulatory environment relating to the telecommunications or Internet-related services industry could have an adverse effect on the Company's Internet-related services business.

The Company cannot predict the effect that the Federal Telecommunications Act or any future legislation, regulation or regulatory changes may have on its business.

COMPETITION

The Company operates in a highly competitive environment for all of its services. An increasing trend toward strategic business alliances in the telecommunications industry may create significant new competition for ACSI.

- Dedicated and Switched Voice Services. The Company's competitors in this market are predominantly ILECs, other CLECs and CATVs and may potentially include microwave carriers, satellite carriers, teleports, public utilities, wireless telecommunications providers, IXCs, integrated communications providers and private networks built by large end-users. With the passage of the Federal Telecommunications Act and the entry of RBOCs into the long distance market, the Company believes that IXCs may construct their own local facilities and/or resell local services in order to compete with the bundled local and long distance services to be offered by the ILECs as a result of the Federal Telecommunications Act. Given that a substantial portion of the Company's revenues are billed to IXCs for services provided for the benefit of their customers, such action could have a material adverse effect on the Company. See "Business -- Competition."

  Currently, the Company does not have a significant market share in any market. Most of the Company's actual and potential competitors have substantially greater financial, technical and marketing resources than the Company. In particular, ILECs have long-standing relationships with their customers, have the potential to subsidize access services with monopoly service revenue and benefit from certain existing federal, state and local regulations that the Company believes, in certain respects, favor ILECs over the Company. See "Business -- Regulation." For example, the Interconnection Decisions issued by the FCC and the Federal Telecommunications Act, which allow CLECs to interconnect with ILECs' facilities, have been accompanied by increased pricing flexibility and partially relaxed regulatory oversight of ILECs. The Company believes that ILECs are offering and will continue to offer term and volume discounts to customers, which will further increase competition for the Company and other CLECs and which could significantly adversely affect the Company's future dedicated services revenues. Moreover, some ILECs impose reconfiguration charges and/or termination liabilities on customers seeking to shift their traffic from ILEC facilities to CLEC facilities, which may have an adverse effect on a CLEC's ability to attract these customers and, in several instances, ILECs have delayed converting customers who have requested conversion to the Company's local networks. The Company may have to incur additional expense to acquire customers if the Company has to reimburse their termination liabilities. Although these problems have been encountered with several ILECs, the Company has filed formal complaints with the FCC alleging that BellSouth in particular has imposed reconfiguration charges in an unreasonable and discriminatory manner and has failed to convert customers to ACSI's local services on a timely basis.

  The Company expects that other CLECs may operate in most, if not all, of the markets targeted by the Company and many of these markets may not be able to support multiple CLECs. Additionally, delays in constructing or expanding any network could adversely affect the Company's competitive position in markets where another CAP or CLEC has a network under construction or can provide services on an already-existing network. There can be no assurance that the Company will be able to achieve or maintain an adequate market share, maintain construction schedules or compete effectively in any of its markets. See "Business -- Competition."

- Data Services. The market for data communications services, including IP switching, is extremely competitive. There are no substantial barriers to entry, and the Company expects that competition will intensify in the future. The Company believes that its ability to compete successfully depends on a number of factors, including: market presence; the ability to execute a rapid expansion strategy; the capacity, reliability and security of its network infrastructure; ease of access to and navigation of the Internet; the pricing policies of its competitors and suppliers; the timing of the introduction of new services by the Company and its competitors; the Company's ability to support industry standards; and industry and general economic trends. The Company's success in this market will depend heavily upon its ability to provide high quality Internet connectivity and value-added Internet services at competitive prices. See "Business -- Competition."

- Internet Services. The market for Internet access services is extremely competitive. There are no substantial barriers to entry, and the Company expects that competition will intensify in the future. The Company has entered this market principally through the Cybergate Acquisition and believes that its ability to compete successfully will depend upon a number of factors, including: market presence; the capacity, reliability and security of its network infrastructure; ease of access to and navigation of the Internet; the pricing policies of its competitors and suppliers; the timing of introductions of new products and services by the Company and its competitors; the Company's ability to support existing and emerging industry standards; and industry and general economic trends.

  The Company's current and prospective competitors include many large companies that have substantially greater market presence and financial, technical, marketing and other resources than the Company. The Company competes or expects to compete directly or indirectly with the following categories of companies: (1) other international, national and regional commercial Internet service providers; (2) established on-line services companies that currently offer or are expected to offer Internet access; (3) computer hardware and software and other technology companies; (4) IXCs; (5) RBOCs; (6) CATVs; and (7) nonprofit or educational Internet service providers. The ability of these competitors or others to bundle services and products with Internet connectivity services could place the Company at a significant competitive disadvantage in this services market.

IMPACT OF TECHNOLOGICAL CHANGE

The telecommunications industry is subject to rapid and significant technological change that could materially affect the continued use of fiber optic cable or the electronics utilized in the Company's networks. Future technological changes, including changes related to the emerging wireline and wireless transmission and switching technologies and Internet-related services and technologies, could have a material adverse effect on the Company's business, results of operations and financial condition.

The market for the Company's telecommunications services is characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent new product and service introductions. There can be no assurance that the Company will successfully identify new service opportunities and develop and bring new services to market. The Company is also at risk from fundamental changes in the way telecommunications services are marketed and delivered. The Company's data communications service strategy assumes that technology such as frame relay and ATM protocols, utilizing fiber optic or copper-based telecommunications infrastructures, will continue to be the primary protocols and transport infrastructure for data communications services. The Company's pursuit of necessary technological advances may require

substantial time and expense, and there can be no assurance that the Company will succeed in adapting its telecommunications services business to alternate access devices, conduits and protocols.

STRATEGIC INVESTMENTS; BUSINESS COMBINATIONS

The Company from time to time engages in discussions with (i) potential business partners looking toward formation of business combinations or strategic alliances that would expand the reach of the Company's networks or services and (ii) potential strategic investors (i.e., investors in the same or related business) who have expressed an interest in making an investment in or acquiring the Company. In addition to providing additional growth capital, the Company believes that an alliance with an appropriate strategic investor or business partner could provide operating synergies to, and enhance the competitive position of, both ACSI and such strategic investor/business partner within the rapidly consolidating telecommunications industry. There can be no assurance that any agreement with any potential strategic investor or business partner will be reached on terms acceptable to the Company. An investment, business combination or strategic alliance could constitute a Change of Control (as defined in the Existing Indentures) requiring the Company to offer to purchase all outstanding Existing Notes. In the event that such a Change of Control occurs at a time when the Company does not have sufficient available funds to purchase all Existing Notes tendered or at a time when the Company is prohibited from purchasing the Existing Notes, an Event of Default (as defined in the Existing Indentures) could occur under the relevant indenture. The Company expects to actively pursue over the next several months one or more acquisitions of companies engaged in business similar or related to the business of the Company. If any such acquisition is consummated, it is likely to require the issuance by the Company of capital stock in an amount that could be material. There can be no assurance that the Company will identify any suitable candidate for acquisition or that any such acquisition will be consummated. At this time, however, the Company currently has no agreement, arrangement or understanding with any potential strategic investor or potential business partner with respect to any acquisition, business combination or strategic alliance.

POTENTIAL LIABILITY OF INTERNET ACCESS PROVIDERS

The law governing the liability of on-line services providers and Internet access providers for participating in the hosting or transmission of objectionable materials or information currently is unsettled. Under the terms of the Federal Telecommunications Act, both civil and criminal penalties can be imposed for the use of interactive computer services for the transmission of certain indecent or obscene communications. However, this provision was recently found to be unconstitutional by the U.S. Supreme Court in American Civil Liberties Union v. Janet Reno. Nonetheless, many states have adopted or are considering adopting similar requirements, and the constitutionality of such state requirements remains unsettled at this time. In addition, several private lawsuits have been filed seeking to hold Internet access providers accountable for information which they transmit. In one such case (Religious Technology Center v. NETCOM On-Line Communications Services, Inc. (907 F. Supp. 1361 (N.D. Cal. 1995), the court ruled that an Internet access provider is not directly liable for copies that are made and stored on its computer but may be held liable as a contributing infringer where, with knowledge of the infringing activity, the Internet access provider induces, causes or materially contributes to another person's infringing conduct. Another court recently extended the Netcom holding to operators of electronic bulletin boards (Sega Enterprises Ltd. v. Maphia, 848 F. Supp. 923 (N.D. Cal. 1996)). While the outcome of these activities is uncertain, the ultimate imposition of potential liability on Internet access providers for information which they host, distribute or transport could materially change the way they must conduct business. To avoid undue exposure to such liability, Internet access providers could be compelled to engage in burdensome investigation of subscriber materials or even discontinue offering services altogether.

DEPENDENCE ON KEY PERSONNEL

The Company is currently managed by a small number of key management and operating personnel whose efforts will largely determine the Company's success. The success of the Company also depends upon its ability to hire and retain qualified operating, marketing, financial, accounting and technical personnel.

Competition for qualified personnel in the telecommunications industry is intense and, accordingly, there can be no assurance that the Company will be able to continue to hire or retain necessary personnel. The Company in consultation with its advisors is considering whether to acquire key person life insurance coverage although it has no such coverage at this time. The loss of key management personnel would likely have a material adverse impact on the Company. See "Management."

CONTROL BY CERTAIN STOCKHOLDERS AND MANAGEMENT

As of September 30, 1997, the Company's directors and executive officers beneficially owned approximately 5.8% of the outstanding Common Stock. As of September 30, 1997, the principal stockholders of the Company beneficially owned approximately 64.5% of the outstanding Common Stock, including 38.2%, 21.8% and 8.4% of the outstanding Common Stock which is beneficially owned by The Huff Alternative Income Fund, L.P. ("Huff"), the designees of which occupy three positions on the Board of Directors, ING Equity Partners, L.P. I ("ING"), the designees of which occupy two positions on the Board of Directors and affiliates of First Analysis Corporation ("FAC"), a designee of which occupies one position on the Board of Directors, respectively. In addition, at the date hereof Huff is the beneficial owner of approximately 13% of the 14 3/4% Preferred Stock, which shares have voting rights in certain circumstances. At the date hereof, ING Baring (U.S.) Securities, Inc., which may be deemed an affiliate of ING, is the beneficial owner of 10% of the 14 3/4% Preferred Stock issued in connection with the Unit Offering. Accordingly, if they choose to act together, these persons will be able to control the election of the Board of Directors and other matters voted upon by the stockholders. A sale of Common Stock by one or more of the principal stockholders to third parties could trigger the right of the holders of the Notes and the Existing Notes to require the Company to repurchase the Existing Notes (a "Change of Control Offer"). In the event that a Change of Control Offer occurs at a time when the Company does not have sufficient available funds to pay the Change of Control Purchase Price (as defined in the Existing Indentures) for all Existing Notes tendered, or at a time when the Company is prohibited from purchasing the Existing Notes, an Event of Default (as defined in the relevant indenture) could occur under the relevant indenture. In certain circumstances, in determining whether the approval of holders of the required principal amount of 2007 Notes has been received, the 2007 Notes held by W.R. Huff, on behalf of investment management accounts for which it acts as investment advisor and over which it has sole dispositive power, shall be disregarded. See "Management," "Principal Stockholders" and "Description of Certain Indebtedness -- Existing Notes."

REGISTRATION RIGHTS

Holders of substantially all of the shares of Common Stock (i) outstanding (other than shares issued in the Common Stock Offering) and (ii) issuable upon exercise of outstanding options and warrants have either piggyback or demand registration rights relating to those shares. Holders of a significant number of outstanding shares of Common Stock and a significant number of shares issued or issuable upon exercise of options and warrants have waived or agreed to waive their rights to "piggyback" on prior Company offerings and/or to demand registration of their shares until 180 days after April 15, 1997. The Company has agreed to use its commercially reasonable efforts to register all shares as to which piggyback and demand rights were waived on or before the 210th day following April 15, 1997 (in which registration all security holders with registration rights may have the right to include their shares). As a result, the Company's ability to raise additional cash through a public offering of its equity securities may be limited. There can be no assurance that persons with piggyback and demand registration rights who have not waived or agreed to waive those rights will not request the Company to file a registration statement for their shares prior to 180 days after April 15, 1997 or that such security holders will not seek damages from the Company for any alleged breach of such security holders' registration rights in connection with past Company offerings. Additionally, the Company has an obligation to register under the Securities Act 1,000,000 of the 1,030,000 shares of Common Stock issued in the Cybergate Acquisition no later than 210 days after April 15, 1997, but in no event later than December 31, 1997, and is required to register up to 150,000 additional shares which may be issued in connection with the Cybergate Acquisition no later than 60 days after such issuance. These shares will be freely transferable upon such registration. The Company also has an obligation to register under the Securities Act any shares issued to MCI in the MCI Transaction (see "Recent Developments"), on the later of

(i) April 15, 1998 and (ii) the 121st day following the effective date of a demand registration statement filed for MCI (which the Company may be obligated to file as early as seven months after April 15, 1997). MCI also has piggyback rights in respect of such shares. Such shares will be freely transferable upon any such registration.

LACK OF PUBLIC MARKET; EXCHANGE OFFER

The New Preferred Stock will be new securities for which there is currently no market. The Old Preferred Stock is eligible for trading in the PORTAL Market. However, ACSI does not intend to apply for listing of the New Preferred Stock or the Old Preferred Stock on any securities exchange or to seek approval for quotation through any automated quotation system. There can be no assurance as to the development or liquidity of any market for the Preferred Stock. If an active market does not develop, the market price and liquidity of the Preferred Stock will be adversely affected. Many possible events could adversely affect the development or liquidity of any market for such securities.If a market for the Preferred Stock were to develop, the Preferred Stock could trade at prices that may be higher or lower than its initial offering price depending upon many factors, including prevailing interest rates, the Company's operating results, and the market for similar securities. Historically, the market for high-yield securities, such as the Preferred Stock, has been subject to disruptions that have caused substantial volatility in the prices of such securities. There can be no assurance that, if a market for the Preferred Stock were to develop, such market will not be subject to similar disruptions. Although the Initial Purchaser has informed the Company that it currently intends to make a market in the Preferred Stock, it is not obligated to do so and any such market-making may be discontinued at any time without notice. In addition, such market-making activity may be limited during the Exchange Offer.

USE OF PROCEEDS

There will be no proceeds to the Company from the Exchange Offer. The net proceeds to the Company from the Junior Preferred Stock Offering were approximately $145.7 million. The Company intends to continue to use the net proceeds from the Junior Preferred Stock Offering, to fund sales, marketing and product development costs incurred in connection with the Company's growth, to expand voice and data networks and to fund negative operating cash flow. Pending such uses, the Company has invested the net proceeds from the Junior Preferred Stock Offering in marketable securities.

The Company has estimated that as of September 30, 1997, the total remaining capital required for implementing integrated networks and its other services and to fund negative cash flow through December 31, 1997 and December 31, 1998 was approximately $40.0 million and $144.0 million, respectively. Management anticipates that the Company's current cash resources are sufficient to fund the Company's continuing negative cash flow and required capital expenditures into the first quarter of 2000. If during the first quarter of 2000 the Company is unable to obtain additional cash through the sale of debt or equity securities or increases in existing or new credit facilities, the Company will be unable to fund its operations.

The Company expects to actively pursue over the next several months one or more acquisitions of companies engaged in business similar or related to the business of the Company. If any such acquisition is consummated, it is likely to require the issuance by the Company of capital stock in an amount that could be material. There can be no assurance that the Company will identify any suitable candidate for acquisition or that any such acquisition will be consummated. At this time, however, the Company has no agreements, understandings or arrangements for any such acquisitions or alliances. Future acquisitions or alliances may require additional equity or debt financing, which the Company will seek to obtain, as required, and may also require that the Company obtain the consent of the holders of the Existing Notes and the holders of certain other instruments.

CAPITALIZATION

The following table sets forth the total cash and cash equivalents and capitalization of the Company (i) as of September 30, 1997, and (ii) as adjusted to give effect to the Junior Preferred Stock Offering and application of the estimated net proceeds therefrom. The net proceeds of the Junior Preferred Stock Offering were approximately $145.7 million. This table should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in this Prospectus.

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1997	
	ACTUAL	AS ADJUSTED FOR THE JUNIOR PREFERRED STOCK OFFERING(1)
	(IN THOUSANDS)	
<S>	<C>	<C>
Cash and cash equivalents	$ 149,874	$ 295,524
Restricted assets invested in Marketable Securities(2)	74,945	74,945
Total cash and restricted assets	$ 224,819	$ 370,469
Long term debt		
12 3/4% Senior Discount Notes due 2006	$ 121,805	$ 121,805
13% Senior Discount Notes due 2005	77,690	77,690
13 3/4% Senior Notes due 2007	220,000	220,000
Notes payable(3)	30,012	30,012
Other long-term liabilities	267	267
Total long-term debt	449,774	449,774
Redeemable stock and options	53,793	199,443
Stockholders' equity (deficit):		
Common Stock, par value $0.01 per share, 75,000,000 shares authorized, 36,386,323 shares issued and outstanding at September 30, 1997(4)(5)	364	364
Additional paid-in capital	134,133	134,133
Accumulated deficit	(162,080)	(162,080)
Total stockholders' equity (deficit)	(27,583)	(27,583)
Total capitalization	$ 475,984	$ 621,634

</TABLE>

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(1) As adjusted to give effect to the Junior Preferred Stock Offering as if it

occurred on September 30, 1997. The net proceeds from the Junior Preferred Stock Offering were approximately $145.7 million.

(2) Represents investments in Marketable Securities sufficient to make the first five interest payments on the 2007 Notes. The Company placed approximately $70 million of the net proceeds realized from the Debt Offering, representing funds sufficient to pay the first five interest payments on the 2007 Notes, into the Escrow Account.

(3) Consists primarily of the AT&T Credit Facility totaling $31.2 million, of which approximately $31.2 million had been drawn as of September 30, 1997.

(4) Excludes 8,060,344 and 11,028,005 shares reserved for issuance upon exercise of options and warrants, respectively, outstanding at September 30, 1997, at a weighted average exercise price of $5.23 and 500,000 shares issuable in connection with the Company's Employee Stock Purchase Plan (as defined). Also excludes 251,567 additional shares issuable upon exercise of the 2005 Warrants as a result of the Common Stock Offering. ACSI has also agreed to issue warrants to purchase up to an aggregate of approximately 1.7 million shares of Common Stock to MCI. Also excludes the 6,023,850 shares (subject to an increase of 1,684,875 additional shares in the event the Company fails to raise net proceeds of at least $50,000,000 through the issue and sale of its qualified capital stock (other than preferred stock) on or before December 31, 1998) reserved for issuance upon exercise of the 75,000 warrants issued in connection with the Unit Offering on July 10, 1997. See "Summary -- Recent Developments."

(5) The aggregate proceeds from the exercise of all warrants and options outstanding at September 30, 1997, would be approximately $99.9 million.

UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL DATA

The following Unaudited Pro Forma Condensed Consolidated Financial Data consist of Unaudited Pro Forma Condensed Consolidated Statements of Operations for the fiscal year ended June 30, 1996, for the fiscal period ended December 31, 1996 and for the nine months ended September 30, 1997 and Unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 1996 (collectively, the "Pro Forma Statements"). The Unaudited Pro Forma Condensed Consolidated Statements of Operations give effect to the Cybergate Acquisition as if it occurred on July 1, 1995 and the Unaudited Pro Forma Condensed Consolidated Balance Sheet gives effect to the Cybergate Acquisition as if it occurred on December 31, 1996.

Management believes that, on the basis set forth herein, the Pro Forma Statements reflect a reasonable estimate of the Cybergate Acquisition based on currently available information. The pro forma financial data are presented for informational purposes only and do not purport to represent what the Company's financial position or results of operations would have been had the Cybergate Acquisition in fact occurred on the dates assumed or that may result from future operations. The pro forma data should be read in conjunction with the Company's Consolidated Financial Statements and related notes thereto which are included elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	FISCAL YEAR ENDED JUNE 30, 1996				FISCAL PERIOD ENDED DECEMBER 31, 1996(1)			
	THE COMPANY	CYBERGATE	ADJUSTMENTS	THE COMPANY PRO FORMA	THE COMPANY	CYBERGATE	ADJUSTMENTS	THE COMPANY PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:								
Revenues.........................	$ 3,415	$ 3,723	$ --	$ 7,138	$ 6,990	$ 2,636	$ --	$ 9,626
Operating expenses:								
Network development and operations.....................	5,265	1,762	--	7,027	8,703	1,136	--	9,839
Selling, general and administrative.................	13,464	1,378	100(2)	14,942	20,270	1,247	50(2)	21,567
Noncash stock and compensation...	2,736	--	--	2,736	550	--	--	550
Depreciation and amortization....	3,078	372	872(3)	4,322	4,911	245	436(3)	5,592
Total operating expenses.........	24,543	3,512	972	29,027	34,434	2,628	486	(37,548)
Operating income (loss)..........	(21,128)	211	(972)	(21,889)	(27,444)	8	(486)	(27,922)
Non-operating income (expense)...	(6,067)	(27)	(320)(4)	(6,414)	(7,633)	(53)	(160)(4)	(7,846)
Income (loss) before minority interest.......................	(27,195)	184	(1,292)	(28,303)	(35,077)	(45)	(646)	(35,768)
Minority interest................	413	--	--	413	160	--	--	160

Net income (loss)................	(26,782)	184	(1,292)	(27,890)	(34,917)	(45)	(646)	(35,608)
Preferred stock dividends and accretion......................	(3,871)	--	--	(3,871)	(2,003)	--	--	(2,003)
Net income (loss) to common stockholders..................	$(30,653)	$ 184	$(1,292)	$ (31,761)	$(36,920)	$ (45)	$ (646)	$ (37,611)
Net loss per common stockholder....................	$ (4.96)			$ (4.40)	$ (5.48)			$ (4.84)
Weighted average number of common shares outstanding............	6,185		1,030(5)	7,215	6,734		1,030(5)	7,764

</TABLE>

<TABLE>
<CAPTION>

	NINE-MONTH PERIOD ENDED SEPTEMBER 30, 1997		
	THE COMPANY	CYBERGATE(6)	THE COMPANY PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
<S>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:			
Revenues...	$ 35,847	$218	$ 36,065
Operating expenses:			
Network development and operations........................	28,668	94	28,762
Selling, general and administrative.......................	47,975	94	48,069
Noncash stock and compensation............................	1,324	--	1,324
Depreciation and amortization.............................	16,077	58	16,135
Total operating expenses..................................	94,044	246	94,290
Operating income (loss)...................................	(58,197)	(28)	(58,225)
Non-operating income (expense)............................	(21,443)	3	(21,440)
Income (loss) before minority interest....................	(79,640)	(25)	(79,665)
Minority interest...	--	--	--
Net income (loss)...	(79,640)	(25)	(79,665)
Preferred stock dividends and accretion...................	(3,584)	--	(3,584)
Net income (loss) to common stockholders..................	$(83,224)	$(25)	$(83,249)
Net loss per common stockholder...........................	$ (3.45)		$ (3.44)
Weighted average number of common shares outstanding.......	24,140		24,197

</TABLE>

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(1) Subsequent to June 30, 1996, the Company changed its fiscal year-end from June 30 to December 31. Accordingly, data for the fiscal period ended December 31, 1996 is for the six months ended December 31, 1996.

(2) Represents expense related to a consulting agreement entered into by the Company with a former shareholder of Cybergate.

(3) Reflects amortization of goodwill over a 10-year period and accounting software over a three-year period.

(4) Reflects amortization of consent solicitation fees over the remaining terms of the 2005 Notes and the 2006 Notes.

(5) Excludes adjustment for shares of Common Stock issuable if Cybergate meets certain performance measures. Inclusion of such shares would be anti-dilutive.

(6) Reflects Cybergate activity for the period from January 1, 1997, to January 17, 1997 (the date of acquisition).

UNAUDITED PRO FORMA CONDENSED

<TABLE>
<CAPTION>

	DECEMBER 31, 1996			
	THE COMPANY	CYBERGATE	ADJUSTMENTS	THE COMPANY PRO FORMA
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:				
ASSETS				
Current assets:				
Cash and cash equivalents	$ 78,618	$ 60	$ (500)(1) (3,000)(2)	$ 75,178
Restricted cash	2,342	--	--	2,342
Accounts receivable	2,429	127	--	2,556
Other current assets	1,203	51	--	1,254
Total current assets	84,592	238	(3,500)	81,330
Networks, furniture and equipment, net	136,083	2,317	100(3)	138,500
Goodwill			8,385(1)	8,385
Deferred financing fees	8,380	--	3,000(2)	11,380
Other assets	983	--	--	983
Total assets	$230,038	$ 2,555	$ 7,985	$ 240,578
LIABILITIES, REDEEMABLE STOCK, OPTIONS AND WARRANTS, MINORITY INTEREST AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Accounts payable and accrued expenses	$ 33,588	$ 348	$ --	$ 33,936
Notes payable -- current portion	872	--	--	872
Customer deposits and advanced billings	0	338	--	338
Other	4,132	--	--	4,132
Total current liabilities	38,592	686	--	39,278
Notes payable	209,538	306	100(3)	209,944
Advances due to affiliates	--	551	--	551
Dividends payable	6,946	--	--	6,946
Other	0	142	--	142
Total liabilities	255,076	1,685	100	256,861
Redeemable stock, options, and warrants	2,000	347	(347)(1)	2,000
Minority interest	0	--	--	0
Stockholders' equity (deficit)	(27,038)	523	8,232(1)	(18,283)
Total liabilities, redeemable stock, options and warrants, minority interest and stockholders' equity (deficit)	$230,038	$ 2,555	$ 7,985	$ 240,578

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(1) Records the Cybergate Acquisition for a purchase price of $8,755,000 (1,030,000 shares of Common Stock at $8.50 per share, the per share closing sales price of the Common Stock on January 17, 1997) plus estimated transaction expenses of $500,000. Excludes 150,000 additional shares of Common Stock which may be issued in 50,000 share increments (or a percentage thereof) on March 1, 1998, 1999 and 2000 if Cybergate achieves certain performance measures. In determining the cost of the identifiable assets and liabilities acquired, it has been assumed that an independent appraisal will result in fair values equal to the recorded book values as of the date of the Cybergate Acquisition. In the opinion of management, due to the nature of the assets and liabilities acquired, the fair values will approximate the book values. The preliminary allocation of the purchase price results in goodwill of approximately $8.4 million which will be amortized over 10 years.

(2) Records the payment of $3.0 million, including related transaction expenses for solicitation fees payable to holders of the 2005 Notes and the 2006 Notes in order to obtain their consent to amend the indentures governing the 2005 Notes and the 2006 Notes. The amendments permit the Company to enter into certain acquisition transactions, including the Cybergate Acquisition.

(3) Reflects the non-exclusive assignment to Cybergate of certain accounting software for $100,000, payable over a three-year period.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below as of and for the periods ended June 30, 1995 and 1996 and December 31, 1996 are derived from and qualified by reference to the audited Consolidated Financial Statements of the Company contained herein and the related notes thereto, and should be read in conjunction therewith and in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Prospectus. The Company's Consolidated Financial Statements as of and for the periods ended June 30, 1995 and June 30, 1996 and December 31, 1996 have been audited by KPMG Peat Marwick LLP, independent auditors. Subsequent to June 30, 1996, the Company has changed its fiscal year-end from June 30 to December 31. Accordingly, all data for the fiscal period ended December 31, 1996 is for the six months ended December 31, 1996. The consolidated financial data of the Company as of and for the six months ended December 31, 1995 and as of and for the nine months ended September 30, 1996 and September 30, 1997 have been derived from the unaudited Consolidated Financial Statements of the Company which, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments which the Company considers necessary for a fair presentation of the results of operations and the financial condition for those periods. The consolidated financial data for the fiscal period ended December 31, 1996 and the nine months ended September 30, 1997 are not necessarily indicative of results for a twelve-month fiscal year.

<TABLE>
<CAPTION>

	FISCAL YEAR ENDED JUNE 30,		SIX MONTHS ENDED DECEMBER 31,	FISCAL PERIOD ENDED DECEMBER 31,	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:						
Revenues	$ 389	$ 3,415	$ 989	$ 6,990	$ 5,239	$ 35,847
Operating expenses	14,797	24,543	7,966	34,434	28,535	94,044
Income (loss) from operations	(14,408)	(21,128)	(6,977)	(27,444)	(23,296)	(58,197)
Interest and other income	218	4,410	777	2,757	5,093	3,893
Interest and other expense	(170)	(10,477)	(2,835)	(10,390)	(13,653)	(25,336)
Debt conversion expense	(385)	--	--	--	--	--
Net income (loss) before minority interest	(14,746)	(27,195)	(9,035)	(35,077)	(31,856)	(79,640)
Minority interest(1)	48	413	156	160	353	--
Net income (loss)	(14,698)	(26,782)	(8,879)	(34,917)	(31,503)	(79,640)
Preferred stock dividends and accretion	(1,071)	(3,871)	(1,854)	(2,003)	(3,024)	(3,584)
Net income (loss) to common stockholders	$(15,769)	$(30,653)	$(10,734)	$(36,920)	$(34,527)	$ (83,224)
Net income (loss) per common share	$ (3.30)	$ (4.96)	$ (1.82)	$ (5.48)	$ (5.22)	$ (3.45)
Weighted average shares outstanding	4,772	6,185	5,901	6,734	6,614	24,140
OTHER DATA:						
Deficiency in earnings to cover combined fixed charges and preferred stock dividends(2)	(16,353)	(34,117)	(11,652)	(39,348)	(38,302)	(86,778)
EBITDA(3)	$ (7,443)	$(14,901)	$ (4,855)	$(21,822)	$(16,520)	$ (40,796)
Depreciation and amortization	498	3,078	763	4,911	4,717	16,077
Capital expenditures	15,303	60,856	17,657	64,574	64,933	103,851
BALANCE SHEET DATA (END OF PERIOD):						
Cash and cash equivalents	$ 20,351	$134,116	$ 57,348	$ 78,618	$102,819	$ 149,874
Total assets	37,627	223,600	147,935	230,038	214,540	500,605
Long-term liabilities	4,723	189,072	110,176	216,484	204,721	449,774
Redeemable stock, options and warrants	2,931	2,155	2,660	2,000	2,155	53,793
Stockholders' equity (deficit)	22,141	8,982	26,308	(27,038)	(5,680)	(27,583)

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(1) Minority interest represents a 7.25% ownership of AT&T Credit Corporation in the Company's subsidiaries that operate its networks in Louisville, Fort Worth, Greenville, Columbia and El Paso. See "Description of Certain Indebtedness."

(2) For purposes of computing this amount earnings (loss) consists of earnings (loss) before minority interest and fixed charges. Fixed charges consists of interest expense (including amortization of debt issuance costs) and one-third of rent expense which is deemed to be representative of interest expense.

(3) EBITDA consists of net income (loss) before net interest, income taxes, depreciation and amortization and noncash stock compensation and, in fiscal year ended June 30, 1995, debt conversion expense of $385,000. It is a measure commonly used in the telecommunications industry and is presented to assist in understanding the Company's operating results. However, it is not intended to represent cash flow or results of operations in accordance with Generally Accepted Accounting Principles. Noncash compensation expense associated with employee stock options was $6.4 million and $2.7 million in fiscal years ended June 30, 1995 and 1996, respectively, $1.2 million and $550,000 in the nine months ended December 31, 1995 and fiscal period ended December 31, 1996, respectively and $1.7 million and $1.3 in the nine months ended September 30, 1996 and 1997, respectively. See Note 6 of "Notes to Consolidated Financial Statements."

THE EXCHANGE OFFER

TERMS OF THE EXCHANGE OFFER

General

In connection with the sale of the Old Preferred Stock pursuant to a Purchase Agreement dated as of October 6, 1997, between the Company and the Initial Purchaser, the Initial Purchaser and its assignees became entitled to the benefits of the Registration Rights Agreement.

Under the Registration Rights Agreement, the Company is obligated to (i) file the Registration Statement of which this Prospectus is a part for a registered exchange offer with respect to an issue of new preferred stock identical in all material respects to the Old Preferred Stock within 45 days after October 16, 1997, the date the Old Preferred Stock was issued (the "Issue Date"), and (ii) use its best efforts to cause the Registration Statement to become effective within 120 days after the Issue Date. The Exchange Offer being made hereby if commenced and consummated within such applicable time periods will satisfy those requirements under the Registration Rights Agreement. See "Description of the Preferred Stock -- Exchange Offer; Registration Rights."

Upon the terms and subject to the conditions set forth in this Prospectus and in the Letter of Transmittal (which together constitute the Exchange Offer), the Company will accept for exchange up to 150,000 shares of Old Preferred Stock, having an aggregate Liquidation Preference of $150,000,000, validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on the Expiration Date. The Company will issue one share of New Preferred Stock in exchange for each share of Old Preferred Stock accepted in the Exchange Offer.

As of the date of this Prospectus, 150,000 shares of Old Preferred Stock, having an aggregate Liquidation Preference of $150,000,000, were outstanding. This Prospectus, together with the Letter of Transmittal, is being sent to all registered holders as of   , 1997. The Company's obligation to accept shares of Old Preferred Stock for exchange pursuant to the Exchange Offer is subject to certain conditions as set forth herein under "-- Conditions."

The Company shall be deemed to have accepted validly tendered shares of Old Preferred Stock when, as and if the Company has given oral or written notice thereof to the Exchange Agent. The Exchange Agent will act as agent for the tendering holders of shares of Old Preferred Stock for the purposes of receiving the shares of New Preferred Stock from the Company and delivering the shares of New Preferred Stock to such holders.

In the event the Exchange Offer is consummated, subject to certain limited exceptions, the Company will not be required to register the Old Preferred Stock. In such event, holders of Old Preferred Stock seeking liquidity in their investment would have to rely on exemptions to registration requirements under the U.S. securities laws. See "Risk Factors -- Consequences of Failure to Exchange."

Expiration Date; Extensions; Amendments

The term "Expiration Date" shall mean   , 1998 (20 business days following the commencement of the Exchange Offer), unless the Company, in its sole discretion, extends the Exchange Offer, in which case the term "Expiration Date" shall mean the latest date to which the Exchange Offer is extended. See "-- Acceptance of Old Preferred Stock for Exchange; Delivery of New Preferred Stock."

In order to extend the Expiration Date, the Company will notify the Exchange Agent of any extension by oral or written notice and will mail to the record holders of Old Preferred Stock an announcement thereof, each prior to 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. Such announcement may state that the Company is extending the Exchange Offer for a specified period of time.

The Company reserves the right (i) to delay accepting any shares of Old Preferred Stock, to extend the Exchange Offer or to terminate the Exchange Offer and not accept shares of Old Preferred Stock not previously accepted if any of the conditions set forth herein under "-- Conditions" shall have occurred and shall not have been waived by the Company, by giving oral or written notice of such delay, extension or termination to the Exchange Agent, or (ii) to amend the terms of the Exchange Offer in any manner deemed by it to be advantageous to the holders of the Old Preferred Stock. Any such delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice thereof. If the

Exchange Offer is amended in a manner determined by the Company to constitute a material change, the Company will promptly disclose such amendment in a manner reasonably calculated to inform the holders of the Old Preferred Stock of such amendment and the Company will extend the Exchange Offer for a period of five to 10 business days, depending upon the significance of the amendment and the manner of disclosure to holders of the Old Preferred Stock, if the Exchange Offer would otherwise expire during such five to 10 business day period.

Without limiting the manner in which the Company may choose to make public announcement of any delay, extension, amendment or termination of the Exchange Offer, the Company shall have no obligation to publish, advertise, or otherwise communicate any such public announcement, other than by making a timely release to an appropriate news agency.

NO VOTE OF THE COMPANY'S SECURITY HOLDERS IS REQUIRED UNDER APPLICABLE LAW TO EFFECT THE EXCHANGE OFFER AND NO SUCH VOTE (OR PROXY THEREFOR) IS BEING SOUGHT HEREBY.

Holders of Old Preferred Stock do not have any appraisal or dissenters' rights in connection with the Exchange Offer under the Delaware General Corporation Law, the state in which the Company is incorporated.

DIVIDENDS ON THE NEW PREFERRED STOCK

Dividends on the New Preferred Stock will accrue from the date of issuance of the Old Preferred Stock, are cumulative and will be payable quarterly, in arrears, on January 15, April 15, July 15 and October 15 of each year commencing January 15, 1998, at a rate per annum of 12 3/4% of the Liquidation Preference thereof. Dividends will also accrue and cumulate on any accrued and unpaid dividends.

PROCEDURES FOR TENDERING

To tender in the Exchange Offer, a holder must complete, sign and date the Letter of Transmittal, or a facsimile thereof, have the signatures thereon guaranteed if required by the Letter of Transmittal and mail or otherwise deliver such Letter of Transmittal or such facsimile, together with any other required documents, to the Exchange Agent prior to 5:00 p.m., New York City time, on the Expiration Date. In addition, either (i) certificates for such shares of Old Preferred Stock must be received by the Exchange Agent along with the Letter of Transmittal, (ii) a timely confirmation of a book-entry transfer (a "Book-Entry Confirmation") of such shares of Old Preferred Stock, if such procedure is available, into the Exchange Agent's account at The Depository Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedure for book-entry transfer described below, must be received by the Exchange Agent prior to the Expiration Date or (iii) the holder must comply with the guaranteed delivery procedures described below. THE METHOD OF DELIVERY OF SHARES OF OLD PREFERRED STOCK, LETTERS OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS IS AT THE ELECTION AND RISK OF THE HOLDERS. IF SUCH DELIVERY IS BY MAIL, IT IS RECOMMENDED THAT REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, BE USED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE TIMELY DELIVERY. NO LETTERS OF TRANSMITTAL OR SHARES OF OLD PREFERRED STOCK SHOULD BE SENT TO THE COMPANY. To be tendered effectively, the shares of Old Preferred Stock, Letter of Transmittal and all other required documents must be received by the Exchange Agent prior to 5:00 p.m., New York City time, on the Expiration Date. Delivery of all documents must be made to the Exchange Agent at its address set forth below. Holders may also request their respective brokers, dealers, commercial banks, trust companies or nominees to effect such tender for such holders.

The tender by a holder of Old Preferred Stock will constitute an agreement between such holder and the Company in accordance with the terms and subject to the conditions set forth herein and in the Letter of Transmittal.

Only a holder of shares of Old Preferred Stock may tender such shares of Old Preferred Stock in the Exchange Offer. The term "holder" with respect to the Exchange Offer means any person in whose name shares of Old Preferred Stock are registered on the books of the Company or any other person who has obtained a properly completed stock power from the registered holder.

Any beneficial owner whose shares of Old Preferred Stock are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact such registered holder promptly and instruct such registered holder to tender on his behalf. If such beneficial owner wishes to tender on his own behalf, such beneficial owner must, prior to completing and executing the Letter of Transmittal and delivering his shares of Old Preferred Stock, either make appropriate arrangements to register ownership of the shares of Old Preferred Stock in such owner's name or obtain a properly completed stock power from the registered holder. The transfer of registered ownership may take considerable time.

Signatures on a Letter of Transmittal or a notice of withdrawal, as the case may be, must be guaranteed by any member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the U.S. (an "Eligible Institution") unless the shares of Old Preferred Stock tendered pursuant thereto are tendered (i) by a registered holder who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the Letter of Transmittal or (ii) for the account of an Eligible Institution. In the event that signatures on a Letter of Transmittal or a notice of withdrawal, as the case may be, are required to be guaranteed, such guarantee must be by an Eligible Institution.

If the Letter of Transmittal is signed by a person other than the registered holder of any shares of Old Preferred Stock listed therein, such shares of Old Preferred Stock must be endorsed or accompanied by stock powers and a proxy which authorizes such person to tender the shares of Old Preferred Stock on behalf of the registered holder, in each case as the name of the registered holder or holders appears on the certificates in respect of such shares of Old Preferred Stock.

If the Letter of Transmittal or any shares of Old Preferred Stock stock powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such person should so indicate when signing, and unless waived by the Company, evidence satisfactory to the Company of their authority to so act must be submitted with the Letter of Transmittal.

All questions as to the validity, form, eligibility (including time of receipt) and withdrawal of the tendered shares of Old Preferred Stock will be determined by the Company in its sole discretion, which determination will be final and binding. The Company reserves the absolute right to reject any and all shares of Old Preferred Stock not properly tendered or any shares of Old Preferred Stock which, if accepted by the Company, would, in the opinion of counsel for the Company, be unlawful. The Company also reserves the right to waive any irregularities or conditions of tender as to particular shares of Old Preferred Stock. The Company's interpretation of the terms and conditions of the Exchange Offer (including the instructions in the Letter of Transmittal) will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of shares of Old Preferred Stock must be cured within such time as the Company shall determine. None of the Company, the Exchange Agent or any other person shall be under any duty to give notification of defects or irregularities with respect to tenders of shares of Old Preferred Stock, nor shall any of them incur any liability for failure to give such notification. Tenders of shares of Old Preferred Stock will not be deemed to have been made until such irregularities have been cured or waived. Any shares of Old Preferred Stock received by the Exchange Agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned without cost to such holder by the Exchange Agent to the tendering holders of shares of Old Preferred Stock, unless otherwise provided in the Letter of Transmittal, as soon as practicable following the Expiration Date.

In addition, the Company reserves the right in its sole discretion, subject to the provisions of the Certificate of Designation, to (i) purchase or make offers for any shares of Old Preferred Stock that remain outstanding subsequent to the Expiration Date or, as set forth under "-- Conditions," to terminate the Exchange Offer in accordance with the terms of the Registration Rights Agreement and (ii) to the extent permitted by applicable law, purchase shares of Old Preferred Stock in the open market, in privately negotiated transactions or otherwise. The terms of any such purchases or offers could differ from the terms of the Exchange Offer.

By tendering, each holder will represent to the Company that: (i) it is not an affiliate of the Company (as defined under Rule 405 of the Securities Act); (ii) any shares of New Preferred Stock to be received by it were acquired in the ordinary course of its business; and (iii) at the time of commencement of the Exchange

Offer, it was not engaged in, and did not intend to engage in, a distribution of such shares of New Preferred Stock and had no arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of the shares of New Preferred Stock. If a holder of shares of Old Preferred Stock is an affiliate of the Company, and is engaged in or intends to engage in a distribution of the shares of New Preferred Stock or has any arrangement or understanding with respect to the distribution of the shares of New Preferred Stock to be acquired pursuant to the Exchange Offer, such holder could not rely on the applicable interpretations of the staff of the SEC and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any secondary resale transaction. Each broker or dealer that receives shares of New Preferred Stock for its own account in exchange for shares of Old Preferred Stock, where such shares of Old Preferred Stock were acquired by such broker or dealer as a result of market-making activities, or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such shares of New Preferred Stock. See "Plan of Distribution."

ACCEPTANCE OF OLD PREFERRED STOCK FOR EXCHANGE; DELIVERY OF NEW PREFERRED STOCK

Upon satisfaction or waiver of all of the conditions to the Exchange Offer, the Company will accept, promptly after the Expiration Date, all shares of Old Preferred Stock properly tendered and will issue the shares of New Preferred Stock promptly after acceptance of the shares of Old Preferred Stock. See "-- Conditions" below. For purposes of the Exchange Offer, the Company shall be deemed to have accepted validly tendered shares of Old Preferred Stock for exchange when, as and if the Company has given oral or written notice thereof to the Exchange Agent.

For each share of Old Preferred Stock accepted for exchange, the holder of such Old Preferred Stock will receive a share of New Preferred Stock having a Liquidation Preference equal to that of the surrendered share of Old Preferred Stock. If (i) neither the Registration Statement of which this Prospectus is a part (the "Exchange Offer Registration Statement") relating to the Exchange Offer has been declared effective by February 13, 1998, or (ii) notwithstanding that the Company has consummated or will consummate the Exchange Offer, the Company is required to file a shelf registration statement (the "Shelf Registration Statement") with respect to the Old Preferred Stock and such Shelf Registration Statement is not declared effective by the applicable date specified under "Description of the Preferred Stock -- Exchange Offer; Registration Rights", then commencing on the date of such Registration Default (as defined), Additional Dividends (as defined) will accrue on the Preferred Stock owned by each holder affected by such Registration Default from and including the date on which any Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured at a rate per annum of 0.25% for each 90-day period that such Registration Default continues; provided, that such rate shall in no event exceed 1.0% per annum. Additional Dividends shall be paid, either in cash or, at the Company's option, in additional shares of Preferred Stock, on each regular quarterly Dividend Payment Date following the occurrence of such Registration Default through the Dividend Payment Date next following the date when such Registration Default shall have been cured. Following the cure of all Registration Defaults, the accrual of Additional Dividends will cease. Upon the effectiveness of the Exchange Offer Registration Statement or a Shelf Registration Statement, Additional Dividends payable on the shares of Old Preferred Stock from the date of such effectiveness will cease to accrue and all accrued and unpaid dividends as of the occurrence of such effectiveness shall be paid on the next Dividend Payment Date to the holders of the Old Preferred Stock exchanged for New Preferred Stock.

In all cases, issuance of shares of New Preferred Stock for shares of Old Preferred Stock that are accepted for exchange pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of certificates for such shares of Old Preferred Stock or a timely Book-Entry Confirmation of transfer of such shares of Old Preferred Stock into the Exchange Agent's account at the Book-Entry Transfer Facility, a properly completed and duly executed Letter of Transmittal and all other required documents. If any tendered shares of Old Preferred Stock are not accepted for any reason set forth in the terms and conditions of the Exchange Offer or if certificates with respect to shares of Old Preferred Stock are submitted for a greater number of shares than the holder desires to exchange, such unaccepted or nonexchanged shares of Old Preferred Stock will be returned without expense to the tendering holder thereof (or, in the case of shares of Old Preferred Stock tendered by book-entry transfer procedures described below, such nonexchanged shares

of Old Preferred Stock will be credited to an account maintained with such Book-Entry Transfer Facility) as promptly as practicable after the expiration or termination of the Exchange Offer.

BOOK-ENTRY TRANSFER

The Exchange Agent will make a request to establish an account with respect to the Old Preferred Stock at the Book-Entry Transfer Facility for purposes of the Exchange Offer within two business days after the date of this Prospectus. Any financial institution that is a participant in the Book-Entry Transfer Facility's systems may make book-entry delivery of shares of Old Preferred Stock by causing the Book-Entry Transfer Facility to transfer such shares of Old Preferred Stock into the Exchange Agent's account at the Book-Entry Transfer Facility in accordance with such Book-Entry Transfer Facility's procedures for transfer. However, although delivery of shares of Old Preferred Stock may be effected through book-entry transfer at the Book-Entry Transfer Facility, the Letter of Transmittal or facsimile thereof with any required signature guarantees and any other required documents must, in any case, be transmitted to and received by the Exchange Agent at one of the addresses set forth below under "-- Exchange Agent" on or prior to the Expiration Date or the guaranteed delivery procedures described below must be complied with.

GUARANTEED DELIVERY PROCEDURES

If a registered holder of shares of Old Preferred Stock desires to tender such shares of Old Preferred Stock, and the shares of Old Preferred Stock are not immediately available, or time will not permit such holder's shares of Old Preferred Stock or other required documents to reach the Exchange Agent before the Expiration Date, or the procedures for book-entry transfer cannot be completed on a timely basis, a tender may be effected if (i) the tender is made through an Eligible Institution, (ii) prior to the Expiration Date, the Exchange Agent received from such Eligible Institution a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and Notice of Guaranteed Delivery, substantially in the form provided by the Company (by facsimile transmission, mail or hand delivery), setting forth the name and address of the holder of Old Preferred Stock and the amount of Old Preferred Stock tendered, stating that the tender is being made thereby and guaranteeing that within five New York Stock Exchange ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery, the certificates for all physically tendered shares of Old Preferred Stock, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and any other documents required by the Letter of Transmittal will be deposited by the Eligible Institution with the Exchange Agent and (iii) the certificates for all physically tendered shares of Old Preferred Stock, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and all other documents required by the Letter of Transmittal are received by the Exchange Agent within five NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

WITHDRAWAL OF TENDERS

Tenders of shares of Old Preferred Stock may be withdrawn at any time prior to 5:00 p.m., New York City time, on the Expiration Date.

For a withdrawal to be effective, a written notice of withdrawal must be received by the Exchange Agent at one of the addresses set forth below under "Exchange Agent." Any such notice of withdrawal must specify the name of the person having tendered the shares of Old Preferred Stock to be withdrawn, identify the shares of Old Preferred Stock to be withdrawn (including the number of shares of such Old Preferred Stock) and (where certificates for shares of Old Preferred Stock have been transmitted) specify the name in which such shares of Old Preferred Stock are registered, if different from that of the withdrawing holder. If certificates for shares of Old Preferred Stock have been delivered or otherwise identified to the Exchange Agent, then, prior to the release of such certificates, the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an Eligible Institution unless such holder is an Eligible Institution. If shares of Old Preferred Stock has been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn shares of Old Preferred Stock and otherwise comply with the procedures of such facility. All questions as to the validity, form and eligibility (including time of receipt) of such notices will be determined by the Company, whose determination shall be final and binding on all parties. Any shares of Old Preferred Stock so withdrawn

will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offer. Any shares of Old Preferred Stock which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder thereof without cost to such holder (or, in the case of shares of Old Preferred Stock tendered by book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility pursuant to the book-entry transfer procedures described above, such shares of Old Preferred Stock will be credited to an account maintained with such Book-Entry Transfer Facility for the shares of Old Preferred Stock) as soon as practicable after withdrawal, rejection of tender or termination of the Exchange Offer. Properly withdrawn shares of Old

Preferred Stock may be retendered by following one of the procedures described under "-- Procedures for Tendering" above at any time on or prior to the Expiration Date.

CONDITIONS

Notwithstanding any other term of the Exchange Offer, the Company will not be required to accept for exchange, or to issue shares of New Preferred Stock in exchange for, any shares of Old Preferred Stock and may terminate or amend the Exchange Offer as provided herein before the acceptance of such shares of Old Preferred Stock, if because of any change in law, or applicable interpretations thereof by the Commission, the Company determines that it is not permitted to effect the Exchange Offer, and the Company has no obligation to, and will not knowingly, accept tenders of shares of Old Preferred Stock from "affiliates" of the Company (within the meaning of Rule 405 under the Securities Act) or from any other holder or holders who are not eligible to participate in the Exchange Offer under applicable law or interpretations thereof by the Commission, or if the shares of New Preferred Stock to be received by such holder or holders of Old Preferred Stock in the Exchange Offer, upon receipt, will not be tradeable by such holder without restriction under the Securities Act and the Exchange Act and without material restrictions under the "blue sky" or securities laws of substantially all of the states.

EXCHANGE AGENT

The Bank of New York has been appointed as Exchange Agent for the Exchange Offer. Questions and requests for assistance and requests for additional copies of this Prospectus or of the Letter of Transmittal should be directed to the Exchange Agent addressed as follows:

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By Mail:	By Hand/Overnight Delivery:
Tender and Exchange Department	Tender and Exchange Department
P.O. Box 11248	101 Barclay Street
Church Street Station	Receive and Deliver Window
New York, New York 10206-1248	New York, New York 10286

</TABLE>

Facsimile Transmission:

(212) 815-6213

Confirm by Telephone:

(800) 507-9357

FEES AND EXPENSES

The expenses of soliciting tenders pursuant to the Exchange Offer will be borne by the Company. The principal solicitation for tenders pursuant to the Exchange Offer is being made by mail; however, additional solicitations may be made by telephone, telecopy or in person by officers and regular employees of the Company.

The Company will not make any payments to brokers, dealers or other persons soliciting acceptances of the Exchange Offer. The Company, however, will pay the Exchange Agent reasonable and customary fees for its services and will reimburse the Exchange Agent for its reasonable out-of-pocket expenses in connection therewith. The Company may also pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of the Prospectus and related

documents to the beneficial owners of the Old Preferred Stock, and in handling or forwarding tenders for exchange.

The expenses to be incurred in connection with the Exchange Offer will be paid by the Company, including fees and expenses of the Exchange Agent and Trustee (as hereinafter defined) and accounting, legal, printing and related fees and expenses.

The Company will pay all transfer taxes, if any, applicable to the exchange of Old Preferred Stock pursuant to the Exchange Offer. If, however, certificates representing shares of New Preferred Stock or Old Preferred Stock not tendered or accepted for exchange are to be delivered to, or are to be registered or issued in the name of, any person other than the registered holder of the shares of Old Preferred Stock tendered, or if tendered shares of Old Preferred Stock are registered in the name of any person other than the person signing the Letter of Transmittal and any transfer taxes are payable, or if a transfer tax is imposed for any reason other than the exchange of shares of Old Preferred Stock pursuant to the Exchange Offer, then the amount of any such transfer taxes (whether imposed on the registered holder or any other persons) will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted with the Letter of Transmittal, the amount of such transfer taxes will be billed directly to such tendering holder.

ACCOUNTING TREATMENT

The New Preferred Stock will be recorded in the Company's accounting records at the same carrying value as the Old Preferred Stock as reflected in the Company's accounting records on the date of the exchange. Accordingly, no gain or loss for accounting purposes will be recognized upon the consummation of the Exchange Offer. The expenses of the Exchange Offer will be amortized by the Company over the term of the New Preferred Stock in accordance with generally accepted accounting principles.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains certain statements of a forward-looking nature relating to future events or the future financial performance of the Company. Holders of Old Preferred Stock are cautioned that such statements are only predictions and that actual events or results may differ materially. In evaluating such statements, holders of Old Preferred Stock should specifically consider the various factors identified in this Prospectus, including the matters set forth under the caption "Risk Factors," which could cause actual results to differ materially from those indicated by such forward-looking statements. The following discussion should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere or incorporated by reference in this Prospectus.

OVERVIEW

ACSI is a provider of integrated local voice and data communications services to commercial customers primarily in mid-sized metropolitan markets in the southern United States. The Company is a rapidly growing CLEC, supplying businesses with advanced telecommunications services on its digital SONET-based fiber optic local networks and through resale of incumbent local exchange carrier services. To date, the Company has derived the majority of its revenues from the sale of dedicated services, generally at a discount to the price of the ILECs. The Company's dedicated services include special access, switched transport and private line services.

As a supplement to its dedicated services, the Company introduced local switched voice services in two of its markets and began offering local switched voice services in two additional markets using its own facilities before March 31, 1997. The Company's local switched services include: local exchange services (dial tone), advanced ISDN and enhanced voice services. In late 1996, the Company also deployed ACSINet, a coast-to-coast, leased broadband data communications network through which the Company offers frame relay, ATM and Internet access services to both ISPs and local businesses. As of September 30, 1997, the Company had ACSINet data POPs in 44 markets, including all but one of the markets in which the Company has operational local networks. Additionally, primarily through the Cybergate Acquisition, the Company has begun providing Internet services. The Cybergate Acquisition provides a foundation to support the Company's Internet service offerings to ISPs in existing ACSI markets and to end-users in targeted ACSI markets.

As of September 30, 1997, the Company had 32 operational local networks. In an attempt to improve financial performance and conserve capital, the Company is reassessing the optimum number of local networks needed to achieve its objectives.

The Company provides dedicated services to IXCs and to those business and government end-users whose volumes of voice and data traffic are large enough to warrant paying a fixed monthly charge for a specific capacity requirement rather than a usage-based variable charge. These monthly charges vary according to the capacity of each circuit, the volume of individual circuits ordered by the customer, the mileage of the circuits, the need for any ancillary services and the term of the service contract, but are typically less than the rates charged by the ILECs for similar services, volumes and terms. For the fiscal period ended December 31, 1996, 40% of the Company's revenues were generated by four of the largest IXCs. As of September 30, 1997, the Company had long-term operating leases for nine Lucent 5ESS switches. The use of operating leases, rather than the acquisition of such equipment, reduces the Company's capital requirements but negatively impacts its EBITDA. The Company has long-term operating leases for 9 voice and 40 data switches totaling $20.8 million at interest rates ranging from 7% to 11% over terms ranging from 3 to 7 years, with annual payments increasing over the term of each lease. The Company has successfully negotiated approximately $19 million in additional long term operating leases for an estimated 8 voice and 20 data switches with interest rates and payment structures similar to the existing operating leases.

Beginning in the fiscal quarter ended December 31, 1996, the Company began providing and plans to continue to provide, local switched voice services, such as local dial tone, termination of local calling, Centrex services, PBX trunking, switched access and enhanced voice services, initially to existing and new corporate customers in buildings already connected to the Company's local networks. Revenues from the Company's local switched voice services will be generated from fixed and usage-based charges billed directly to the end

user at rates below those charged by ILECs for similar services. The Company began generating revenues from its local switched voice services beginning in the three months ending March 31, 1997.

In December 1996, the Company began providing high-speed data services to ISPs and corporate, institutional and government customers. ACSI's data services revenues are generated from either flat rate or usage-based recurring charges based on network access speed and the data throughput rate requested by the end-user as well as from non-recurring charges for installation and provisioning. Principally through the Cybergate Acquisition, ACSI has begun to offer direct Internet access to commercial and consumer end-users as well as provide private label Internet services for the Company's strategic distribution partners throughout all of the Company's markets. Revenues from the Company's Internet services will be generated from usage-based variable rates charged directly to the end-user by the Company.

The Company believes that integration of its SONET-based fiber optic local networks and its coast-to-coast, leased broadband data communications network will provide a platform for the provision of a wide variety of voice, high-speed data and other communications services at a reduced cost. While the Company may offer its services to customers that are not directly connected to its integrated network through resale of the ILEC's network, the Company believes that it can gradually migrate many of these off-net customers to higher margin on-net accounts as it increases penetration of all its services within a given building. As a result, the capital investment of connecting additional buildings and customers to ACSI's integrated network should become more cost-effective. Over time, the Company believes it can increase its market share of all of its service offerings as a result of the reliability and quality of its integrated network, prompt customer service, competitive pricing, cross marketing/bundling synergies and new service offerings throughout the markets it serves.

ACSI is operating its coast-to-coast, leased broadband data communications network via high bandwidth (DS-3) longhaul circuits pursuant to multi-year operating leases with various IXCs. Network connectivity within each node will be via DS-3 bandwidth, enabling the transparent migration of longhaul circuits to DS-3 capacity as needed. Ultimately, the platform technology is capable of upgrading the backbone to higher bandwidths without further modification.

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

CAPITAL EXPENDITURES; OPERATING CASH FLOW

As of September 30, 1997, the Company was operating 32 digital fiber optic networks. The costs associated with the initial construction and operation of a network may vary greatly, primarily due to market variations in geographic and demographic characteristics, and the types of construction technologies which can be used to deploy the network. Management estimates that construction of the initial one-to-three mile fiber optic backbone and installation of related network transmission equipment for dedicated services for each market will generally cost between $3.5 million and $6.0 million depending on the size of the market served. Including planned expansion routes, total capital expenditures per network are estimated to average $6.0 million. In addition to capital expenditure requirements, the Company incurs sales and marketing (including sales commissions) and operating expenses and other expenses such as property taxes and, in certain markets, franchise fees. Prior to the completion of network construction, certain of these expenses, to the extent they are related to pre-service construction, are capitalized. These additional capitalized expenses, estimated by management to be between approximately $500,000 and $1.0 million per network, are amortized over the

anticipated life of the network. These costs vary depending on the size of the market, the length of time required to build-out the network and the rate of growth of the customer base.

As the Company develops, introduces and rolls out its high-speed data, enhanced voice messaging and local switched services in each of its target markets, additional capital expenditures and net operating costs will be incurred. The amount of these costs will vary, based on the number of customers served and the actual services provided to the customers.

Although as of September 30, 1997, the Company was generating revenues from 32 of its fiber optic networks, on a consolidated basis, it is still incurring negative cash flows due, in part, to the funding requirements for the networks the Company has under construction or development and, to the roll-out of its new data and switched voice services. The Company expects it will continue to incur a negative cash flow for at least two years. The Company anticipates that without an infusion of additional cash it will exhaust its cash resources during the first quarter of 2000. The Company currently expects to begin generating positive cash flow from operations in the year 2000. However, there can be no assurance that the Company's networks or any of its other services will ever provide a revenue base adequate to sustain profitability or to generate positive cash flow.

RESULTS OF OPERATIONS

THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 1997 COMPARED TO THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 1996.

Revenues

The Company reported an increase in revenues to $16.1 million for the three months ended September 30, 1997 compared with revenues of $2.8 million for the three months ended September 30, 1996. For the nine months ended September 30, 1997, revenues increased to $35.8 million compared with $5.2 million for the same period of 1996. The increase in revenues is due to an increase in the networks in operation and expanded service offerings in each market. The 1997 revenues continue to be derived from significant growth in dedicated services, data services, Internet services and local switched voice services. For 1996, substantially all of the revenues were derived from the provision of dedicated services.

OTHER NETWORK INFORMATION IS AS FOLLOWS:

<TABLE>
<CAPTION>

AS OF THE PERIOD ENDED:	NETWORK ROUTE MILES	NETWORK FIBER MILES	BUILDINGS CONNECTED	VOICE GRADE EQUIVALENTS	FULL TIME EMPLOYEES
<S>	<C>	<C>	<C>	<C>	<C>
March 31, 1996..................	200	9,466	133	125,208	142
June 30, 1996...................	386	28,476	216	137,431	199
March 31, 1997..................	908	75,867	858	554,883	502
June 30, 1997...................	957	82,693	1,083	886,375	559
September 30, 1997..............	977	85,976	1,239	989,285	669

</TABLE>

The terms "Voice Grade Equivalents ('VGEs')" or "Voice Grade Equivalent Circuits" are commonly used measures of telephone service equivalent to one telephone line (64 kilobits of bandwidth) actually billed to a customer.

Total Operating Expenses

Network development and operating expenses for the three months ended September 30, 1997 increased to $10.6 million from $3.7 million for the same period of 1996. The increase is due to significant increases in personnel, network development and non-payroll operating expenses. Related personnel costs increased to $4.0 million in the quarter ended September 30, 1997, from approximately $2.8 million in the quarter ended September 30, 1996. Other operating expenses, which include expenses such as contract labor and legal expenses, travel expenses, rent, utilities, charges and taxes increased to $6.6 million for the quarter ended September 30, 1997 from approximately $0.9 million for the quarter ended September 30, 1996.

For the nine months ended September 30, 1997, network development and operating expenses increased to $28.7 million from $6.1 million for the nine months ended September 30, 1996. This increase is due to significant increases in personnel, network development and non-payroll operating expenses. Related personnel costs increased to $10.5 million for the nine months ended September 30, 1997, from approximately $5.8 million for the same period of 1996. Other operating expenses, increased to $18.2 million for the nine months ended September 30, 1997 from approximately $0.3 million for the nine months ended September 30, 1996.

For the three months ended September 30, 1997, selling, general and administrative expenses increased to $18.2 million from $5.7 million for the same period of 1996. Related personnel costs increased to $7.6 million for the quarter ended September 30, 1997 from $1.5 million for the quarter ended September 30, 1996. Corresponding operating costs increased to $10.6 million for the quarter ended September 30, 1997 from $4.2 million for the quarter ended September 30, 1996. This increase reflected costs associated with the Company's efforts to significantly expand its national and local city sales and its marketing and administrative staffs, as well as increased legal and other consulting expenses associated with its aggressive programs for obtaining regulatory approvals and certifications and providing quality network services.

In the nine months ended September 30, 1997, selling, general and administrative expenses increased to $48.0 million from $16.1 million for the nine months ended September 30, 1996. Related personnel costs increased to $19.7 million for the nine months ended September 30, 1997 from $3.2 million for the nine months ended September 30, 1996. Corresponding operating costs increased to $28.3 million for the nine months ended September 30, 1997 from $12.9 million for the same period of 1996.

Depreciation and amortization expenses increased to $6.6 million for the three months ended September 30, 1997 from $2.4 million for the three months ended September 30, 1996. For the nine months ended September 30, 1997, depreciation and amortization increased to $16.1 million from $4.7 million for the same period of 1996. As of September 30, 1997, the Company increased its capital assets to $250.4 million compared to $144.4 million at December 31, 1996 and $101.9 million as of September 30, 1996. Non-cash stock compensation expense increased to $0.5 million for the quarter ended September 30, 1997 from $0.2 million for the quarter ended September 30, 1996. For the nine months ended September 30, 1997, non-cash compensation expense decreased to $1.3 million from $1.7 for the same period of 1996.

Interest and Other Expenses

Interest and other income increased to $2.8 million for the three months ended September 30, 1997 compared with $1.5 million for the same period of 1996. For the nine months ended September 30, 1997 interest and other income decreased to $3.9 million from $5.1 million for the same period ended 1996. Interest and other expense increased to $12.9 million from $6.0 million for the quarters ended September 30, 1997 and 1996, respectively. For the nine months ended September 30, 1997 and 1996, interest and other expense increased to $25.3 million from $13.7 million, respectively. The increase in interest and other income for the quarter reflects the increase in earnings from the proceeds received from the 2007 Notes and the 14 3/4% Preferred Stock which have been invested. The increase in interest and other expenses reflected the accrual of interest related to the 2005, 2006 and 2007 Notes and the Company's increased borrowings under AT&T Credit Facility. Payments of principal and interest on the AT&T Credit Facility began in the first quarter 1997. Payments of interest on the 2005 Notes, 2006 Notes and the 2007 Notes will not begin until May 2001, October 2001 and January 1998, respectively.

FISCAL PERIOD ENDED DECEMBER 31, 1996 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 1995

Revenues

During the fiscal period ended December 31, 1996, the Company recorded revenues of $7.0 million as compared to revenues of $988,877 during the six months ended December 31, 1995. Four of the largest IXCs accounted for approximately $2.8 million, or 40%, of revenues for the fiscal period ended December 31, 1996.

Other network information is as follows:

AS OF THE PERIOD ENDED:	NETWORKS IN OPERATION	ROUTE MILES	FIBER MILES	BUILDINGS CONNECTED	VOICE GRADE EQUIVALENTS	FULL TIME EMPLOYEES
December 31, 1995.............	9	136	5,957	100	82,055	111
December 31, 1996.............	21	697	48,792	595	384,134	322

Total Operating Expenses

Network development and operating expenses for the fiscal period ended December 31, 1996 increased to $8.7 million from $2.9 million in the six months ended December 31, 1995, reflecting significant increases in personnel, network development and non-payroll operating expenses. Related personnel costs increased to $3.9 million in the fiscal period ended December 31, 1996, from approximately $1.5 million in the six months ended December 31, 1995. Other operating expenses related to the development of prospective new markets, which include expenses such as contract labor and legal expenses and certain franchise fees, travel expenses, rent, utilities, charges and taxes increased to $4.8 million in the fiscal period ended December 31, 1996 from approximately $1.4 million in the six months ended December 31, 1995.

In the fiscal period ended December 31, 1996, selling, general and administrative expenses increased to $20.3 million from $3.1 million in the six months ended December 31, 1995. Related personnel costs increased to $6.6 million in the fiscal period ended December 31, 1996 from $1.5 million in the six months ended December 31, 1995, and corresponding operating costs increased to $13.7 million in the fiscal period ended December 31, 1996 from $1.6 million in the six months ended December 31, 1995. This increase reflected costs associated with the Company's efforts in the rapid expansion of its services offered, network deployment and geographic coverage as well as significantly increasing its national and local city sales, marketing and administrative staffs and increased legal and other consulting expenses associated with its programs for obtaining regulatory approvals and certifications and providing quality network services.

Depreciation and amortization expenses increased to $4.9 million in the fiscal period ended December 31, 1996 from $762,657 in the six months ended December 31, 1995. The Company increased its capital assets to $144.4 million as of December 31, 1996, from the $32.6 million in capital assets as of December 31, 1995. Non-cash stock compensation expense decreased to $549,645 for the fiscal period ended December 31, 1996 from $1.2 million for the six months ended December 31, 1995. This expense reflects the Company's accrual of non-cash costs for options granted to key executives, employees and others arising from the difference between the exercise price and the valuation prices used by the Company to record such costs and from the vesting of those options. Certain of these options had put rights and other factors that required variable plan accounting in both 1996 and 1995 but, on or about June 30, 1995, the Company renegotiated contracts with certain of its officers, establishing a limit of $2.5 million on the Company's "put right" obligations with respect to those contracts. Between July 1, 1995 and June 30, 1996, the limit was further reduced to $2.0 million.

During the fiscal period ended December 31, 1996, the Company incurred a net operating loss of $27.4 million and generated negative cash flow from operations of $6.7 million, compared to a net operating loss of $7.0 million and negative cash flow from operations of $4.8 million in the six months ended December 31, 1995.

Interest and Other Expenses

Interest and other income increased to $2.8 million for the fiscal period ended December 31, 1996 from $777,504 in the six months ended December 31, 1995. Interest and other expense increased to $10.4 million in the fiscal period ended December 31, 1996 from $2.8 million in the six months ended December 31, 1995. The increase in interest and other income reflects the significant increase in available funds from the Company's sale of its 9% Series B Preferred Stock in June and November 1995, the 2005 Notes in November 1995 and the 2006 Notes in March 1996. The increase in interest and other expenses reflected the accrual of interest related to the 2005 Notes and 2006 Notes and the Company's increased borrowings under the AT&T Credit Facility. Payments of principal and interest on the AT&T Credit Facility will begin in calendar 1997,

payments of interest on the 2005 Notes will not begin until November 2000 and payments of interest on the 2006 Notes will not begin until October 2001.

AT&T Credit Corporation's minority interest in certain of the Company's operating subsidiaries reduced operating losses by approximately $160,370 for the fiscal period ended December 31, 1996, and by $155,861 for the six month period ended December 31, 1995.

FISCAL YEAR ENDED JUNE 30, 1996 COMPARED TO FISCAL YEAR ENDED JUNE 30, 1995

Revenues

During the fiscal year ended June 30, 1996 ("fiscal 1996"), the Company recorded revenues of $3.4 million as compared to revenues of $388,887 during the fiscal year ended June 30, 1995 ("fiscal 1995"). Four of the largest IXCs accounted for approximately $2.1 million, or 60%, of revenues for fiscal 1996 as compared to fiscal 1995 when three of the largest IXCs accounted for approximately $331,000, or 85% of revenues for fiscal 1995, reflecting the Company's increased sales to end-users during fiscal 1996.

Total Operating Expenses

Network development and operations expenses for fiscal 1996 increased to $5.3 million from $3.3 million in fiscal 1995, reflecting significant increases in personnel, network development and non-payroll operating expenses. These increased costs were associated with developing and establishing centralized engineering, circuit provisioning and network management functions, constructing and initially operating the Company's competitive access networks and performing market feasibility, engineering, rights-of-way and regulatory evaluations in additional target cities. Related personnel costs increased to $4.5 million in fiscal 1996 from approximately $1.3 million in fiscal 1995. Other operating expenses related to the development of prospective new markets, which include expenses such as contract labor and legal expenses and certain franchise fees, travel expenses, rent, utilities, charges and taxes, decreased to $800,212 in fiscal 1996 from approximately $1.9 million in fiscal 1995.

In fiscal 1996, selling, general and administrative expenses increased to $13.5 million from $4.6 million in fiscal 1995. Related personnel costs increased to $3.2 million in fiscal 1996 from $2.0 million in fiscal 1995, and corresponding operating costs increased to $10.2 million in fiscal 1996 from $2.2 million in fiscal 1995. This increase reflected costs associated with the Company's efforts in expanding its national and local city sales, marketing and administrative staffs, as well as increased legal and other consulting expenses associated with its aggressive programs for obtaining regulatory approvals and certifications and providing quality network services.

Depreciation and amortization expenses increased to $3.1 million in fiscal 1996 from $497,811 in fiscal 1995. During fiscal 1996 the Company increased its capital assets to approximately $80.2 million, representing an increase from $15.9 million at the end of fiscal 1995. Non-cash stock compensation expense decreased to $2.7 million for fiscal 1996 from $6.4 million for fiscal 1995. This expense reflects the Company's accrual of non-cash costs for options and warrants granted to key executives, employees and others arising from the difference between the exercise price and the valuation prices used by the Company to record such costs and from the vesting of those options and warrants. Certain of these options had put rights and other factors that required variable plan accounting in fiscal 1994 and fiscal 1995 but, at the end of fiscal 1995, the Company renegotiated contracts with certain of its officers, establishing a limit of $2.5 million on the Company's put right obligations with respect to those contracts. During fiscal 1996, the limit was further reduced to $2.0 million.

Interest and Other Expenses

Interest and other income increased to $4.4 million for fiscal 1996 from $217,525 in fiscal 1995. Interest expense and other costs increased to $10.5 million in fiscal 1996 from $170,095 in fiscal 1995. These increases in interest income and expenses reflected the significant increase in available funds from the Company's sale of its 9% Series B Preferred Stock in June and November 1995 and the 2005 Notes in November 1995. The increase in interest and other expenses reflected the accrual of interest related to the 2005 Notes and the

Company's increased borrowings under the AT&T Credit Facility. Payments of principal and interest on the AT&T Credit Facility will begin in calendar 1997, payments of interest on the 2005 Notes do not begin until November 2000 and payments of interest of the 2006 Notes do not begin until October 2001.

Debt conversion expense in fiscal 1995 totaled $385,000, reflecting expenses incurred in connection with the conversion of certain of the Company's debt to equity in September 1994. AT&T Credit Corporation's minority interest in the Company's operating subsidiaries for which it provided funding, reduced operating losses by approximately $412,606 for fiscal 1996, and by $48,055 for fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Company has funded the construction of its local networks and its operations with external financing. Prior to November 1995, the primary sources of funds used to finance the building of existing networks and the completion of new targeted networks were two preferred stock private offerings completed in October 1994 and June 1995, through which the Company raised an aggregate of approximately $39.6 million before related expenses, and the AT&T Credit Facility, through which the Company has financing commitments for $31.2 million. On November 14, 1995, the Company completed a private offering of the 2005 Notes and the 2005 Warrants from which the Company received approximately $96.1 million in net proceeds. The 2005 Notes will accrue to an aggregate principal amount of $190.0 million by November 1, 2000, after which cash interest will accrue and be payable on a semi-annual basis. The Company also received net proceeds of approximately $4.7 million from the private sale of an additional 50,000 shares of its preferred stock to a principal stockholder and the exercise by that stockholder of warrants to purchase 214,286 shares of Common Stock acquired in the Company's June 1995 preferred stock private placement. On March 21, 1996, the Company completed a private offering of the 2006 Notes from which the Company received net proceeds of approximately $61.8 million. The 2006 Notes will accrue to an aggregate principal amount of $120.0 million by April 1, 2001, after which cash interest will accrue and be payable on a semi-annual basis. On April 15, 1997, the Company completed the Common Stock Offering. The Company completed the sale of an additional 660,000 shares on May 14, 1997 upon exercise of the underwriters' over-allotment option. The Company received net proceeds of approximately $40.0 million from the sale of these 8,660,000 shares. On July 10, 1997, the Company completed the Unit Offering from which the Company received net proceeds of approximately $67 million. The Company used a portion of these funds to pay ordinary course trade accounts payable that were more than 60 days overdue, thereby curing an Event of Default under each of the indentures relating to the 2005 Notes and the 2006 Notes. On July 23, 1997, the Company completed the sale of the 2007 Notes. Of the total net proceeds of $208.0 million, the Company placed $70.0 million representing funds sufficient to pay the first five semi-annual interest payments on the 2007 Notes into an escrow account for the benefit of the holders thereof.

In addition, the Company in the past has considered and expects to continue to consider potential acquisitions or other strategic arrangements that may fit the Company's strategic plan. Although the Company has had discussions concerning such potential acquisitions or arrangements, to date, no agreements have been reached with regard to any particular transaction. Any such acquisitions or strategic arrangements that the Company might consider are likely to require additional equity or debt financing, which the Company will seek to obtain as required. The Company's expectations of required future capital expenditures are based on the Company's current estimates and the current state and federal regulatory environment. There can be no assurance that actual expenditures will not be significantly higher or lower. In addition, there can be no assurance that the Company will be able to meet its strategic objectives or that such funds, if available at all, will be available on a timely basis or on terms that are acceptable to the Company.

Management anticipates that the Company's current cash resources are sufficient to fund the Company's continuing negative cash flow and required capital expenditures into the first quarter of 2000. Without an infusion of additional cash, the Company will exhaust its cash resources during the first quarter of 2000. To meet its additional remaining capital requirements and to successfully implement its growth strategy, ACSI will be required to sell additional equity securities, increase its existing credit facility, enter into additional credit facilities or sell additional debt securities, certain of which would require the consent of the Company's debtholders. Furthermore, before incurring additional indebtedness, the Company may be required to seek

additional equity financing to maintain balance sheet and liquidity ratios required under certain of its debt instruments and, as a result of the registration rights of certain of the Company's security holders, the Company's ability to raise capital through a public offering of equity securities may be limited. Accordingly, there can be no assurance that the Company will be able to obtain the additional financing necessary to satisfy its cash requirements or to successfully implement its growth strategy, in which event the Company will be forced to curtail its planned network expansion and may be unable to fund its ongoing operations.

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

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

In July, 1997 the Company issued the 14 3/4% Preferred Stock. Dividends on the Preferred Stock accrue from the date of issuance, are cumulative and are payable quarterly in arrears commencing September 30, 1997, at a rate per annum of 14 3/4% of the liquidation preference per share. Dividends on the 14 3/4% Preferred Stock will be paid, at the Company's option, either in cash or by the issuance of additional shares of 14 3/4% Preferred Stock; provided, however, that after June 30, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the 14 3/4% Preferred Stock by the terms of any then outstanding indebtedness or any other agreement or instrument to which the Company is then subject, the Company shall pay dividends on the 14 3/4% Preferred Stock in cash.

In October 1997, the Company issued the Preferred Stock. Dividends on the Preferred Stock accrue from the date of issuance, are cumulative and are payable quarterly in arrears commencing January 15, 1998, at a rate per annum of 12 3/4% of the liquidation preference per share. Dividends on the Preferred Stock will be paid, at the Company's option, either in cash or by the issuance of additional shares of Preferred Stock; provided, however, that after October 15, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the Preferred Stock by the terms of any agreement or instrument governing any of its then outstanding indebtedness, the Company shall pay dividends on the 12 3/4% Preferred Stock in cash.

AT&T Credit Facility. In October 1994, the Company entered into the AT&T Credit Facility pursuant to which AT&T Credit Corporation has agreed to provide up to $31.2 million in financing for the development and construction of fiber optic local networks by five of the Company's subsidiaries. In connection with each loan made under the AT&T Credit Facility, AT&T Credit Corporation purchased 7.25% of the capital stock of the funded subsidiary, and ACSI pledged the other shares and the assets of the subsidiary to AT&T Credit Corporation as security for the loan. During fiscal 1995, the Company's subsidiaries in Louisville, Fort Worth, Greenville and Columbia entered into loan agreements under the AT&T Credit Facility providing for AT&T Credit Corporation funding of up to $19.8 million in the aggregate, and, in September 1995, the Company's subsidiary in El Paso entered into a loan agreement under the AT&T Credit Facility providing for up to $5.5 million of AT&T Credit Corporation funding. As of September 30, 1997, an aggregate of $31.2 million had been borrowed under these agreements. Principal amounts payable on the AT&T Credit Facility during 1997 are approximately $872,000.

The Company has entered into negotiations with AT&T Capital Corporation to roll-up the five existing loan agreements comprising the AT&T Credit Facility into one loan agreement to be entered into with the Company, and to be secured by the existing assets of the Company (including the stock, but not the assets, of certain of the Company's subsidiaries) (the "New AT&T Facility"). The Company expects the New AT&T Facility to otherwise be on terms substantially similar to those of the existing AT&T Credit Facility. The maximum aggregate amount of credit available under the proposed New AT&T Facility will not exceed $35 million, which is the maximum amount of credit the Company is allowed to borrow in its Secured Credit Facility (as defined in the Existing Indentures and in the Indenture (as defined herein) with respect to the Notes). AT&T Credit Corporation has issued to each of the Company's Subsidiaries that are parties to the AT&T Credit Facility a waiver through December 31, 1997, of compliance by such subsidiaries with certain covenants contained therein. Such covenants are not expected to be included in the New AT&T Facility. The Company has agreed with the Initial Purchaser that, after the date of expiration of such waiver (as the same may be extended), upon the receipt of a demand for payment under the AT&T Credit Facility, the Company will repay the AT&T Credit Facility in full and will maintain cash and cash equivalents in an aggregate amount sufficient for such purpose, unless, on or prior to such demand for payment, the New AT&T Facility shall have become effective and the Company shall be in compliance with all covenants contained therein.

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

EFFECTS OF NEW ACCOUNTING STANDARDS

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

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

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 129 (FAS 129), "Disclosure of Information about Capital Structure." The Company is required to adopt the provisions of this Statement for fiscal years ending after December 15, 1997. This Statement continues the previous requirement to disclose certain information about an entity's capital structure found in APB Opinions No. 10, "Omnibus Opinion -- 1966," No. 15, "Earnings per Share," and FASB Statement No. 47, "Disclosure of Long-Term Obligations," for entities that were subject to the requirements of those standards. As the Company has been subject to the requirements of each of those standards, adoption of FAS No. 129 will have no impact on the Company's financial statements.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 (FAS No. 130), "Reporting Comprehensive Income." FAS No. 130 established standards for the reporting and display of comprehensive income and its components in the financial statements. The Company is required to adopt the provisions of the Statement for fiscal years beginning after December 15, 1997. Earlier application is permitted; however, upon adoption the Company will be required to reclassify previously reported annual and interim financial statements. The Company believes that the disclosure of comprehensive income in accordance with the provisions of FAS No. 130 will not impact the manner of presentation of its financial statements as currently and previously reported.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 (FAS No. 131), "Disclosure about Segments of an Enterprise and Related Information." FAS No. 131 requires the Company to present certain information about operating segments and related information, including geographic and major customer data, in its annual financial statements and in condensed financial statements for interim periods. The Company is required to adopt the provisions of the Statement for fiscal years beginning after December 15, 1997. Earlier application is permitted; however, upon adoption the Company will be required to restate previously reported annual segment and related information in accordance with the provisions of FAS No. 131. The Company has not completed its analysis of the impact on the financial statements that will be caused by the adoption of this Statement.

BUSINESS

INDUSTRY OVERVIEW

The continuing deregulation of the telecommunications industry and technological change have resulted in an increasingly information-intensive business environment. Regulatory, technological, marketing and competitive trends have expanded substantially the Company's opportunities in the converging voice and data communications services markets. Regulatory initiatives, such as the Federal Telecommunications Act, are expected to expand opportunities in the local telecommunications services market, the size of which is estimated to be approximately $100 billion in 1997. Technological advances, including rapid growth of the Internet, the increased use of packet switching technology for voice communications and the growth of multimedia applications, are expected to result in substantial growth in the high-speed data services market to approximately $10 billion by 2000 compared to $1 billion in 1995.

Dedicated Services. Competition in the local exchange services market began in the mid-1980s. In New York City, Chicago and Washington, D.C., newly formed companies provided dedicated non-switched services by installing fiber optic facilities connecting POPs of IXCs within a metropolitan area and, in some cases, connecting business and government end-users with IXCs. Most of the early CAPs operated limited networks in the central business districts of major cities in the U.S. where the highest concentration of voice and data traffic, including IXC traffic, is typically found. CAPs used the substantial capacity and economies of scale inherent in fiber optic cable to offer customers service that was generally less expensive and of higher quality than could be obtained from the ILECs due, in part, to antiquated copper-based facilities used in many ILEC networks.

Local Switched Voice Services. Initially, CAPs could compete effectively only for special access and private line services to customers in buildings directly connected to their separate networks, but the FCC Interconnection Decisions in 1992 and 1993 allowed CAPs to increase the number of customers and markets serviced significantly without physically expanding their networks. Those Interconnection Decisions also enabled CAPs to provide interstate switched access services in competition with ILECs, which has encouraged the development of the competitive interstate switched access market. The Company believes that competition in this market will be further enhanced because the Federal Telecommunications Act requires (i) removal of state and local entry barriers, (ii) ILECs to provide interconnections to their facilities, and (iii) access to rights-of-way. In addition, to the extent that ILECs begin to compete with IXCs for long distance services, IXCs may have a competitive incentive to move access business away from ILECs to CLECs, and CLEC market share may increase.

Data Communications Services. The Company believes that high-speed data communications services represent one of the fastest growing segments of the telecommunications services market, due in part to the continuing proliferation of computers and the increasing need to interconnect these computers via local and wide area networks, the dramatic growth of the Internet and the emergence of multimedia applications. Together, these applications have spawned numerous network technologies and communications protocols to support legacy, current and emerging needs. The domestic network infrastructure currently supporting both voice and data transport requirements, which focuses on IP switching and framed relay services, is being strained by the increasing demand for high-bandwidth transport at both the local and national levels. The Company believes that the increasing volume and complexity of high-speed applications will further strain the domestic network infrastructure and create an opportunity for ACSI to provide a single high-quality ATM-based network capable of consistently supporting diverse data communications needs.

- Internet Access Services. Businesses are increasingly using the Internet to transmit e-mail, engage in commercial transactions (e.g., electronic commerce) and develop internal communications networks, or "intranets." Increasing business utilization of the Internet has added to the demand for higher-speed access (i.e., services connecting users to the Internet), applications (such as "Web browsers"), increased port capacity and secure network facilities. In addition, this has resulted in significant demand for local and interexchange communications network services, applications software and systems integration services.

- Frame Relay. Frame relay service is a fast-packet transport solution targeted at LAN-to-LAN and legacy networks. Frame relay service is designed to meet fluctuating, or periodic, data transfer requirements by offering shared virtual bandwidth connectivity at high speed. Frame relay services offer low cost data transmission with generally minimal delay, few errors and high speed performance.

- ATM. ATM is a high bandwidth service providing virtual networking for voice, data and multimedia traffic. The ability to combine all three media provides opportunities to reduce costs associated with running three separate networks. The major benefits of ATM include providing shared access to trunk bandwidth for multiple applications and application types, minimizing the number of wide area connections needed and supporting user access speeds of at least 1.5 mbps (T-1). The Company expects the growth in demand for frame relay services to slow and the demand for ATM services to increase.

Internet Services. An increasing number of businesses and individuals have access to the Internet through their personal computers and the use of the modem. Individuals or businesses can connect to the Internet via a modem by calling an ISP's local POP. ISPs connect users to the Internet via leased or owned high-speed dedicated data lines. ISPs also help users install and configure connectivity software and Internet access services. An ISP may offer a commercial user Internet services at various speeds, depending on a customer's needs, via direct connections or leased local lines to a local POP.

COMPANY STRATEGY

The Company's objective is to become a full service alternative to the ILEC for business, government and institutional end-users in its markets by offering superior products with excellent customer service at competitive prices. In order to achieve this objective, the Company seeks to:

- Leverage Existing Infrastructure. The Company believes that its integrated telecommunications networks, both its local fiber networks and ACSINet, are capable of providing a broad range of voice and data communications services to its customers. The Company is focusing its efforts on improving penetration in the markets it already serves by continuing to offer additional services. The Company believes that providing switched local voice services permits it to increase the traffic and revenue associated with its networks. The Company also recently began providing calling-card, teleconferencing and other long distance services. In markets in which it does have operational networks, the Company's decision to pursue a resale strategy would position the Company as a full-service provider, capable of providing its customers with a one-stop-shopping alternative to the ILEC. In markets in which it does not currently have an operational network, this resale strategy positions the Company to eventually construct networks in those markets, which networks would benefit immediately from an existing customer base.

- Develop Direct and Indirect Sales Channels to Commercial End-Users. The Company has divided its sales and marketing efforts into three different channels: direct sales to end-users, sales to IXCs and ISPs and sales of private-label services through alternative distribution channels.

  Direct Sales. The Company's local sales force continues to focus on the commercial end-users in each of the markets it serves. The Company believes that its local, customer-oriented, single point-of-service sales structure facilitates greater customer care in both the sales and customer service processes and helps the Company differentiate itself as a customer-focused telecommunications services provider. The Company's major account sales force targets large national accounts. As of September 30, 1997, the Company's sales force in this area was made up of 178 sales people, which represents an increase of 123 sales people since December 31, 1996, and is expected to increase to 210 sales people by the end of 1997 or during 1998.

  Sales to IXCs and ISPs. The Company sells dedicated services to long distance carriers and ISPs who use the Company's products and services to provide local access for their own products. For example, the Company recently entered into an agreement with MCImetro in which, subject to certain conditions, MCI has agreed to name ACSI as its preferred local provider for dedicated and transport services in 21 ACSI markets for at least a five-year period. See "Recent Developments".

  Sales Through Alternative Distribution Channels. As of September 30, 1997, the Company had executed over 63 sales agency agreements and is actively recruiting additional telecommunications sales agents to market the Company's services. In addition, the Company intends to expand distribution of its services by contracting with IXCs, utilities, CATVs, RBOCs, other ILECs and cellular and other wireless communication providers to resell the Company's products and services under their own private labels. The Company is presently recruiting a dedicated sales force to serve in the support of sales through these and other alternative distribution channels.

- Market the Company's Services Under the ACSI Brand Name. The Company is establishing the ACSI brand name by marketing and packaging its broad array of communications services directly to end-users. In markets in which it has local networks established, both switched services and data services are marketed under the ACSI brand name; in markets in which the Company has no network installed, it resells local switched services under the ACSI brand name. In both types of markets, the Company also pursues opportunities to bundle its services together to strengthen the ACSI identity as a full-service provider of telecommunications services.

- Provide Superior Customer Service. The Company is developing and implementing an integrated customer care strategy that is intended to provide a heightened level of responsive customer service across its full range of existing and planned products and services. This strategy comprises infrastructure, training, performance monitoring and image/brand recognition and will serve to leverage the Company's operational support systems, other information/financial systems and customer care organizations. The Company has made significant capital investments in its integrated network management platform which monitors and manages all voice and data network elements. The Company expects to have completed customer care and billing systems by the end of 1998, which are intended to improve the Company's provision of integrated customer service on a cost efficient basis. These and other quality management and improvement programs, when implemented, are expected to enable the Company to differentiate itself in the marketplace by providing a level of customer care and customer service that is of a higher quality than that which is available in today's market.

- Expand Resale of Local Exchange Voice Services. Management believes that the Company can successfully enter new markets with lower capital investment by acting as a reseller of either local switched voice or data services. This strategy is intended to allow the Company to build brand name awareness and develop a customer base without incurring the initial capital costs typically incurred by facilities-based entrants. This strategy also enables the Company to make capital decisions based on where its customers are most highly concentrated. Once the Company has established a customer base, the Company plans to invest in extending its network infrastructure in those markets that it already serves.

- Accelerate Financial Return on Incremental Expenditures. The Company is pursuing opportunities that accelerate the return on the Company's invested capital. The Company believes that it will achieve an earlier return on its investment by focusing on new customer application in existing markets rather than continuing to increase the number of new networks built. For this reason, the Company has modified its earlier goal of constructing 50 local networks by the end of 1998, is now evaluating additional markets in which it may construct local networks and is establishing a presence in additional markets through resale of switched services and data POPs. The Company plans to redeploy into customer applications in existing markets the capital that was scheduled to be used to develop those additional networks. While management continues to believe in the long-term return on capital afforded by the constructed networks, it believes that the investment in customer applications will have a more immediate return. As part of this strategy, the Company has also implemented a shift in its incentive-based compensation for a number of its key executives, toward revenue and EBITDA and away from new network development and growth.

ACSI SERVICES

The Company currently provides, or is actively implementing plans to provide, a wide range of local telecommunications services including dedicated and private line, high-speed data services, including IP

switching and managed services, local switched voice services and Internet services. The Company's SONET-based fiber optic local networks are designed to support this wide range of enhanced communications services, provide increased network reliability and reduce costs for its customers.

Dedicated Services. During 1996, dedicated and private line services for IXCs and other carriers generated a substantial portion of the Company's revenues, with the remaining revenues generated from business and government end-users. The Company's dedicated services provide high capacity non-switched interconnections: (i) between POPs of the same IXC; (ii) between POPs of different IXCs; (iii) between large business and government end-users and their selected IXCs; (iv) between an IXC POP and an ILEC central office or between two ILEC central offices; and (v) between different locations of business or government end-users.

- Special access services. Special access services provide a link between an end-user location and the POP of its IXC, or links between IXC POPs, thus bypassing the facilities of the ILEC. These services, which may be ordered by either the long distance customer or directly by its IXC, typically provide the customer better reliability, shorter installation intervals, and lower costs than similar services offered by the ILEC. Customer charges are based on the number of channel terminations, fixed and mileage-sensitive transport charges, and costs for any services required to multiplex circuits.

- Switched transport services. Switched transport services are offered to IXCs that have large volumes of long distance traffic aggregated by a ILEC switch at a central office where the CAP has collocated its network.

The Company provides dedicated facilities for transporting these aggregated volumes of long distance traffic from the ILEC central office to its POP or between ILEC central offices.

- Private line services. Private line services provide dedicated facilities between two end-user locations in the same metropolitan area (e.g., a central banking facility and a branch office or a manufacturing facility and its remote data processing center) and are priced like special access services (channel termination charges plus transport and any associated multiplexing charges). The Company expects the demand for private line service to increase in conjunction with higher bandwidth customer applications.

Local Switched Voice Services. As of September 30, 1997, the Company is offering local switched voice services using its own facilities in Columbus, Georgia; Montgomery, Alabama; Birmingham, Alabama; Ft. Worth, Texas; Louisville, Kentucky; Little Rock, Arkansas; Albuquerque, New Mexico; Tucson, Arizona; and New Orleans, Louisiana. In April 1997, the Company began providing local switched services on a resale basis in 15 markets. As of September 30, 1997, the Company is offering local switched services on a resale basis in 32 markets and plans to expand further the number of markets in which it is reselling local switched services throughout 1997 and the first quarter of 1998. As an adjunct to its local switched services, the Company anticipates providing calling card and other interLATA services by the end of the fourth quarter of 1997.

The Company's local switched voice services include telephone exchange service, including optional enhanced services such as call waiting, caller ID and three-way conference calling; switching traffic between ACSI's switch and a business customer's PBX and routing local, intraLATA and interLATA phone calls according to the customers' specific requirements; providing local dial tone services with functionality such as free internal communications, call forwarding, call transfer, conference call and speed dialing; ISDN data services; and origination and termination of long distance traffic between a customer premise and interexchange carrier via shared trunks utilizing the Company's local switch.

During the first quarter of 1997, the Company began generating revenues from its enhanced voice services that are currently being offered to small and mid-sized business and government end-users in a limited number of its local network markets. The Company's goal is to expand its enhanced voice service offerings and customer base. The Company's enhanced voice services include its First Line and First Line Plus messaging products and services under the brand names Virtualine and Virtualine 800, including basic voice messaging, follow-me call routing, virtual calling card services, fax services, e-mail and paging notification services, and automated attendant services.

High-Speed Data Services. ACSINet, the Company's coast-to-coast, leased broadband data communications network, supports the following Company services:

- ACSINet Internet Access Service. The Company provides public Internet connectivity and IP transport for the business and reseller communities. This service is targeted to local and regional ISPs and corporate Internet users requiring dedicated access. The service operates over the ACSINet DS3 (45 Mbps) backbone, a fully-meshed, coast-to-coast network with Internet connectivity at multiple network access points (NAPs) to ensure continuous availability to the Internet.

- Managed Services. These services include design, installation, maintenance, hardware (such as switches, routers and modems), configuration management (such as maintaining consistent versions of the router software and deploying consistent configurations) and overall network management for a customer's network. The Company's managed services are designed to eliminate many of the timing, coordination and inter-operability issues that arise in installations requiring multiple vendors.

- Frame Relay. Frame relay service is provided to end-users with LAN-to-LAN and legacy networks, allowing them to share virtual bandwidth connectivity at high speed. Frame relay services offer low cost data transmission with generally minimal delay, few errors and high speed performance. As users' requirements expand into multimedia applications, which require higher bandwidth, frame relay offers a natural migration path to ATM.

- ATM. The Company's ATM services include native speed LAN connectivity, diagnostic imaging, video-conferencing and other high-bandwidth applications.

Internet Services. Principally through the Cybergate Acquisition, the Company has begun to offer high-speed data communications services, including computer network connections and related infrastructure services, to allow both commercial and residential customers to have access to the Internet through their personal computers and the use of a modem.

IMPLEMENTATION OF INTEGRATED NETWORK

The Company has developed an integrated communications network consisting of SONET-based fiber optic local networks, a coast-to-coast, leased broadband data communications network and local central office switching facilities.

Local Network Development. Digital fiber optic telecommunications networks generally offer faster and more accurate transmissions for all data and voice communications than analog telecommunications systems or digital transmission systems using copper wire, which continues to be used in varying degrees by the ILECs. Fiber optic networks also generally require less maintenance than copper wire or microwave facilities of comparable transmission capacity, thereby decreasing operating costs. Because ACSI is employing the latest digital transmission technology in its local networks, these SONET-based fiber optic networks will have substantial additional capacity, and further increases in capacity can be achieved through a change in electronics. The Company believes it will be able to use its local CLEC networks to provide a wide range of telecommunications services with only incremental facilities costs. Key elements of the Company's local network development plan include: (i) thoroughly analyzing potentially favorable markets for development; (ii) seeking authorizations from public and private entities for rights-of-way; and (iii) efficiently implementing construction plans in a timely manner, thereby allowing the Company to gain a competitive position in the chosen market.

- Site Selection. Before deciding to enter a market, the Company conducts a detailed feasibility study to determine the potential size of the market, existing competition within the market, the Company's ability to obtain municipal authorizations, including franchises and access to rights-of-way, and the relative ease of market entry from a local and state regulatory standpoint. The rights-of-way assessment, done by independent telecommunications consultants, determines whether another CAP/CLEC network is under construction or ready to construct in the target market, the availability of economical rights-of-way, the local utility's receptiveness to allow use of its rights-of-way, the topology of the city, concentrations of commercial real estate, and the local city permit and franchise requirements. The market or end-user survey, also done by independent telecommunications consul-

tants, identifies the significant commercial and government end-users in the target service areas. Individual telephone and/or face-to-face interviews are then conducted with potential end-users, focusing on those anticipated to have the largest business volume. The interviews determine the end-user's receptiveness to using a competitor to the ILEC, the telecommunications requirements of such end-user, current pricing by the ILEC and other relevant information. This "bottom up" sizing of the target service areas provides an estimate of the prospective business by building and by customer.

- Rights-of-Way. As part of its due diligence on a market during its site selection process, the Company seeks municipal authorizations (such as franchises, licenses, or permits) to construct and operate its network within the public rights-of-way. The duration of this approval process can vary from less than three months to several years, depending on the specific legal, administrative, and political factors existing in that market. The initial term of these municipal approvals, once granted, may range from as few as five years to as many as 25 years, and such approvals typically may be renewed for additional terms. See "Risk Factors -- Dependence on Rights-of-Way and Other Third Party Agreements" and "-- Effect of Regulation."

  Concurrently with its seeking municipal authorizations, the Company initiates discussions with electric or gas utilities, CATVs and other private providers of rights-of-way and/or facilities that may be used by the Company for installation of its network. These discussions are intended to result in agreements that allow the Company to make use of those parties' fiber optic cables (such as indefeasible rights of use), underground conduits, distribution poles, transmission towers, and building entrances. The Company's ability to enter into such agreements can have a material impact on the Company's capital costs for network construction and the speed with which the Company can construct its networks. Additionally, obtaining such agreements facilitates the Company's ability to expand efficiently beyond the central business district to serve additional end-users in its markets. The term of such agreements is typically ten to 25 years, with renewal terms of five to 15 years. The Company believes that the experience of members of its senior management team in negotiating such agreements gives it a competitive advantage over other CLECs that have less experience in successfully negotiating such agreements.

- Implementation of Local Network Construction. The Company initially builds a one- to three-mile SONET-based fiber loop in the central business district or a discrete area outside of the central business district of a given target market. This network provides the users with lower costs, fiber optic clarity, diversity of access, and fault tolerant reliability of service, with automatic stand-by and rerouting in the event of operator, system or network failure. The Company's networks are then expanded into suburban business areas and other ILEC central offices to serve additional customers. These expansions may be in excess of 100 route miles. The Company utilizes outside contractors to construct its networks.

  The Company, through outside consultants, prepares preliminary and final engineering studies for the initial portions of its local networks prior to obtaining municipal authorizations required to begin network construction. This process enables the Company to initiate network construction activities immediately upon receipt of municipal authorizations. Outside plant construction of a typical downtown network will take from four to six months, depending on various factors. The Company also coordinates collocation with the ILEC's downtown central office and interconnections with selected IXC POPs with other construction milestones, reducing overall network development costs and allowing the Company to initiate operations at an earlier date.

  Following completion of its initial network and the commencement of network operations, the Company's local staff, in consultation with personnel at the Company's headquarters, designs expansion routes that will enable the Company to reach additional end-users and to interconnect with additional ILEC central offices outside the central business district or the targeted construction area. Construction of these expansion routes is typically done under agreements with third party rights-of-way providers as described above, but in some instances the Company constructs its own new facilities (typically by trenching or directional boring) where third party facilities (whether aerial or underground) do not exist or are not available for use by the Company. The Company also constructs lateral

  network facilities from its fiber optic backbone to provide on-network service to its customers. In some instances, the Company will design and construct some or substantially all of its routes outside the central business district concurrently with the construction of the downtown network, increasing the speed of overall network construction and, in the Company's opinion, creating a competitive advantage over other CLECs that may have entered or are seeking to enter the market. To the extent possible, the Company engages the third party right-of-way provider to install ACSI's cable in or on the third party's facilities, usually at a lower cost and with greater speed than that obtained by using outside contractors.

  The Company's network management center in Annapolis Junction, Maryland monitors all of the Company's networks from one central location. Centralized electronic monitoring and control of the Company's networks allows the Company to avoid duplication of this function in each city. This consolidated operations center also helps to reduce the Company's per customer monitoring and customer service costs, such that they are lower than would be available if monitored on a single-city basis. The Company also plans to use this facility to monitor the performance of data and switched voice services. During 1996, the Company performed various network management services for other telecommunications service providers and plans to continue to offer these services on a limited basis.

A critical element of the Company's local network development plan is integrating the Company's local networks with ACSINet, its coast-to-coast leased broadband data communications network.

Implementation of Local Switched Voice and High-Speed Data Services. Where technically feasible and economically practicable, the Company intends to deploy a hubbed switching strategy by using Company-owned or leased switch capacity in a large, centrally located market to provide services within that market and to serve several other markets located within the same geographical area via remote switching modules. By aggregating switched traffic from multiple small markets through a central hub switch, the Company also expects to realize reduced operating expenses associated with switch engineering and maintenance.

The Company is implementing local switched services through a combination of facilities-based services and resale of ILEC services. As of September 30, 1997, the Company has installed central office switching facilities in Columbus, Georgia; Montgomery, Alabama; Birmingham, Alabama; Ft. Worth, Texas; Louisville, Kentucky; Little Rock, Arkansas; Albuquerque, New Mexico; Tucson, Arizona; and New Orleans, Louisiana. The Company expects to have switches installed in a total of 16 markets by the end of December 1997. Toward this end, the Company had long-term lease commitments for nine initial switches as of September 30, 1997. As of September 30, 1997, the Company is offering local switched services on a resale basis in 32 markets and plans to expand further the number of markets in which it is reselling local switched services throughout 1997 and the first quarter of 1998.

In December 1996, the Company deployed ACSINet, a coast-to-coast, leased broadband data communications backbone network via leased inter-city fiber connections on which customers' high-speed data and multimedia traffic may be transported at a high-quality level on a cost-effective basis. ACSI believes its ATM-based high bandwidth network will be capable of simultaneously supporting IP switching, frame relay and multimedia applications. This technology will allow network customers to migrate transparently from lower speed services to high bandwidth services, as their data communications requirements expand.

COMPETITION

Dedicated Services. The Company operates in a highly competitive environment and has no significant market share in any market in which it operates. The Company provides dedicated services to large business and government end-users. In each of the metropolitan areas to be served by the Company's networks, the Company's dedicated services will compete principally with the dedicated services offered by the ILEC. The ILECs, as the historical monopoly providers of local access and other services, have long-standing relationships with their customers and have financial and technical resources substantially greater than those of the Company. The ILECs also offer certain services that the Company cannot currently provide without first obtaining requisite regulatory approvals. See "-- Regulation."

Competition for dedicated services is based on price, quality, network reliability, customer service, service features and responsiveness to the customer's needs. The Company believes that its management expertise, coupled with its highly reliable, state-of-the-art digital networks, which offer significant transmission capacity

at competitive prices, will allow it to compete effectively with the ILECs, which may have not yet fully deployed fiber optic networks in many of the Company's target markets. The Company currently prices its services at a modest discount compared to the prices of the ILEC while providing what the Company believes is a higher level of customer service. The Company's fiber optic networks will provide both diverse access routing and redundant electronics, design features not widely deployed by the ILEC's networks (which were originally designed in tree and branch or star configurations).

Other potential competitors of the Company include CATVs, public utilities, IXCs, wireless telecommunications providers, microwave carriers, satellite carriers, teleports, private networks built by large end-users, and other CLECs. With the passage of the Federal Telecommunications Act and the entry of RBOCs into the long distance market, the Company believes that IXCs may be motivated to construct their own local facilities and/or resell the local services of ACSI's competitors. For example, AT&T has announced its intention to offer local services and has filed for state certification in markets which include, among others, several of the Company's markets. See "Risk Factors -- Competition." Other CLECs or CATVs currently are competitors in various markets in which the Company has networks in operation or under construction. Based on management's experience at other CLECs, it is believed the initial market entrant with an operational fiber optic CLEC network generally enjoys a competitive advantage over other CLECs that later enter the market. The Company expects that there will be other CLECs operating in most, if not all, of its target markets and that some of these CLECs may have networks in place and operating before the Company's network is operational. While it is generally believed within the CLEC industry that being the first market entrant to offer services typically enhances that CLEC's competitive advantage relative to CLECs that enter the market at a later time, the Company recognizes that in some instances it may have other competitive advantages (such as a superior right-of-way arrangement or large customer commitments) that it believes outweigh another CLEC's first-to-market advantage; in these instances, the Company may elect to enter a market where an established CLEC already exists.

High-Speed Data Services. The Company's competitors for high-speed data services include major IXCs, other CLECs, and various providers of niche services (e.g., Internet access providers, router management services and systems integrators). In general, none of these competitors currently offers a comprehensive solution for a customer's potential data service requirements, a core premise of the Company's data strategy. The Company intends to pursue arrangements with other data service providers to leverage each entity's strengths in a given market or segment of the service chain by bundling elements of complete data solutions (i.e., bundle its local access and frame relay services with an IXC's longhaul transport services). The interconnectivity of the Company's markets will create additional competitive advantages over other data service providers that must obtain local access from the ILEC or another CLEC in each market or that cannot obtain intercity transport rates on as favorable terms as the Company.

There is significant competition for Internet access and related services in the United States, with few barriers to entry. The Company expects that competition will increase as existing services and network providers and new entrants compete for customers. ACSI's current and future competitors include telecommunications companies, including the RBOCs, IXCs, CLECs and CATVs, and other Internet access providers, such as UUNET Technologies, Inc., Advanced Network & Services, Inc., BBN Corporation, NETCOM On-Line Communications Services, Inc. and PSINet Inc. Many of these competitors have greater financial, technical, marketing and human resources, more extensive infrastructure and stronger customer and strategic relationships than ACSI. The Company believes that it will have a competitive advantage in offering Internet access services to those ISPs and commercial customers in markets where ACSI has local fiber optic network facilities relative to other Internet access providers that must purchase local loop access from the ILEC, ACSI or another CLEC in that market. Additionally, ACSI believes that customers with operations in multiple locations served by ACSI local fiber optic networks will find single-source Internet access services from ACSI more cost effective.

All of the seven original RBOCs offer at least some basic frame relay service. The Company believes that most IXCs offer substantial domestic and international frame relay service, generally positioned to provide significant savings over traditional private lines. Other frame relay service providers include WorldCom, Inc. and Intermedia Communications. A number of companies, primarily CLECs, have announced plans to offer

frame relay service. ATM offerings are only beginning to emerge. ATM service is currently being offered by most of the original RBOCs, WorldCom, Inc., AT&T, MCI, Sprint and WilTel, Inc. A number of other data communications providers, CLECs and facilities-based CATVs have announced their intentions to offer ATM services in the future.

A number of equipment vendors, systems integrators and Internet access and service providers offer components of managed services. The Company believes that it will have a competitive advantage over those managed services providers that do not have local loop facilities.

Local Switched Voice Services. In all of the markets where the Company is currently operating or plans to operate, the ILEC currently is a de facto monopoly provider of local switched voice services, including enhanced voice services. The Company expects that the Federal Telecommunications Act will enable CLECs, CATVs, electric utilities, cellular and wireless providers, and others to offer local switched voice services in competition with the ILECs in the Company's target markets. The Company believes that its strategy to leverage its basic network infrastructure into higher margin service offerings, migrating to local switched voice services, will allow it to procure a profitable share of the market. The Company's ability to cross-market services will create opportunities to increase margins by migrating customers from off-network to on-network status. As the number of end-users in a given off-network building increases for all service offerings, the economics improve to the point where the capital costs of connecting the building to ACSI's network are more than covered by the increased margins represented by retaining the portion of customer revenue paid out to the ILEC.

Competition for enhanced voice services primarily consists of basic voice mail services offered by ILECs and cellular providers in connection with their core offerings and customer premise-based voice mail platforms. The voice mail offerings of the ILECs typically have limited features and flexibility compared to the services contemplated by the Company; thus, the Company believes its enhanced voice messaging services and focused sales efforts should be able to penetrate effectively those segments of the small and mid-sized business market that require more features and/or flexibility than services offered by the ILECs. Customer premise-based platform voice mail offerings typically require a relatively large up front capital investment and recurring maintenance costs and are generally marketed to large companies rather than the small and mid-sized end-users targeted by the Company.

Internet Services. The market for Internet access services is extremely competitive. There are no substantial barriers to entry, and the Company expects that competition will intensify in the future. The Company has entered this market principally through the Cybergate Acquisition and believes that its ability to compete successfully will depend upon a number of factors, including market presence; the capacity, reliability and security of its network infrastructure; ease of access to and navigation of the Internet; the pricing policies of its competitors and suppliers; the timing of introductions of new products and services by the Company and its competitors; the Company's ability to support existing and emerging industry standards; and industry and general economic trends.

The Company's current and prospective competitors include many large companies that have substantially greater market presence and financial, technical, marketing and other resources than the Company. The Company expects to compete directly or indirectly with the following categories of companies: (1) other international, national and regional commercial Internet service providers; (2) established on-line services companies that currently offer or are expected to offer Internet access; (3) computer hardware and software and other technology companies; (4) IXCs; (5) RBOCs; (6) CATVs; and (7) nonprofit or educational Internet service providers. The ability of these competitors or others to bundle services and products with Internet connectivity services could place the Company at a significant competitive disadvantage in this services market.

REGULATION

Overview

The Company's services are subject to federal, state and local regulation. The FCC exercises jurisdiction over all facilities and services of telecommunications common carriers to the extent those facilities are used to provide, originate or terminate interstate or international communications. State regulatory commissions

retain jurisdiction over the Company's facilities and services to the extent they are used to originate or terminate intrastate communications. Local governments may require the Company to obtain licenses or franchises regulating use of public rights-of-way necessary to install and operate its networks.

Federal Regulation

The Federal Telecommunications Act. On February 1, 1996, the U.S. Congress enacted comprehensive telecommunications reform legislation, which the President signed into law as the Federal Telecommunications Act on February 8, 1996. The Company believes that this legislation is likely to enhance competition in the local telecommunications marketplace because it (i) removes state and local entry barriers, (ii) requires ILECs to provide interconnections to their facilities, (iii) facilitates the end-users' choice to switch service providers from ILECs to CLECs such as the Company and (iv) requires access to rights-of-way. The legislation also will tend to enhance the competitive position of the ILECs and increase local competition by IXCs, CATVs and public utility companies.

The Federal Telecommunications Act requires all telecommunications carriers (including ILECs and CLECs (such as the Company)): (i) not to prohibit or unduly restrict resale of their services; (ii) to provide dialing parity and nondiscriminatory access to telephone numbers, operator services, directory assistance and directory listings; (iii) to afford access to poles, ducts, conduits and rights-of-way; and (iv) to establish reciprocal compensation arrangements for the transport and termination of telecommunications. It also requires ILECs to provide interconnection (a) for the transmission and routing of telephone exchange service and exchange access, (b) at any technically feasible point within the ILEC's network, (c) that is at least equal in quality to that provided by the ILEC to itself, its affiliates or any other party to which the ILEC provides interconnection, and (d) at rates, terms and conditions that are just, reasonable and nondiscriminatory. ILECs also are required under the new law to provide nondiscriminatory access to network elements on an unbundled basis at any technically feasible point, to offer their local telephone services for resale at wholesale rates, and to facilitate collocation of equipment necessary for competitors to interconnect with or access the unbundled network elements.

In addition, the Federal Telecommunications Act requires RBOCs to comply with certain safeguards and offer interconnections that satisfy a prescribed 14-point checklist before the RBOCs are permitted to provide in-region interLATA (i.e. long distance) services. Other requirements apply when RBOCs manufacture telecommunications equipment. These safeguards are designed to ensure that the RBOCs' competitors have access to local exchange and exchange access services on nondiscriminatory terms and that subscribers of regulated non-competitive RBOC services do not subsidize their provision of competitive services. The safeguards also are intended to promote competition by preventing RBOCs from using their market power in local exchange services to obtain an anti-competitive advantage in the provision of other services. On December 24, 1996, the FCC adopted a number of procedures to provide greater protection against cross-subsidization and clarified the use of the prevailing price method for transaction valuation.

Moreover, the Federal Telecommunications Act also granted important legally binding relief. ILECs were given substantial new pricing flexibility; RBOCs have regained the ability to provide long distance services and have obtained new rights to provide certain cable TV services; IXCs are permitted to construct their own local facilities and/or resell local services; and state laws can no longer require CATVs to obtain a franchise before offering telecommunications services nor permit CATVs' franchise fees to be based on their telecommunications revenues. In addition, under the Federal Telecommunications Act all utility holding companies are permitted to diversify into telecommunications services. See "Risk Factors -- Competition." Three RBOCs, Ameritech, Southwestern Bell ("SBC") and BellSouth, have filed applications with the FCC for authority to provide in-region interLATA service in selected states. The Ameritech and SBC applications have been denied by the FCC while the BellSouth application for authority to provide long distance services to consumers in South Carolina and Louisiana are under consideration. Other RBOCs have begun the process to provide in-region interLATA service by filing with state commissions notice of their intent to file at the FCC. On July 2, 1997, SBC filed suit in U.S. District Court in Wichita Falls, Texas challenging the constitutionality of the provision of the Federal Telecommunications Act governing RBOC entry into in-region long distance markets. The denial of Ameritech's application also is the subject of appeals and petitions for rehearing.

FCC Rules Implementing the Local Competition Provisions of the Federal Telecommunications Act. On August 8, 1996, the FCC released a First Report and Order, a Second Report and Order and a Memorandum Opinion and Order in its CC Docket 96-98 (combined, the "Interconnection Orders") that established a framework of minimum, national rules enabling state Public Service Commissions ("PSCs") and the FCC to begin implementing many of the local competition provisions of the Federal Telecommunications Act. In its Interconnection Orders, the FCC prescribed certain minimum points of interconnection necessary to permit competing carriers to choose the most efficient points at which to interconnect with the ILECs' networks. The FCC also adopted a minimum list of unbundled network elements that ILECs must make available to competitors upon request and a methodology for states to use in establishing rates for interconnection and the purchase of unbundled network elements. The FCC also adopted a methodology for states to use when applying the Federal Telecommunications Act's "avoided cost standard" for setting wholesale prices with respect to retail services.

The following summarizes the key issues addressed in the Interconnection Orders.

- Interconnection. ILECs are required to provide interconnection for telephone exchange or exchange access service, or both, to any requesting telecommunications carrier at any technically feasible point. The interconnection must be at least equal in quality to that provided by the ILEC to itself or its affiliates and must be provided on rates, terms and conditions that are just, reasonable and nondiscriminatory.

- Access to Unbundled Elements. ILECs are required to provide requesting telecommunications carriers with nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms, and conditions that are just, reasonable and nondiscriminatory. At a minimum, ILECs must unbundle and provide access to network interface devices, local loops, local and tandem switches (including all software features provided by such switches), interoffice transmission facilities, signaling and call-related database facilities, operations support systems and information and operator and directory assistance facilities. Further, ILECs may not impose restrictions, limitations or requirements upon the use of any unbundled network elements by other carriers.

- Methods of Obtaining Interconnection and Access to Unbundled Elements. ILECs are required to provide physical collocation of equipment necessary for interconnection or access to unbundled network elements at the ILEC's premises, except that the ILEC may provide virtual collocation if it demonstrates to the PSC that physical collocation is not practical for technical reasons or because of space limitations.

- Pricing Methodologies. New entrants were required to pay for interconnection and unbundled elements at rates based on the ILEC's Total Element Long-Run Incremental Cost ("TELRIC") of providing a particular network element plus a reasonable share of forward-looking joint and common costs, and may include a reasonable profit. However, as discussed below, these rules were first stayed, and later vacated, by the U.S.

Court of Appeals for the Eighth Circuit.

- Access Charges for Unbundled Switching and Access Charge Reform. IXCs which order unbundled switching elements temporarily were required to pay an access charge to an ILEC when the ILEC provides exchange access service. Access charges also must be paid when an IXC originates or terminates interexchange traffic to a customer to which it provides local services by reselling ILEC exchange services. However, a series of access charge reforms were announced by the FCC on May 7, 1997. See "-- Other Regulation -- Access Charges" below.

- Resale Pricing. ILECs are required to offer for resale any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers. PSCs were required to identify which marketing, billing, collection and other costs will be avoided or that are avoidable by ILECs when they provide services on a wholesale basis and to calculate the portion of the retail rates for those services that is attributable to the avoided and avoidable costs. However, as discussed below, the specific federal pricing requirements were stayed, and later vacated, by the U.S. Court of Appeals for the Eighth Circuit.

- Transport and Termination Charges. The FCC rules required that LEC charges for transport and termination of local traffic delivered to them by competing LECs must be cost-based and should be based on the LECs' TELRIC cost of providing that service. However, as discussed below, the FCC's pricing and costing rules were first stayed, and later vacated, by the U.S. Court of Appeals for the Eighth Circuit.

- Access to Rights-of-Way. The FCC established procedures and guidelines designed to facilitate the negotiation and mutual provision of nondiscriminatory access by telecommunications carriers and utilities to their poles, ducts, conduits, and rights-of-way. Expedited dispute resolution procedures are set forth should good faith negotiations fail.

- Universal Service Reform. All telecommunications carriers, including the Company, are required to contribute funding for universal service support, on an equitable and nondiscriminatory basis, in an amount sufficient to preserve and advance universal service pursuant to a specific or predictable universal service funding mechanism. The Company cannot at this time predict the level of its mandatory contribution, but the Company believes that it will likely be a significant expenditure. On May 8, 1997, the FCC released an order implementing these requirements by reforming its existing access charge and universal service rules. See "-- Other Regulation -- Universal Service Reform" below.

Most provisions of the Interconnection Orders were appealed. Numerous appeals were consolidated for consideration by the U.S. Court of Appeals for the Eighth Circuit (captioned Iowa Utilities Board v. FCC). The Court of Appeals thereupon stayed the effectiveness of most of the pricing and costing provisions of FCC rules adopted in the Interconnection Orders. On July 18, 1997, the Court of Appeals released its decision regarding issues raised in the consolidated appeals of the Interconnection Orders. The Interconnection Orders were upheld in part and reversed in part. A non-exclusive list of decisions rendered include that:

- The FCC exceeded its jurisdiction in establishing rules governing the prices that ILECs may charge competitors for interconnection, unbundled access and resale. The Court ruled that the authority to establish prices for local communications facilities and services is reserved to the States and, thus, vacated the FCC's pricing rules (except as they apply to CMRS providers).

- The FCC's "pick and choose" rule, which allows competitors to select terms of previously approved interconnection agreements for their own use, conflicts with the purposes of the Federal Telecommunications Act, and also was vacated.

- The FCC lacks authority to hear formal complaints which involve the review and/or enforcement of certain terms of local interconnection agreements approved by State commissions.

- The FCC lacks authority to require interconnection agreements which were negotiated before the enactment of the Federal Telecommunications Act to be submitted for State commission approval.

- The FCC may not adopt a blanket requirement that State interconnection rules must be consistent with the FCC's regulations.

- The FCC correctly concluded that ILEC operations support systems, operator services and vertical switching features qualify as network elements that are subject to the unbundling requirements of the Federal Telecommunications Act.

- The FCC's definition of "technically feasible" was upheld for purposes of deciding where ILECs must permit interconnection by competitors, but the FCC's use of this term to determine what elements must be unbundled was rejected.

- The FCC erred in deciding that ILECs could be required by competitors to provide interconnection and unbundled network elements at levels of quality which exceed those levels at which ILECs provide such services to themselves.

- The FCC cannot require ILECs to recombine network elements for competitors, but competitors may recombine such network elements themselves as necessary to provide telecommunications services.

- Claims that the unbundling rules effected an unconstitutional taking were not decided because they were either raised by parties which lacked standing or were not ripe for review.

- FCC rules and policies regarding the ILECs' duty to provide for physical collocation of equipment were upheld.

- The FCC's rules requiring ILECs to allow the resale of promotional prices lasting more than 90 days were upheld.

The Interconnection Orders, and resulting local interconnection rules, were vacated in part consistent with these decisions. A companion appeal (captioned Competitive Telecommunications Association v. FCC) was decided on June 27, 1997. In the latter case, the court upheld the FCC's decision that the term "interconnection" as used in the Federal Telecommunications Act relates to physical access, and does not include transmission and routing services as well. On reconsideration, the Eighth Circuit upheld its prior decision as to recombination of network elements. Various parties have filed petitions for certiorari to the U.S. Supreme Court seeking reversal of the Eighth Circuit decisions on recombination rules, "pick and choose" rules and the FCC's jurisdiction to set prices for local communications facilities and services. The Company cannot predict whether the Eighth Circuit decisions will stand, or what actions the FCC may or may not take in response to these appellate decisions. Notably, the FCC recently made the use of forward looking, economic costs for the pricing of local interconnection, transport and termination and unbundled network elements, a temporary condition of its approval of the merger of Bell Atlantic and NYNEX. Similarly, the FCC indicated in its denial of Ameritech's application for in-region long distance authority that an RBOC's use of such forward looking, economic costs is relevant to the issue of whether it has satisfied the conditions necessary for approval of such an application, although that ruling has been appealed.

Other Regulation. In general, the FCC has a policy of encouraging the entry of new competitors, such as the Company, in the telecommunications industry and preventing anti-competitive practices. Therefore, the FCC has established different levels of regulation for dominant carriers and nondominant carriers. For domestic common carrier telecommunications regulation, large ILECs such as GTE and the RBOCs are currently considered dominant carriers, while CLECs such as the Company are considered nondominant carriers.

- Tariffs. As a nondominant carrier, the Company may install and operate facilities for the transmission of domestic interstate communications without prior FCC authorization. Services of nondominant carriers have been subject to relatively limited regulation by the FCC, primarily consisting of the filing of tariffs and periodic reports. With the exception of informational tariffs for operator-assisted services and interexchanges 10xxx-2x digital services, the FCC has ruled that interexchange carriers must cancel their tariffs for domestic, interstate interexchange services. However, the FCC's interexchange de-tariffing order was recently stayed by order of the U.S. Court of Appeals for D.C. Tariffs are still required to be filed for international services. On June 19, 1997, the FCC issued an order granting petitions filed by Hyperion and Time-Warner to provide CLECs the option to cease filing tariffs for interstate interexchange access services and has proposed to make the withdrawal of CLEC access service tariffs mandatory. However, nondominant carriers like the Company must offer interstate services on a nondiscriminatory basis, at just and reasonable rates, and remain subject to FCC complaint procedures.

  Pursuant to these FCC requirements, the Company has filed and maintains tariffs for its interstate services with the FCC. All of the interstate access and retail "basic" services (as defined by the FCC) provided by the Company are described therein. "Enhanced" services (as defined by the FCC) need not be tariffed. The Company believes that its enhanced voice and Internet services are "enhanced" services which need not be tariffed. The Company has not yet decided whether it will elect to cease filing interstate interexchange access tariffs.

Nondomestic carriers such as the Company also are required to obtain FCC authorization pursuant to Section 214 of the Communications Act before providing international communications services. The Company obtained authority from the FCC to provide voice and data communications services between the United States and all foreign points.

- ILEC Price Cap Regulation Reform. In 1991, the FCC replaced traditional rate of return regulation for large ILECs with price cap regulation. Under price caps, ILECs can only raise prices for certain services, by a small percentage each year. In addition, there are constraints on the pricing of ILEC

services that are competitive with those of CLECs. On September 14, 1995, the FCC proposed a three-stage plan that would substantially reduce ILEC price cap regulation as local markets become increasingly competitive and ultimately would result in granting ILECs nondominant status. Adoption of the FCC's proposal to reduce significantly its regulation of ILEC pricing would significantly enhance the ability of ILECs to compete against the Company and could have a material adverse effect on the Company. The FCC released an order on December 24, 1996 which adopted certain of these proposals, including the elimination of the lower service band index limits on price reductions within the access service category. The FCC's December 1996 order also eased the requirements necessary for the introduction of new services. On May 7, 1997, the FCC took further action in its CC Docket No. 94-1 updating and reforming its price cap plan for ILECs. The changes require price cap LECs to reduce their price cap indices by 6.5 percent annually, less an adjustment for inflation. The FCC also eliminated rules that require ILECs earning more than certain specified rates of return to "share" portions of the excess with their access customers during the next year in the form of lower access rates. These actions could have a significant impact on the interstate access prices charged by the ILECs with which the Company competes.

- Access Charges. Over the past few years, the FCC has granted ILECs significant flexibility in pricing their interstate special and switched access services. Under this pricing scheme, ILECs may establish pricing zones based on access traffic density and charge different prices for each zone. The Company anticipates that this pricing flexibility will result in ILECs lowering their prices in high traffic density areas, the probable area of competition with the Company. The Company also anticipates that the FCC will grant ILECs increasing pricing flexibility as the number of interconnections and competitors increases. On May 7, 1997, the FCC took action in its CC Docket No. 96-262 to reform the current interstate access charge system. The FCC adopted an order which makes various reforms to the existing rate structure for interstate access that are designed to move access charges, over time, to more economically efficient rate levels and structures. The following is a nonexclusive list of actions announced by the FCC:

Subscriber Line Charge ("SLC"). The maximum permitted amount which an ILEC may charge for SLC's on certain lines was increased. Specifically, the ceiling was increased significantly for second and additional residential lines, and for multi-line business customers. SLC ceiling increases began in July 1997 and will be phased-in over a two-year period.

Presubscribed Interchange Carrier Charge ("PICC"). The FCC created a new PICC access charge rate element. The PICC is a flat-rated, per-line charge that is recovered by LECs from IXCs. The charge is designed to recover common line revenues not recovered through SLCs. Effective January 1, 1998, the maximum permitted PICC charge will be $0.53 per month for primary residential lines and $1.50 per month for second and additional residential lines. The initial maximum PICC for multi-line business will be $2.75. The ceilings will be permitted to increase over time.

Carrier Common Line Charge ("CCL"). As the ceilings on the SLCs and PICCs increase, the per-minute CCL charge will be eliminated. Until then, the CCL will be assessed on originating minutes of use. Thus, ILECs will charge lower rates for terminating then originating access. In addition, Long Term Support ("LTS") payments for universal service will be eliminated from the CCL charge.

Local Switching. Effective January 1, 1998, ILECs subject to price-cap regulation will be required to move non-traffic-sensitive ("NTS") costs of local switching associated with line ports to common line and recover them through the common line charge discussed above. Local switching costs attributable to dedicated trunk ports must be moved to the trunking basket and recovered through flat-rate monthly charges.

Transport. The "unitary" rate structure option for tandem-switched transport will be eliminated effective July 1, 1998. For price cap LECs, additional rate structure charges will become effective on January 1, 1998, which will alter the recovery of certain NTS costs of tandem-switching and multiplexing and the minutes-of-use assumption employed to determine tandem-switched transport prices. Also effective January 1, 1998, certain costs currently recovered through Transport Interconnection Charge ("TIC") will be reassigned to specified facilities charges. The reassignment of tandem

costs currently recovered through the TIC to the tandem switching charge will be phased in evenly over a three-year period. Residual TIC charges will be recovered in part through the PICC, and price cap reductions will be targeted at the per-minute residual TIC until it is eliminated.

In other actions, the FCC clarified that incumbent LECs may not assess interstate access charges on the purchasers of unbundled network elements or information services providers (including ISPs). Further regulatory actions affecting ISPs are being considered in a notice of inquiry released December 24, 1996. The FCC also decided not to adopt any regulations governing the provision of terminating access by CLECs. ILECs also were ordered to adjust their access charge rate levels to reflect contributions to and receipts from the new universal service funding mechanisms.

The FCC also announced that it will, in a subsequent Report and Order to be issued during summer 1997, provide detailed rules for implementing a market-based approach to further access charge reform. That process will give incumbent LECs progressively greater flexibility in setting rates as competition develops, gradually replacing regulation with competition as the primary means of setting prices. The FCC also adopted a "prescriptive safeguard" to bring access rates to competitive levels in the absence of competition. For all services then still subject to price caps and not deregulated in response to competition, the FCC required incumbent LECs subject to price caps to file Total Service Long Run Incremental Cost ("TSLRIC") costs studies no later than February 8, 2001.

This series of decisions is likely to have a significant impact on the operations, expenses, pricing and revenue of the Company. On June 18, 1997, the FCC denied petitions filed by several ILECs asking the FCC to stay the effectiveness of its access charge reform decision. Various parties have sought reconsideration or approval of the FCC's access charge rulings and all or part of the order ultimately could be set aside or revised.

Universal Service Reform. On May 8, 1997, the FCC released an order in its CC Docket No. 96-45, which reforms the current system of intrastate universal service support and implements the universal services provisions of the Federal Telecommunications Act. The FCC established a set of policies and rules that ensure that low-income consumers and consumers that live in rural, insular and high cost areas received a defined set of local telecommunications services at affordable rates. This is accomplished in part through expansion of direct consumers subsidy programs and in part by ensuring that rural, small and high cost LECs continue to receive universal service subsidy support. The FCC also created new programs to subsidize connection of eligible schools, libraries and rural health care providers to telecommunications networks. These programs will be funded by assessment of eligible revenues of nearly all providers of intrastate telecommunications carriers, including competitive LECs such as the Company.

The Company, like other telecommunications carriers that provide intrastate telecommunications services, will be required to contribute a portion of its end-user telecommunications revenues to fund universal service programs. However, the Company also is eligible to qualify as a recipient of universal service support if it elects to service areas designated for universal service support over its own network. The eligibility criteria established by the FCC provide that carriers must be a common carrier, and offer and advertise, throughout a designated service area, all of the services supported by universal service subsidies. Such carriers must provide the support services, at least in part, over their own facilities or through use of unbundled network elements purchased from incumbent LECs. The FCC's decisions in CC Docket No. 96-45 could have a significant impact on future operations of the Company.

State Regulation

The Company believes that most, if not all, states in which it proposes to operate will require a certification or other authorization to offer intrastate services. Many of the states in which the Company operates or intends to operate are in the process of addressing issues relating to the regulation of CLECs. Some states may require authorization to provide enhanced services.

In some states, existing state statutes, regulations or regulatory policy may preclude some or all forms of local service competition. The Federal Telecommunications Act contains provisions that prohibit states and localities from adopting or imposing any legal requirement that may prohibit, or have the effect of prohibiting, the ability of any entity to provide any interstate or intrastate telecommunications service. The FCC is required to preempt any such state or local requirements to the extent necessary to enforce the Federal

Telecommunications Act's open market entry requirements. States and localities may, however, continue to regulate the provision of intrastate telecommunications services, and, presumably, require carriers to obtain certificates or licenses before providing service.

Some states in which the Company operates are considering legislation which could impede efforts by new entrants in the local services market to compete effectively with ILECs. The Arkansas legislature, for example, recently enacted legislation which curtails the ability of the state PSC to make available additional network elements to CLECs or authorize CLECs to receive universal service funding. On March 25, 1997, the Company filed a petition for Declaratory Ruling with the FCC asking it to preempt portions of the Arkansas statute.

As of September 30, 1997 the Company had obtained intrastate authority for the provision of dedicated services and a full range of local switched services in Alabama, Arizona, Arkansas, Colorado, the District of Columbia, Florida, Georgia, Kansas, Kentucky, Louisiana, Maryland, Mississippi, Missouri, Nevada, New Mexico, Oklahoma, South Carolina, Tennessee, Texas and Virginia. In addition, the Company has obtained PSC certification to provide interLATA services in a majority of these states and is seeking such certification in other states. There can be no assurances that the Company will receive the authorizations it may seek in the future to the extent it expands into other states or seeks additional services from the above-named PSCs. See "Risk Factors -- Rapid Expansion of Operations." In most states, the Company is required to file tariffs setting forth the terms, conditions and prices for services that are classified as intrastate.

The Company believes that, as the degree of intrastate competition increases, the states will offer the ILECs increasing pricing flexibility. This flexibility may present the ILECs with an opportunity to subsidize services that compete with the Company's services with revenues generated from non-competitive services, thereby allowing ILECs to offer competitive services at prices below the cost of providing the service. The Company cannot predict the extent to which this may occur or its impact on the Company's business.

Local Interconnection. The Federal Telecommunications Act imposes a duty upon all ILECs to negotiate in good faith with potential interconnectors to provide interconnection to the ILEC network, exchange local traffic, make unbundled basic local network elements available, and permit resale of most local services. In the event that negotiations do not succeed, the Company has a right to seek state PSC arbitration of any unresolved issues. The state PSC must conclude the arbitration within nine months of the date upon which the ILEC received the Company's initial request for interconnection. The Company has negotiated or arbitrated interconnection arrangements with each of the following: BellSouth (North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Tennessee and Kentucky), Southwestern Bell (Texas, Arkansas, Kansas, Missouri and Oklahoma), US West (Arizona, New Mexico and Colorado), Bell Atlantic (Maryland, Virginia and the District of Columbia), GTE (Texas, Kentucky and Florida) and Sprint/ Central Telephone (Nevada). Arbitration decisions involving interconnection arrangements in several states have been challenged in lawsuits filed in U.S. District Court by the affected ILECs.

The Company has experienced some difficulty in obtaining timely ILEC implementation of local interconnection agreements. Delays encountered in unbundled loop installation have caused the Company to file complaints against BellSouth with the FCC and Georgia PSC. The Company is considering the possibility of filing similar actions against other ILECs.

Local Government Authorizations. The Company is required to obtain street use and construction permits and licenses and/or franchises to install and expand its fiber optic networks using municipal rights-of-way. In some municipalities where the Company has installed or anticipates constructing networks, it will be required to pay license or franchise fees based on a percentage of gross revenues or on a per linear foot basis, as well as post performance bonds or letters of credit. There can be no assurance that the Company will not be required to post similar bonds in the future, nor is there any assurance that, following the expiration of existing franchises, fees will remain at their current levels. In many markets, the ILECs do not pay such franchise fees or pay fees that are substantially less than those required to be paid by the Company. To the extent that competitors do not pay the same level of fees as the Company, the Company could be at a competitive disadvantage. However, the Federal Telecommunications Act provides that any compensation extracted by states and localities for use of public rights-of-way must be "fair and reasonable," applied on a "competitively neutral and nondiscriminatory basis" and be "publicly disclosed" by such government entity. Termination of

the existing franchise or license agreements prior to their expiration dates could have a materially adverse effect on the Company.

EMPLOYEES

As of September 30, 1997, the Company employed a total of 669 individuals full time. The Company believes that its future success will depend on its continued ability to attract and retain highly skilled and qualified employees. None of the Company's employees is subject to a collective bargaining agreement. The Company believes that its relations with its employees are good.

LEGAL PROCEEDINGS

ACSI's former Chief Financial Officer, Harry J. D'Andrea, has initiated litigation against the Company in the Circuit Court of Maryland for Anne Arundel County. The lawsuit alleges four different counts: breach of contract; breach of the covenant of good faith and fair dealing; negligent misrepresentation; and specific performance. D'Andrea seeks damages in excess of $5,000,000, and the right to exercise options to purchase 100,000 shares of ACSI common stock at $4.25 per share. The Company received a copy of the Complaint on April 8, 1997. The Company believes it has meritorious defenses to this complaint and intends to defend this lawsuit vigorously.

A Houston, Texas based company named "American Communication Services, Inc." has initiated litigation against the Company in the District Court of Travis County, Texas, contending that the Company's use of the "American Communications Services, Inc." name in the State of Texas violates Texas law. The Company intends to litigate the matter vigorously if an out of court resolution cannot be reached.

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

PROPERTIES

The Company leases 23,925 and 6,619 square feet of office space in Annapolis Junction, Maryland for its corporate headquarters and network management center for $29,506 and $8,522, respectively per month as of September 30, 1997 subject to periodic increases in specified amounts. The primary lease expires in 2002 with an option to renew for two additional five year periods. The secondary lease is currently on a month-to-month term. Additional office space of 16,561 square feet is leased in Laurel, Maryland for corporate offices and local network operations. The leases expire in 2006 and 1997. The Company leases 3,063 square feet of corporate office space in Rosemont, Illinois under a lease which expires in 2000. The Company leases a 1,358 square foot field office in Lombard, Illinois which houses its local network development operations. This lease expires in 1999.

As of September 30, 1997, the Company's various operating subsidiaries have leased facilities for their offices and network nodes. The aggregate monthly rent on these properties is approximately $265,000. The various leases expire on dates ranging from December, 1997, to April, 2007. Most leases include renewal options. Additional office space and equipment rooms will be leased as additional networks are constructed and the Company's operations are expanded.

The Company believes that its insurance coverage on these properties is adequate and in compliance with the related leases.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information as of the date of this Prospectus regarding the directors and executive officers of the Company.

<TABLE>
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NAME	AGE	POSITION AND OFFICES HELD
Anthony J. Pompliano	58	Chairman of the Board of Directors
Jack E. Reich	47	President and Chief Executive Officer and Director
Riley M. Murphy	41	Executive Vice President -- Legal and Regulatory Affairs, General Counsel and Secretary
David L. Piazza	42	Chief Financial Officer
George M. Middlemas(1)	51	Director
Edwin M. Banks(2)	35	Director
Christopher L. Rafferty(1)	49	Director
Benjamin P. Giess	35	Director
Olivier L. Trouveroy(1)(2)	42	Director
Peter C. Bentz	32	Director

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(1) Member of Compensation Committee
(2) Member of Audit Committee

Anthony J. Pompliano, Chairman of the Board of Directors, has more than 30 years of experience in the telecommunications industry. Mr. Pompliano was elected a director of the Company in November 1993. He was co-founder and President of Metropolitan Fiber Systems, the predecessor organization to MFS Communications, a publicly-traded CLEC that was acquired by WorldCom, Inc. in December 1996. Mr. Pompliano served as President, CEO and Vice Chairman of MFS Communications from April 1988 until March 1991. He joined ACSI in August 1993 after the expiration of his non-competition agreement with MFS Communications. Before his association with MFS Communications and its predecessor, he was Vice President -- Operations and Sales for MCI Telecommunications International from 1981 to 1987, and prior thereto, was Vice President -- National Operations for Western Union International, Inc. from 1960 to 1981.

Jack E. Reich, President and Chief Executive Officer, had 22 years of telecommunications industry and management experience before joining ACSI in December 1996. Mr. Reich was elected to the Board of Directors in October 1997. For two and one-half years prior to joining ACSI, Mr. Reich was employed by Ameritech, Inc. as President of its Custom Business Service Organization, where Mr. Reich was responsible for full business marketing to Ameritech's largest customers for telecommunications services, advanced data services, electronic commerce and managed services/outsource initiatives. Prior to that, he served as President of MCI's Multinational Accounts organization and also served as MCI's Vice President of Products Marketing. Mr. Reich has also held sales and marketing positions at AT&T and ROLM Corp. Mr. Reich has a B.S. degree from St. Louis University and an MBA from the University of Chicago.

Riley M. Murphy, Executive Vice President -- Legal and Regulatory Affairs and Secretary, had twelve years of experience in the private practice of telecommunications regulatory law for interexchange, cellular, paging and other competitive telecommunication services prior to joining the Company. Since February 1995, she has served as an officer and director of The Association for Local Telecommunications Services. Ms. Murphy joined ACSI on a full-time basis in April 1994 and was senior counsel to Locke Purnell Rain Harrell, a Dallas-based law firm through December 1994. From 1987 to 1992, Ms. Murphy was a partner of Wirpel and Murphy, a telecommunications law firm she co-founded, and from 1992 to 1993 she was a sole practitioner. She holds a B.A. degree from the University of Colorado and a J.D. from the Catholic University of America and is admitted to practice law in the District of Columbia and Louisiana.

David L. Piazza, Chief Financial Officer, joined the Company on March 24, 1997. For ten years prior to joining the Company, Mr. Piazza was employed by MFS Communications in a variety of finance and senior management positions, most recently as the Senior Vice President and Chief Financial Officer of MFS Telecom, Inc., a subsidiary of MFS Communications. Prior to his employment with MFS Communications, Mr. Piazza was employed by AT&T for four years in its finance and support divisions. Mr. Piazza received his B.S. degree in Accountancy from the University of Illinois and holds a CPA.

George M. Middlemas, Director, was elected a director of the Company in

December 1993. Mr. Middlemas is a general partner of Apex Management Partnership, which is the general partner of Apex Investment Fund I, L.P. and Apex Investment Fund II, L.P., both of which are venture capital funds, and affiliates of First Analysis Corporation, a principal stockholder of the Company. See "Principal Stockholders." From March 1991 to December 1991, Mr. Middlemas acted as an independent consultant providing fund raising and other advisory services. From 1985 until March 1991, Mr. Middlemas was a Senior Vice President and Principal of Inco Venture Capital Management, a venture capital firm. He also serves on the Board of Directors of PureCycle Corporation, Security Dynamics Technologies, Inc. and several privately held companies.

Edwin M. Banks, Director, was elected a director of the Company in October 1994. Since 1988, Mr. Banks has been employed by W. R. Huff Asset Management Co., L.L.C. and currently serves as a portfolio manager concentrating in the healthcare, communications, food and food services industries. From 1985 until he joined W.R. Huff Asset Management Co., L.L.C., Mr. Banks was employed by Merrill Lynch & Company. Mr. Banks received his B.A. degree from Rutgers College and his MBA degree from Rutgers University. Mr. Banks also serves as a director of Magellan Health Services.

Christopher L. Rafferty, Director, was elected a director of the Company in October 1994. Mr. Rafferty has been employed by WRH Partners, L.L.C., the general partner of Huff since June 1994. From January 1993 to February 1994, Mr. Rafferty was Vice President -- Acquisitions for Windsor Pet Care, Inc., a venture capital-backed firm focusing on consolidating the pet care services industry. From October 1990 to January 1993, Mr. Rafferty was a consultant specializing in merchant banking, leveraged acquisitions and venture capital transactions. From June 1987 to the time he started his consulting business, Mr. Rafferty was a Managing Director of Chase Manhattan Capital Corporation, the merchant banking and private equity investment affiliate of Chase Manhattan Corporation. Mr. Rafferty received his undergraduate degree from Stanford University and his law degree from Georgetown University.

Benjamin P. Giess, Director, was elected a director of the Company in June 1995. Since 1992, Mr. Giess has been employed by ING and its predecessors and affiliates and currently serves as a Partner responsible for originating, structuring and managing equity and debt investments. From 1991 to 1992, Mr. Giess worked in the Corporate Finance Group of ING Capital. From 1990 to 1991, Mr. Giess was employed by the Corporate Finance Group of General Electric Capital Corporation where he worked in the media and entertainment group. Prior to attending business school, from 1986 to 1988, Mr. Giess was the Credit Department Manager of the Boston Branch of ABN Amro North America, Inc. From 1984 to 1986, Mr. Giess was employed at the Shawmut Bank of Boston. Mr. Giess also serves as a director of Matthews Studio Equipment Group, CMI Holding Corp. and TransCare Corporation. Mr. Giess received his undergraduate degree from Dartmouth College and his MBA from the Wharton School of the University of Pennsylvania.

Olivier L. Trouveroy, Director, was elected a director of the Company in June 1995. Since 1992, Mr. Trouveroy has been employed by ING and its predecessors and affiliates and currently serves as a Managing Partner responsible for originating, structuring and managing equity and debt investments. From 1990 to 1992, Mr. Trouveroy was a Managing Director in the Corporate Finance Group ("CFG") of General Electric Capital Corporation in charge of CFG's office in Paris, France. From 1984 to 1990, Mr. Trouveroy held various positions in the Mergers and Acquisitions department of Drexel Burnham Lambert in New York, most recently as a First Vice President. Mr. Trouveroy also serves as a director of AccessLine Technologies, Inc., Cost Plus, Inc. and TransCare Corporation. Mr. Trouveroy holds B.S. and Masters degrees in Economics from the University of Louvain in Belgium, as well as an MBA from the University of Chicago.

Peter C. Bentz, Director, was elected a director of the Company in June 1995. Since 1992, Mr. Bentz has been employed by W. R. Huff Asset Management Co., L.L.C. as a research analyst specializing in telecommunications, media and healthcare. Mr. Bentz received his Bachelor of Science degree from Boston College in 1987 and his MBA from the Wharton School of the University of Pennsylvania in 1992.

The Board is comprised of seven members who were elected by the holders of the Company's Common Stock. All directors of the Company hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified.

EXECUTIVE COMPENSATION

The following table provides a summary of compensation for the fiscal period ended December 31, 1996 and for each of the three fiscal years ended June 30, 1996, 1995 and 1994, with respect to the Company's Chief Executive Officer, and the other five most highly compensated officers of the Company during the fiscal year ended June 30, 1996 whose annual salary and bonus during such fiscal year exceeded $100,000 (collectively, the "Named Officers"):

SUMMARY COMPENSATION TABLE

<TABLE>
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		ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION ON DECEMBER 31, 1996	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION(1)	NUMBER OF SECURITIES UNDERLYING OPTIONS(2)	ALL OTHER COMPENSATION
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Anthony J. Pompliano.........................	1996*	$124,167	$ 75,000(3)	$ --	--	$ 2,574(4)
Executive Chairman of the Board	1996	239,583	175,000(3)	--	--	6,187(4)
of Directors	1995	219,500	175,000(3)	--	500,000	6,977(4)
	1994	110,000	--	25,000(5)	1,349,899	61,507(6)
Jack E. Reich(7).............................	1996*	20,883	--	--	1,200,000	
President and Chief Executive						
Officer -- Communications Services						
Riley M. Murphy..............................	1996*	91,250	--	--	--	--
Executive Vice President -- Legal	1996	162,499	81,500(8)	37,004(10)	50,000	3,536(4)
and Regulatory Affairs, General	1995	150,000	81,500(9)	--	250,001(12)	9,783(4)
Counsel and Secretary	1994	37,500	--	48,620(11)		--
Robert H. Ottman(13).........................	1996*	90,667	--	--	--	--
Executive Vice President/Network	1996	170,000	50,000(3)	100,000(10)	--	--
Services and Technical Support	1995	28,333	--	--	250,000	--
Richard A. Kozak(14).........................	1996*	129,167	137,500(3)	--	83,334(15)	2,700(4)
President and Chief Executive	1996	232,885	200,000(3)	--	--	5,400(4)
Officer -- Corporate Services and	1995	184,378	175,000(3)	--	399,999(15)	3,750(4)
Acting Chief Financial Officer	1994	87,500	--	39,728(5)	899,932	--
George M. Tronsrue, III(16)..................	1996*	100,000	--	--	--	2,400(4)
President and Chief Operating	1996	191,128	54,116(17)	--	50,000	4,800(4)
Officer -- Strategy and Technology	1995	150,000	135,417(17)	68,800(10)	350,001(12)	--
Development	1994	53,827	50,000	--		--

</TABLE>

(*) Subsequent to June 30, 1996, the Company changed its fiscal year-end to December 31. Information is for the six months ended December 31, 1996.

(1) Excludes perquisites and other personal benefits that in the aggregate do not exceed 10% of the Named Officers' total annual salary and bonus.

(2) See information provided in "Option Grants in Fiscal Year Ended June 30, 1996 and Fiscal Period Ended December 31, 1996" and "December 31, 1996 Option Values."

(3) Represents cash bonuses received for attainment of certain performance goals.

(4) Represents payments received for medical or disability insurance in excess of that provided to other employees and/or car allowances and, for Ms. Murphy, includes payments of $6,423 of premiums in connection with professional liability insurance for the period prior to her employment with the Company.

(5) Consists of amounts paid to Messrs. Pompliano and Kozak as consultants for services rendered prior to their employment by the Company in August 1993 and November 1993, respectively.

(6) Consists of $20,000 received as compensation in connection with the Company's November 1993 sale of 400,000 shares of Common Stock and $41,507 received as compensation in connection with the Company's June 1994 issuance of $4,300,720 principal amount of 15% convertible notes.

(7) Mr. Reich commenced employment with the Company in December 1996.

(8) Represents an installment of a $244,500 cash bonus, $81,500 of which was paid in January 1997.

(9) This payment represents the first installment of a $244,500 cash bonus.

(10) Includes $65,000, $100,000 and $37,004 paid to Messrs. Tronsrue and Ottman and Ms. Murphy, respectively, in connection with relocation and moving expenses relating to the relocation of the Company's headquarters to Annapolis Junction, Maryland.

(11) Consists of $43,620 received for performing legal services for the Company as outside counsel and a $5,000 for relocation expenses.

(12) 150,000 of these options were originally granted in the fiscal year ended June 30, 1994 at an exercise price of $2.50 per share and such exercise price was subsequently reduced to $2.25 per share in connection with the Company's October 1994 offering of preferred stock.

(13) Mr. Ottman commenced employment with the Company in May 1995 and his employment was terminated in February 1997.

(14) Mr. Kozak served as the Company's President and Chief Executive Officer during fiscal year 1996. He became Acting Chief Financial Officer in December 1996 upon the resignation of the Company's previous Chief Financial Officer. In connection with the Company's December 1996 management reorganization, Mr. Kozak became President and Chief Executive Officer -- Corporate Services. Effective February 2, 1997, Mr. Kozak's employment with the Company was terminated.

(15) In connection with the settlement of the dispute relating to the termination of Mr. Kozak's employment, all of the options granted in fiscal period ended December 31, 1996 and options to purchase 83,333 shares granted in fiscal year ended June 30, 1995 were canceled. See "Certain Transactions."

(16) Mr. Tronsrue served as Chief Operating Officer during fiscal year 1996, until November 1996 when he became President and Chief Operating Officer -- Strategy and Technology Development. Effective September 3, 1997, Mr. Tronsrue resigned from such position. The Company and Mr. Tronsrue have entered into a separation agreement.

(17) Represents an installment of a $244,500 bonus, $54,116 of which was due on February 24, 1997.

OPTION GRANTS IN FISCAL YEAR ENDED JUNE 30, 1996 AND FISCAL PERIOD ENDED DECEMBER 31, 1996

The following table contains information concerning the grant of stock options to the Named Officers during the fiscal year ended June 30, 1996 and the fiscal period ended December 31, 1996.

<TABLE>
<CAPTION>

	INDIVIDUAL GRANTS(1)				
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN PERIOD	EXERCISE OR BASE PRICE (PER/SHARE)	MARKET PRICE OF UNDERLYING SECURITIES ON DATE OF GRANT	EXPIRATION DATE
<S>	<C>	<C>	<C>	<C>	<C>
Anthony J. Pompliano............	--	--	--	--	--
Jack E. Reich...................	200,000	13.95%	$ 9.375	$11.625	12/1/02
	200,000	13.95	9.375	11.625	12/1/03
	200,000	13.95	9.375	11.625	12/1/04
	200,000	13.95	9.375	11.625	12/1/05
	400,000	27.9	9.375	11.625	12/31/07
Riley M. Murphy.................	25,000(2)	2.2	3.40	3.875	3/30/03
	25,000(3)	2.2	3.40	3.875	3/30/04
Robert H. Ottman................	--	--	--	--	--
Richard A. Kozak................	83,334	5.8	15.00	11.75	11/15/04(4)
George M. Tronsrue, III.........	25,000(2)	2.2	3.40	3.875	2/22/03
	25,000(3)	2.2	3.40	3.875	2/22/04

</TABLE>

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(1) Mr. Tronsrue and Ms. Murphy were granted options in fiscal year ended June 30, 1996, and Messrs. Reich and Kozak were granted options in the fiscal period ended December 31, 1996.

(2) These options were granted on July 6, 1995, with an exercise price of $3.40. Ms. Murphy's options will vest on March 31, 1998 provided, that she does not voluntarily terminate her employment with the Company or is not terminated for cause prior to the applicable vesting date. Due to Mr. Tronsrue's resignation effective as of September 3, 1997, these options were cancelled.

(3) These options were granted on July 6, 1995, with an exercise price of $3.40. Ms. Murphy's options will vest on March 31, 1999 provided, that she does not voluntarily terminate her employment with the Company or is not terminated for cause prior to the vesting date. Due to Mr. Tronsrue's resignation effective as of September 3, 1997, these options were cancelled.

(4) These options were canceled in connection with the settlement of the dispute relating to the termination of Mr. Kozak's employment. See "Certain Transactions."

DECEMBER 31, 1996 OPTION VALUES

The following table sets forth the value of unexercised options held by the Named Officers as of December 31, 1996. None of the Named Officers exercised options during the fiscal year ended June 30, 1996 or the fiscal period ended

December 31, 1996.

<TABLE>
<CAPTION>

NAME	NUMBER OF UNEXERCISED OPTIONS AT DECEMBER 31, 1996		VALUE OF UNEXERCISED OPTIONS AT DECEMBER 31, 1996(1)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>
Anthony J. Pompliano.....................	1,599,899	250,000	$15,455,253	$ 1,987,500
Jack E. Reich............................	--	1,200,000	--	1,650,000
Riley M. Murphy..........................	137,501	162,501	1,168,759	1,323,759
Robert H. Ottman.........................	100,000	150,000(2)	775,000	1,162,500
Richard A. Kozak.........................	1,133,265	250,000(3)	10,824,326	970,825
George M. Tronsrue, III..................	250,000	150,000(4)	2,125,000	1,217,500

</TABLE>

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(1) Represents the difference between the per share exercise price of the unexercised options and $10.75, the last sale price on December 31, 1996, as reported by the Nasdaq Stock Market.

(2) The vesting of options to purchase 75,000 of these shares was accelerated in connection with the termination of Mr. Ottman's employment in February 1997.

(3) Of these, options to purchase 166,667 shares were canceled and the vesting of options to purchase an additional 83,333 shares was accelerated in connection with the settlement of the dispute relating to the termination of Mr. Kozak's employment. See "Certain Transactions."

(4) Of Mr. Tronsrue's unexercisable options, 50,000 vested in February, 1997, and the remainder have been cancelled due to Mr. Tronsrue's resignation effective as of September 3, 1997.

DIRECTORS' COMPENSATION

Members of the Board do not receive cash compensation for acting as members of the Board or Committees of the Board, other than reimbursement for reasonable out-of-pocket expenses incurred in connection with their attendance at meetings of the Board and its committees. Directors who also serve as executive officers receive cash compensation for acting in their capacity as executive officers. See "-- Summary Compensation Table." From time to time the Board has granted options to purchase shares of Common Stock to members of the Board who are not also officers of the Company in consideration for their service as directors. However, other than "formula grants" under the Company's 1994 Stock Option Plan, no formal arrangement exists. For the fiscal period ended December 31, 1996, no directors were granted options.

EMPLOYMENT AGREEMENTS

Anthony J. Pompliano. The Company is party to an employment agreement with Anthony J. Pompliano, its Chairman, which terminates on August 23, 1998. Under the terms of the agreement, as amended, Mr. Pompliano is entitled to an annual base salary of $275,000 and a cash bonus of up to $200,000 for each of the 1997 and 1998 fiscal years based upon the Company's achievement of certain performance goals for the relevant fiscal year. Under this employment agreement, Mr. Pompliano has been granted options to purchase an aggregate of 1,849,899 shares of the Company's Common Stock at exercise prices ranging from $.875 per share to $2.80 per share. 1,662,399 of these options are currently vested. Mr. Pompliano has the right to obtain a 30-day loan from the Company for the purpose of paying the aggregate exercise price of the options granted to him.

Mr. Pompliano has the right, for 90 days after termination of his employment (unless he is terminated by the Company "for cause" or he voluntarily resigns), to sell to the Company up to $1.0 million in then market value of shares of Common Stock issued or issuable pursuant to the options granted to Mr. Pompliano under his employment agreement, at a price equal to the publicly-traded price of the Common Stock, less the exercise price of the options with respect to unexercised options; provided, however, this right cannot be exercised unless at least 5,000,000 shares of Common Stock are owned by non-affiliates of the Company at the time of his request and the market value of the outstanding Common Stock is at least $300 million. Mr. Pompliano's employment agreement also contains non-compete, non-solicitation and confidentiality provisions.

Jack E. Reich. The Company is party to an employment agreement with Jack E. Reich, its President and Chief Executive Officer, which terminates on December 31, 2000, extendable for one year by mutual agreement. Under the terms of this agreement, Mr. Reich is entitled to a minimum annual base salary of $250,000, a cash bonus of $100,000 in 1997 and annual bonuses of between $150,000 and $350,000 based on the Company's achievement of certain performance goals. Under this employment agreement, Mr. Reich was granted an option to purchase 1,200,000 shares of Common Stock at an exercise price $9.375 per share. These options vest in installments between December 1997 and December 2001, subject to Mr. Reich's continued employment. Mr. Reich's employment agreement also contains non-compete, non-solicitation and confidentiality provisions.

Riley M. Murphy. The Company is party to an employment agreement with Riley M. Murphy, its Executive Vice President for Legal and Regulatory Affairs, which terminates on March 31, 1999. This agreement, as amended, calls for an annual salary of $200,000 and a guaranteed bonus of $244,500, payable in annual installments through January 1997. Under this employment agreement, Ms. Murphy was granted options to purchase an aggregate of 300,002 shares of Common Stock at prices ranging from $2.25 per share to $3.40 per share. Ms. Murphy's employment agreement also contains non-compete, non-solicitation and confidentiality provisions.

The shares of Common Stock underlying the stock options held by Messrs. Pompliano and Reich and Ms. Murphy which are discussed above are the subject of a registration rights agreement with the Company, pursuant to which these executive officers have been granted certain demand and piggyback registration rights with respect to the shares of Common Stock underlying these options.

1994 STOCK OPTION PLAN

On November 15, 1994, the Board adopted and on December 16, 1994, stockholders approved the 1994 Stock Option Plan. On January 26, 1996, November 15, 1996, and June 25, 1997 the Company's stockholders approved amendments to the 1994 Stock Option Plan (the "1994 Plan"). The 1994 Plan will terminate no later than November 15, 2004, ten years after adoption by the Board of Directors and after such termination no additional options may be granted. The 1994 Plan is administered by the Compensation Committee which makes discretionary grants ("discretionary grants") of options to employees (including employees who are officers and directors of the Company), directors who are not employees of the Company ("Outside Directors") and consultants. The 1994 Plan also provides for formula grants of options to Outside Directors ("formula grants"). Under the 1994 Plan, 5,000,000 shares of Common Stock have been reserved for discretionary and formula grants. As of December 31, 1996, 845,350 discretionary and 20,000 formula options had been granted under the 1994 Plan.

Options granted pursuant to discretionary grants may be nonqualified options or incentive options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. The selection of participants, allotment of shares, determination of price and other conditions of purchase of such options will be determined by the Compensation Committee, in its sole discretion. Options granted pursuant to discretionary grants are exercisable for a period of up to ten years, except that incentive options granted to optionees who, at the time the option is granted, own stock representing greater than 10% of the voting power of all classes of stock of the Company or any parent or subsidiary, are exercisable for a period of up to five years. The per-share exercise price of incentive options granted pursuant to discretionary grants must be no less than 100% of the fair market value of the Common Stock on the date of grant, except that the per share exercise price of incentive options granted to optionees who, at the time the option is granted, own stock representing greater than 10% of the voting power of all classes of stock of the Company or any parent or subsidiary, must be no less than 110% of the fair market value of the Common Stock. The per share exercise price of nonqualified stock options granted pursuant to discretionary grants must be no less than 85% of the fair market value of the Common Stock on the date of grant. To the extent options are granted at less than fair market value, the Company incurs a non-cash cost for financial reporting purposes.

Under the formula grants, each Outside Director will be granted automatically a nonqualified option to purchase 50,000 shares (subject to adjustment as provided in the 1994 Plan). Each such director may decline such grant. Each option granted pursuant to a formula grant will vest and become exercisable as to 10,000 shares on the date such option is granted (the "Grant Date"), as to 10,000 shares on the date of the first annual meeting of stockholders held at least eight months after the Grant Date (the "First Annual Meeting") and as to 10,000 shares on the date of each of the next three annual meetings of stockholders held after the First Annual Meeting, provided that the option will only vest on the relevant annual meeting of stockholders date if the Outside Director is re-elected to the Board at such meeting. Each such option shall have a term of five years from the relevant vesting date. The exercise price per share of Common Stock for options granted pursuant to a formula grant shall be 100% of the fair market value as determined under the terms of the 1994 Plan.

Generally, all options granted under the 1994 Plan are nontransferable, other than by will or by the laws of descent and distribution, and may be exercised during the optionee's lifetime, only by the optionee, or in the event of the optionee's legal incapacity to do so, by the optionee's guardian or legal representative. On June 25, 1997, the Company's stockholders approved the Company's adoption of an amendment to the 1994 Plan authorizing the inclusion of a provision in stock option agreements relating to options granted to Outside Directors which permits the transfer by such Outside Director of the options granted pursuant to such stock option agreement.

As of December 31, 1996, there were 322 employees eligible to participate and approximately 107 actual participants in the 1994 Plan. During the fiscal year ended June 30 and the fiscal period ended December 31, 1996 there were no grants of options pursuant to the 1994 Plan to any director or executive officer of the Company, including the Named Officers. There were grants of options pursuant to the 1994 Plan to all other

employees as a group to acquire an aggregate of 595,309 shares of Common Stock, at an average exercise price of $5.41 per share, during the fiscal year ended June 30, 1996 and the fiscal period ended December 31, 1996.

EMPLOYEE STOCK PURCHASE PLAN

On November 15, 1996, the Company's stockholders approved the Company's adoption of an Employee Stock Purchase Plan (the "Stock Purchase Plan"). The Stock Purchase Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code. All regular full-time employees of the Company (including officers), and all other employees whose customary employment is for more than 20 hours per week, who in either case have been employed by the Company for at least three months are eligible to participate in the Stock Purchase Plan. Directors who are not employees are not eligible. A maximum of 500,000 shares of the Company's Common Stock are reserved for offering under the Stock Purchase Plan and available for purchase thereunder, subject to anti-dilution adjustments in the event of certain changes in the capital structure of the Company.

Under the Stock Purchase Plan, offerings will be made at the commencement of each offering period ("Offer Period"). During each Offer Period, deductions are to be made from the pay of participants (in accordance with their authorizations) and credited to their accounts under the Stock Purchase Plan. Payroll deductions may be from 1% to 15% (in whole percentage increments) of a participant's regular base pay. Participants may not make direct cash payments to their accounts.

The price per share at which shares of Common Stock are to be purchased pursuant to the Stock Purchase Plan for any Offer Period is the lesser of (a) 85% of the fair market value of Common Stock on the commencement of the Offer Period or (b) 85% of the fair market value of Common Stock on the last business day of an Offer Period. On the last business day of each Offer Period, amounts credited to the accounts of participants who have been neither terminated from the employ of the Company nor withdrawn from the Stock Purchase Plan for such Offer Period are used to purchase shares of Common Stock in accordance with the elections of such participants. Any amounts remaining in the accounts of participants at the end of any Offer Period are refunded to the participants. Only amounts credited to the accounts of participants may be applied to the purchase of shares of Common Stock under the Stock Purchase Plan.

If for any Offer Period the number of shares of Common Stock available for Stock Purchase Plan purposes shall be insufficient, the Board of Directors of the Company is authorized to apportion the remaining available shares pro rata among participating employees on the basis of their payroll deductions in effect for such Offer Period.

The Company makes no cash contributions to the Stock Purchase Plan, but bears the expenses of its administration. The Stock Purchase Plan is administered by the Compensation Committee, which has authority to establish and change the number and duration of the Offer Periods during the term of the Stock Purchase Plan, and to make rulings and interpretations thereunder.

The Stock Purchase Plan will terminate when all available shares have been purchased, or earlier in the discretion of the Compensation Committee. The first Offer Period commenced on December 2, 1996 and ended on June 30, 1997. New Offer Periods will commence on each July 1 and January 1 thereafter until the Stock Purchase Plan is terminated. At December 31, 1996, there were approximately 272 employees (including officers and directors) who were eligible to participate in the Stock Purchase Plan.

CERTAIN TRANSACTIONS

In June 1995, the Company completed a private placement of its Series B Preferred Stock, of which ING purchased an aggregate of 100,000 shares of Series B Preferred Stock, warrants to purchase 428,571 shares of Common Stock at an exercise price of $0.01 per share and a warrant to purchase 100,000 shares of Common Stock at an exercise price of $2.50 per share. Huff and certain of its affiliates purchased an aggregate of 100,975 shares of the Series B Preferred Stock, warrants to purchase 432,749 shares of Common Stock at an exercise price of $0.01 per share, a warrant to purchase 100,000 shares of Common Stock at an exercise price of $1.79 per share and a warrant to purchase 100,000 shares at an exercise price of $2.50 per share. Apex and certain of its affiliates purchased an aggregate of 21,000 shares of the Series B Preferred Stock and warrants to purchase an aggregate of 90,000 shares of Common Stock at an exercise price of $0.01 per share. The price per unit in the June 1995 private placement was $100. Pursuant to the Series B Purchase Agreement, in November 1995, ING purchased 50,000 additional shares of the Series B Preferred Stock and exercised a warrant entitling ING to purchase 214,286 shares of Common Stock at an exercise price of $0.01 per share. In connection with these private placements, the Company entered into the registration rights agreement dated June 26, 1995, among the holders of the Series B Preferred Stock, certain holders of Common Stock and certain holders of options or warrants convertible into Common Stock (the "Equity Registration Rights Agreement") wherein the parties were granted piggyback registration rights with respect to any registration statements (other than Registration Statements filed on Forms S-4 or S-8) filed by the Company with the Commission at any time prior to the sixth anniversary of the Equity Registration Rights Agreement, and certain demand registration rights following the occurrence of, among other things, a qualifying offering. The Common Stock Offering was a qualifying offering. Huff and certain of its affiliates purchased an aggregate of 10,000 Units in the Unit Offering, acquiring thereby 10,000 shares of Preferred Stock and 10,000 Warrants. ING Baring (U.S.) Securities, Inc., which may be deemed an affiliate of ING, purchased 7,500 Units in the Unit Offering, acquiring thereby 7,500 shares of Preferred Stock and 7,500 Warrants. The Company has in place policies and procedures that enable it to comply with the covenants in the Existing Indentures and in the Indenture regarding transactions with affiliates.

The initial purchasers in the Debt Offering have informed the Company that W.R. Huff Asset Management Co., L.L.C. (an affiliate of Huff) on behalf of investment management accounts for which W.R. Huff acts as investment advisor and over which it has sole dispositive power, purchased $50 million of the 2007 Notes in the Debt Offering, for which the Company paid W.R. Huff, on behalf of such accounts, a fee of $750,000 with respect to such purchase.

The Company was party to an employment agreement with Richard A. Kozak, which was terminated effective February 2, 1997. Each of the parties initially claimed the termination was the result of a breach of the employment agreement by the other party. In settlement of their dispute and related litigation concerning Mr. Kozak's termination, the parties agreed, among other things, that Mr. Kozak would (i) receive $300,000 in cash, payable by the Company in three equal installments on April 1, July 1 and October 1, 1997, (ii) forfeit 166,667 of his unvested options, and (iii) execute a 180-day Lock-Up Agreement for all but 150,000 of the shares underlying his vested options and 80,000 other shares he holds. Also, Mr. Kozak's rights to have his shares of Common Stock registered under the Securities Act terminated upon completion of the Common Stock Offering. The Company has agreed to accelerate the vesting of Mr. Kozak's remaining 83,333 options which had not vested at the time of his termination. Mr. Kozak has also agreed to certain non-compete, non-solicitation and confidentiality provisions expiring on December 31, 1997. Under his employment agreement, Mr. Kozak had been granted stock options to purchase an aggregate of 1,383,265 shares of the Company's Common Stock at exercise prices ranging from $0.875 per share to $15.00 per share, of which options to purchase 1,133,265 shares had vested as of his termination. In January 1997, Mr. Kozak exercised options to purchase 100,000 of these shares.

PRINCIPAL STOCKHOLDERS

The following table sets forth as of September 30, 1997, certain information regarding the beneficial ownership of the Company's Common Stock outstanding (assuming the exercise of options and warrants exercisable on or within 60 days of such date) by (i) each person who is known to the Company to own 5% or more of the Common Stock, (ii) each director of the Company, (iii) the Chief Executive Officer and each of the Named Officers and (iv) all executive officers and directors of the Company as a group.

Unless otherwise indicated, the named persons exercise sole voting and investment power over the shares that are shown as beneficially owned by them.

NAME OF BENEFICIAL OWNER(1)	NUMBER OF SHARES	PERCENTAGE OF TOTAL(2)
Anthony J. Pompliano(3)	1,662,499	4.4%
Jack E. Reich	--	--
Riley M. Murphy(4)	193,752	*
George M. Middlemas(5)	1,748,147	4.6
Christopher L. Rafferty(6)	8,000	*
Edwin M. Banks(6)	--	--
Peter C. Bentz(6)	--	--
Olivier L. Trouveroy(7)	--	--
Benjamin P. Giess(7)	--	--
Richard A. Kozak(8)	649,932	1.8
Robert H. Ottman(9)	175,000	*
George M. Tronsrue, III(10)	300,000	*
The Huff Alternative Income Fund, L.P.(11)	15,090,140	38.2
ING Equity Partners, L.P. I(12)	7,946,828	21.8
First Analysis Corporation(13).)	3,156,420	8.4
All executive officers and directors as a group (10 persons)	2,220,800	5.8

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* Less than one percent.

(1) The addresses of all officers and directors listed above are in the care of the Company.

(2) The percentage of total outstanding for each stockholder is calculated by dividing (i) the number of shares of Common Stock deemed to be beneficially owned by such stockholder as of September 30, 1997 by (ii) the sum of (A) the number of shares of Common Stock outstanding as of September 30, 1997 plus (B) the number of shares of Common Stock issuable upon the exercise of options or warrants held by such stockholder which were exercisable as of September 30, 1997 or will become exercisable within 60 days after September 30, 1997 ("currently exercisable").

(3) Includes currently exercisable options to purchase 1,662,399 shares.

(4) Includes currently exercisable options to purchase 193,752 shares.

(5) Includes currently exercisable options to purchase 20,000 shares. Also includes 788,905 shares of Common Stock owned by Apex II and 278,973 shares of Common Stock currently owned by Apex I. Mr. Middlemas is a general partner of Apex Management Partnership which is the general partner of Apex I and Apex II. Mr. Middlemas disclaims beneficial ownership of the shares owned by Apex I and Apex II, except to the extent of his ownership in the general partner of Apex I and in the general partner of Apex II.

(6) Messrs. Banks and Bentz are employees of W.R. Huff Asset Management Co., L.L.C., an affiliate of Huff. Mr. Rafferty is an employee of WRH Partners, L.L.C., the general partner of Huff. William R. Huff is the President of the General Manager of WRH Partners, L.L.C. Messrs. Huff, Rafferty, Bentz and Banks disclaim beneficial ownership of all shares held by Huff.

(7) Mr. Trouveroy is a Managing Partner of ING and Mr. Giess is a Partner of ING. Messrs. Trouveroy and Giess disclaim beneficial ownership of all shares held by ING.

(8) Includes currently exercisable options to purchase 1,041,598 shares. Mr. Kozak's employment was terminated effective February 2, 1997. See "Certain Transactions."

(9) Includes currently exercisable options to purchase 175,000 shares. Mr. Ottman's employment with the Company was terminated in February 1997.

(10) Includes currently exercisable options to purchase 300,000 shares.

(11) Includes currently exercisable warrants to purchase 200,000 shares. The address for Huff is 1776 On the Green, 67 Park Place, Morristown, NJ 07960.

(12) Includes currently exercisable warrants to purchase 100,000 shares. The address for ING is 135 East 57th Street, 16th Floor, New York, NY 10022.

(13) Includes 1,034,465 shares of Common Stock currently owned by Apex II. Includes 103,800 and 175,173 shares of Common Stock owned by Apex I. Includes 359,214 and 732,213 shares of Common Stock owned by The Productivity Fund II, L.P. ("Productivity"). Includes 714,293 shares of Common Stock owned by Environmental Private Equity Fund II, L.P. ("EPEF"). FAC is an ultimate general partner of Apex I, Apex II, Productivity and EPEF and may be deemed to be the beneficial owner of the shares owned by them. FAC disclaims beneficial ownership of these shares. F. Oliver Niklan, Jr. is the president of FAC and therefor may be deemed to be the beneficial owner of the shares that may be deemed beneficially owned by FAC. Mr. Niklan disclaims beneficial ownership of these shares. The address for First Analysis Corporation is 233 South Wacker Drive, Suite 9600, Chicago, IL 60093.

DESCRIPTION OF CERTAIN INDEBTEDNESS

AT&T CREDIT FACILITY

In October 1994, the Company entered into the AT&T Credit Facility pursuant to which AT&T Credit Corporation has agreed to provide up to $31.2 million in financing for the development and construction of fiber optic networks by the Company's subsidiaries. Pursuant to the AT&T Credit Facility, during fiscal 1995 the Company's subsidiaries in Louisville, Fort Worth, Greenville and Columbia entered into loan agreements with AT&T Credit Corporation providing for up to $19.8 million in loans secured by the assets of such subsidiaries, and in September 1995, the Company's subsidiary in El Paso entered into a separate loan agreement with AT&T Credit Corporation pursuant to the AT&T Credit Facility providing for up to an aggregate of approximately $5.5 million in loans secured by its assets. During 1996, the existing loan agreements were amended to increase the aggregate credit available under such agreements to the $31.2 million credit availability under the AT&T Credit Facility. As of September 30, 1997, outstanding borrowings under the AT&T Credit Facility totaled approximately $31.2 million. Interest rates applicable to the loans range from 11.93% to 14.47%.

The loans under the AT&T Credit Facility are secured by all of the assets of the respective borrowing subsidiary, including its installed fiber optic system and other equipment. The principal of borrowed amounts is payable in 28 consecutive quarterly installments, beginning with the ninth quarter after the date of the loan. The principal of borrowed amounts may be prepaid in certain circumstances, and must be prepaid along with a premium in other circumstances. Interest is due quarterly. At the borrowing subsidiary's option, the interest rate may be fixed or variable. The borrowing subsidiary has a one-time option to convert all variable rate loans to fixed rate loans. Upon certain events of default, additional interest ranging from 2% to 4% will become payable. Interest may generally be deferred so long as it would not cause the outstanding principal balance to exceed the commitment amounts for Capital Loans and for Equipment Loans (as defined in the loan documents). In addition, the AT&T Credit Facility includes covenants, some of which impose certain restrictions on the Company and its subsidiaries including restrictions on the declaration or payment of dividends, the conduct of certain activities, certain capital expenditures, the creation of additional liens or indebtedness, the disposition of assets, transactions with affiliates, and extraordinary corporate transactions. The AT&T Credit Facility imposes restrictions on the ability of those subsidiaries of ACSI that incur indebtedness thereunder to transfer funds to ACSI in the form of dividends or other distributions. The AT&T Credit Facility also imposes restrictions on the ability of such subsidiaries to raise capital by incurring additional indebtedness. These factors could limit ACSI's ability to meet its obligations with respect to the Notes.

Pursuant to the AT&T Credit Facility, the Company had contributed approximately $26.4 million in capital to its subsidiaries through September 30, 1997, and AT&T Credit Corporation received 7.25% of the outstanding capital stock of each of the Company's operating subsidiaries for which it provided financing. The Company was required to pledge its interest in the respective subsidiaries to AT&T Credit Corporation as a condition to each loan. Under certain circumstances, this pledge agreement also restricts the Company's ability to pay dividends on its capital stock.

The Company has entered into negotiations with AT&T Credit Corporation to roll-up the five existing loan agreements comprising the AT&T Credit Facility into the New AT&T Credit Facility (to be secured by the existing assets of the Company including the stock, but not the assets, of certain of the Company's subsidiaries), which the Company expects will otherwise be on terms substantially similar to those of the existing AT&T Credit Facility. The maximum aggregate amount of credit available under the proposed New AT&T Facility will not exceed $35 million, which is the maximum amount of credit the Company is allowed to borrow in its Secured Credit Facility (as defined in the Existing Indentures and in the Indenture with respect to the Notes). AT&T Credit Corporation has issued to each of the Company's Subsidiaries that are parties to the AT&T Credit Facility a waiver through December 31, 1997, of compliance by such subsidiaries with certain covenants contained therein. Such covenants are not expected to be included in the New AT&T Facility. The Company has agreed with the initial purchaser in the Junior Preferred Stock Offering that, after the date of expiration of such waiver (as the same may be extended), upon the receipt of a demand for

payment under the AT&T Credit Facility, the Company will repay the AT&T Credit Facility in full and will maintain cash and cash equivalents in an aggregate amount sufficient for such purpose, unless, on or prior to such demand for payment, the New AT&T Facility shall have become effective and the Company shall be in compliance with all covenants contained therein.

THE EXISTING NOTES

The terms of the Existing Notes include those stated in the applicable Existing Indenture and those made a part of the applicable Existing Indenture by reference to the Trust Indenture Act of 1939, as in effect on the date of that Existing Indenture. The terms of the Existing Indentures are substantially similar. The following summaries of certain provisions of the Existing Indentures do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all of the provisions of the applicable Existing Indenture.

The Existing Notes are general unsubordinated and unsecured senior obligations of ACSI and rank pari passu with all other unsubordinated and unsecured indebtedness of ACSI. As a holding company that conducts virtually all of its business through subsidiaries, ACSI currently has no source of operating cash flow other than from dividends and distributions from its subsidiaries. ACSI's subsidiaries have no obligation to pay amounts due on the Existing Notes and do not guarantee the Existing Notes. Therefore, the Existing Notes will be effectively subordinated to all liabilities of ACSI's subsidiaries, including trade payables. Any rights of ACSI and its creditors, including the holders of the Existing Notes, to participate in the assets of any of ACSI's subsidiaries upon any liquidation or reorganization of any such subsidiary are subject to the prior claims of that subsidiary's creditors (including trade creditors).

Upon a Change of Control (as defined in the Existing Indentures), each holder of the Existing Notes will have the right to require ACSI to repurchase all or any part of such holder's Existing Notes at 101% of the respective Accreted Value (as defined in the Existing Indentures) or principal amount, as the case may be, thereof, or, in the case of any such repurchase on or after November 1, 2000 in the case of the 2005 Notes, on or after April 1, 2001 in the case of the 2006 Notes and on or after January 15, 2002 in the case of the 2007 Notes, 101% of the respective principal amount thereof, plus accrued and unpaid interest, if any, thereon, to the date of repurchase. A Change of Control would occur if, among other things, any person or group, other than Mr. Pompliano, Mr. Kozak, certain affiliates of First Analysis Corporation, ING or Huff, acquires more than 35% of the total voting power of the Company.

Each of the Existing Indentures contains certain covenants which, among other things, restrict the ability of ACSI and certain of its subsidiaries to incur additional indebtedness, pay dividends or make distributions in respect of ACSI's capital stock or make certain other restricted payments, create restrictions on the ability of certain subsidiaries to make distributions on their capital stock, create liens, enter into transactions with affiliates or related persons, sell assets, or consolidate, merge or sell all or substantially all of their assets.

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

The 2005 Notes

The 2005 Notes mature on November 1, 2005. The yield on the 2005 Notes equals 13% per annum, computed on a semi-annual bond equivalent basis and calculated from November 9, 1995. The 2005 Notes will accrete at a rate of 13%, compounded semi-annually, to an aggregate principal amount of $190,000,000 by November 1, 2000. Cash interest will not accrue on the 2005 Notes prior to November 1, 2000. Thereafter,

interest on the 2005 Notes will accrue at the rate of 13% per annum and will be payable in cash semi-annually on May 1 and November 1, commencing May 1, 2001. The 2005 Notes will be redeemable, at the option of ACSI at any time, in whole or in part, on or after November 1, 2000, at 110%, 106 2/3% and 103 1/3% of the principal amount for the twelve months following November 1, 2000, 2001 and 2002, respectively, plus accrued and unpaid interest, if any, to the date of redemption.

The 2006 Notes

The 2006 Notes mature on April 1, 2006. The yield on the 2006 Notes equals 12 3/4% per annum, computed on a semi-annual bond equivalent basis and calculated from March 21, 1996. The 2006 Notes will accrete at a rate of 12 3/4%, compounded semi-annually, to an aggregate principal amount of $120,000,000 by April 1, 2001. Cash interest will not accrue on the 2006 Notes prior to April 1, 2001. Thereafter, interest on the 2006 Notes will accrue at the rate of 12 3/4% per annum and will be payable in cash semi-annually on April 1 and October 1, commencing October 1, 2001. The 2006 Notes will be redeemable, at the option of ACSI at any time, in whole or in part, on or after April 1, 2001 at 106 3/8%, 104 1/4% and 102 1/8% of the principal amount for the twelve months following April 1, 2001, 2002 and 2003, respectively, plus accrued and unpaid interest, if any, thereon, to the date of repurchase.

The 2007 Notes

The 2007 Notes mature on July 15, 2007. The 2007 Notes bear interest at a rate of 13 3/4% per annum from July 23, 1997 payable semi-annually in cash on January 15, and July 15, commencing January 15, 1998. The Company placed approximately $70.0 million of the proceeds from the sale of the 2007 Notes, representing funds sufficient to pay the first five semi-annual interest payments on the 2007 Notes, into an escrow account to held by the escrow agent for the benefit of the holders of the 2007 Notes. The 2007 Notes are redeemable, at the option of the ACSI, in whole or in part, on or after July 15, 2002 at 106.875%, 105.156%, 103.438%, 101.719% and 100% of their principal amount for the twelve months following July 15, 2002, 2003, 2004, 2005 and 2006, respectively, plus accrued and unpaid interest, if any, thereon, to the date of repurchase. In addition, at any time on or prior to July 15, 2000, the Company may, at its option, redeem up to 35% of the aggregate principal amount at maturity of the 2007 Notes with the net cash proceeds of one or more Equity Offerings (as defined in the 2007 Indenture), at a redemption price equal to 113.75% of the principal amount thereof; provided, however, that after giving effect to any such redemption, at least $143.0 million aggregate principal amount of the 2007 Notes remains outstanding.

DESCRIPTION OF THE PREFERRED STOCK

The following summary of certain provisions of both the Old Preferred Stock and the New Preferred Stock does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Certificate of Designation relating thereto, copies of which may be obtained from the Company upon request. The definitions of certain specialized terms used in the following summary are defined in the Certificate of Designation. Certain capitalized terms used in this summary are defined under "-- Certain Definitions" below.

GENERAL

At the consummation of the Exchange Offer, the Company will issue up to 150,000 shares of New Preferred Stock which has been designated as "12 3/4% Junior Redeemable Preferred Stock due 2009." Such shares, when issued and when holders of Old Preferred Stock have validly tendered their shares for such New Preferred Stock will be fully paid and nonassessable and the holders thereof will not have any subscription or preemptive rights in connection therewith. The Company has also reserved up to 550,000 additional shares of the Preferred Stock for issuance to pay dividends on the Preferred Stock in additional shares of Preferred Stock in accordance with the provisions of the Certificate of Designation for the Preferred Stock (the "Certificate of Designation"), which will govern the New Preferred Stock and which governs the Old Preferred Stock. The Preferred Stock, whenever issued, will have a Liquidation Preference of $1,000 per share.

RANKING

All claims of the holders of the New Preferred Stock, including without limitation, claims with respect to dividend payments, redemption payments, mandatory repurchase payments or rights upon liquidation, winding-up or dissolution, shall rank junior to the claims of the holders of any debt of the Company and all other creditors of the Company.

The New Preferred Stock will, with respect to dividend rights and rights on liquidation, winding-up and dissolution, rank (i) senior to all classes of common stock and to each other class of capital stock or series of preferred stock established hereafter by the Board of Directors the terms of which do not expressly provide that it ranks senior to, or on a parity with, the New Preferred Stock as to dividend rights and rights on liquidation, winding-up and dissolution of the Company (collectively referred to, together with all classes of common stock of the Company, as "Junior Stock"); (ii) subject to certain conditions, on a parity with each other class of capital stock or series of preferred stock established hereafter by the Board of Directors, the terms of which expressly provide that such class or series will rank on a parity with the New Preferred Stock as to dividend rights and rights on liquidation, winding-up and dissolution (collectively referred to as "Parity Stock"); and (iii) junior to the 14 3/4% Preferred Stock and any future Senior Stock (as defined).

While any shares of Preferred Stock are outstanding, the Company may not authorize, create or increase the authorized amount of any class or series of stock that ranks senior to the Preferred Stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding up (other than any shares of 14 3/4% Preferred Stock issued as dividends thereon, including as Additional Dividends (as defined in the terms of the 14 3/4% Certificate)) without the consent of the holders of at least 66 2/3% of the outstanding shares of Preferred Stock (any such class or series of stock, together with the 14 3/4% Preferred Stock, being referred to herein as "Senior Stock"). However, without the consent of any holder of Preferred Stock, the Company may create additional classes of stock, increase the authorized number of shares of preferred stock or issue series of a stock that ranks junior to or on parity with the Preferred Stock with respect, in each case, to the payment of dividends and amounts upon liquidation, dissolution and winding up. See "-- Voting Rights."

The holders of the 14 3/4% Preferred Stock, subject to the terms of the Certificate of Designation for the 14 3/4% Preferred Stock (the "14 3/4% Certificate"), are entitled to receive a liquidation preference of $1,000 per share, plus an amount equal to all accrued and unpaid dividends, and the Company may voluntarily redeem the 14 3/4% Preferred Stock at any time on or after January 1, 2003 at certain redemption prices, plus an amount equal to all accrued and unpaid dividends.

DIVIDENDS

Holders of the outstanding shares of New Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors of the Company, out of funds legally available therefor, dividends on the New Preferred Stock at a rate per annum equal to 12 3/4% of the Liquidation Preference thereof, payable quarterly (each such quarterly period being herein called a "Dividend Period"). Dividends will also accrue and cumulate on any accrued and unpaid dividends. All dividends will be cumulative, whether or not earned or declared, on a daily basis from the date of issuance and will be payable quarterly (each such quarterly period being herein called a "Dividend Period") in arrears on January 15, April 15, July 15 and October 15 of each year (each a "Dividend Payment Date"), commencing on January 15, 1998, to holders of record on the January 1, April 1, July 1 and October 1 immediately preceding the relevant Dividend Payment Date.

Dividends on the New Preferred Stock may be paid, at the Company's option, on any Dividend Payment Date, either in cash or by the issuance of additional shares of New Preferred Stock (and, at the Company's option, payment of cash in lieu of fractional shares) having an aggregate Liquidation Preference equal to the amount of such dividends, and the issuance of such additional shares of New Preferred Stock will constitute "payment" of the related dividend for all purposes of the Certificate of Designation; provided, however, that after October 15, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the New Preferred Stock by the terms of any agreement or instrument governing any of its then outstanding indebtedness, the Company shall pay dividends in cash.

In the event that dividends on the Preferred Stock are in arrears and unpaid (either in cash or by the issuance of additional shares of Preferred Stock) for six or more quarterly dividend periods (whether or not consecutive), whether before or after October 15, 2002, or the Company shall fail to pay dividends in cash for six or more quarterly dividend periods (whether or not consecutive) beginning October 15, 2002, holders of the Preferred Stock will be entitled to certain voting rights. See "-- Voting Rights." The Certificate of Designation provides that the Company will take all actions required or permitted under the Delaware General Corporation Law (the "DGCL") to permit the payment of dividends on the Preferred Stock, including, without limitation, through the revaluation of its assets in accordance with the DGCL, to make or keep funds legally available for the payment of dividends.

Dividends on account of arrears for any past Dividend Period and dividends in connection with any optional redemption may be declared and paid at any time, without reference to any regular Dividend Payment Date, to holders of record of Preferred Stock on such date, not more than forty-five (45) days prior to the payment thereof, as may be fixed by the Board of Directors of the Company.

No dividend whatsoever shall be declared or paid upon, or any sum set apart for the payment of dividends upon, any outstanding share of Preferred Stock with respect to any dividend period unless all dividends for all preceding dividend periods have been declared and paid, or declared and a sufficient sum set apart for the payment of such dividend, upon all outstanding shares of Senior Stock. No full dividends may be declared or paid or funds set apart for the payment of dividends on any Parity Stock for any period unless full cumulative dividends shall have been or contemporaneously are declared and paid (or are deemed declared and paid) in full or declared and, if payable in cash, a sum in cash sufficient for such payment set apart for such payment on the Preferred Stock. If full dividends are not so paid, the Preferred Stock will share dividends pro rata with the Parity Stock. So long as any Preferred Stock is outstanding and unless and until full cumulative dividends have been paid (or are deemed paid) in full on the Preferred Stock: (i) no dividend (other than a dividend payable solely in shares of additional Junior Stock) shall be declared or paid upon, or any sum set apart for the payment of dividends upon, any shares of Junior Stock; (ii) no other distribution shall be declared or made upon, or any sum set apart for the payment of any distribution upon, any shares of Junior Stock, other than a distribution consisting solely of Junior Stock; (iii) no shares of Parity Stock or Junior Stock or warrants, rights, calls or options to purchase such Parity Stock or Junior Stock shall be purchased, redeemed or otherwise acquired or retired for value (excluding an exchange for shares of other Junior Stock) by the Company or any of its Subsidiaries, other than certain repurchase obligations with respect to such warrants, rights, calls or options in existence on the Issue Date of the Preferred Stock; and (iv) no monies shall be paid into or set apart or made available for a sinking or other like fund for the purchase, redemption or other

acquisition or retirement for value of any shares of Parity Stock or Junior Stock by the Company or any of its Subsidiaries. Holders of the Preferred Stock will not be entitled to any dividends, whether payable in cash, property or stock, in excess of the full cumulative dividends as herein described.

The indentures relating to the Existing Notes and the AT&T Credit Facility contain, and future credit agreements or other agreements relating to indebtedness of the Company or its subsidiaries may contain, restrictions on the ability of the Company to pay dividends on the Preferred Stock (other than solely in additional shares of Preferred Stock). See "Risk Factors -- Holding Company Structure; Source of Payments in Respect of Preferred Stock."

CHANGE OF CONTROL

Upon the occurrence of a Change of Control (as defined below), the Company will be required to make an offer (the "Change of Control Offer") to each holder of shares of Preferred Stock to repurchase all or any part (but not, in the case of any holder requiring the Company to purchase less than all of the shares of Preferred Stock held by such holder, any fractional shares) of such holder's Preferred Stock at a purchase price in cash equal to 101% of the aggregate Liquidation Preference thereof plus, without duplication, accumulated and unpaid dividends and Additional Dividends, if any, thereon to the date of purchase (the "Change of Control Payment").

The Change of Control Offer must be commenced within 30 days following a Change of Control, must remain open for at least 30 and not more than 40 days (unless otherwise required by applicable law) and must comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the Preferred Stock as a result of a Change of Control.

The Change of Control provisions described above will be applicable whether or not any other provisions of the Certificate of Designation are applicable. Except as described above with respect to a Change of Control, the Certificate of Designation does not contain provisions that permit the holders of the Preferred Stock to require that the Company repurchase or redeem the Preferred Stock in the event of a takeover, recapitalization or similar transaction.

The Company will not be required to make a Change of Control Offer to the holders of Preferred Stock upon a Change of Control if either (a) a third party makes the Change of Control Offer described above in the manner, at the times and otherwise in compliance with the requirements set forth in the Certificate of Designation, and purchases all shares of Preferred Stock validly tendered and not withdrawn under such Change of Control Offer or (b) the date at which such Change of Control Offer would otherwise be required to be made is prior to the later of (i) the Stated Maturity (as defined in the indentures relating to the Existing Notes) of the last to mature of the Existing Notes and (ii) the retirement of all of the outstanding 14 3/4% Preferred Stock.

The Company does not currently have adequate financial resources to effect a repurchase of the Preferred Stock upon the occurrence of a Change of Control and there can be no assurance that the Company will have such resources in the future.

If the date at which a Change of Control Offer otherwise would be required to be made is prior to the later of (i) the Stated Maturity (as defined in the indentures relating to the Existing Notes) of the last to mature of the Existing Notes and (ii) the retirement of all of the outstanding 14 3/4% Preferred Stock, then, in lieu of any such Change of Control Offer, holders of two-thirds of the Preferred Stock will be entitled to designate an Independent Financial Advisor (as defined below) to determine, within 20 days of such designation, in the opinion of such firm, the appropriate dividend rate that the Preferred Stock should bear so that, after such reset, the Preferred Stock would have a market value of 101% of the Liquidation Preference. If, for any reason and within 5 days of the designation of an Independent Financial Advisor by the holders, such

Independent Financial Advisor is unacceptable to the Company, the Company shall designate a second Independent Financial Advisor to determine, within 15 days of such designation, in its opinion, such an appropriate reset dividend rate for the Preferred Stock. In the event that the two Independent Financial

Advisors cannot agree, within 25 days of the designation of an Independent Financial Advisor by the holders of two-thirds of the Preferred Stock, on the appropriate reset dividend rate, the two Independent Financial Advisors shall, within 10 days of such 25th day, designate a third Independent Financial Advisor, which, within 15 days of designation, will determine, in its opinion, such an appropriate reset rate which is between the two rates selected by the first two Independent Financial Advisors; provided, however, that the reset rate shall in no event be less than 12 3/4% per annum or greater than 15 1/4% per annum. The reasonable fees and expenses, including reasonable fees and expenses of legal counsel, if any, and customary indemnification, of each of the three above-referenced Independent Financial Advisors shall be borne by the Company. Upon the determination of the reset rate, the Preferred Stock shall accrue and cumulate dividends at the reset rate as of the date of occurrence of the Change of Control.

A "Change of Control" shall be deemed to occur if (i) the sale, conveyance, transfer or lease of all or substantially all of the assets of the Company to any "person" or "group" (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act or any successor provisions to either of the foregoing, including any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(i) under the Exchange Act) (other than any Permitted Holder (as defined below) or any subsidiary of the Company) shall have occurred; (ii) any "person" or "group" as aforesaid, other than any Permitted Holder, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of more than 35% of the total voting power of all classes of the voting stock of the Company and/or warrants or options to acquire such voting stock, calculated on a fully diluted basis, and such voting power percentage is greater than or equal to the total voting power percentage then beneficially owned by the Permitted Holders in the aggregate; or (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the board of directors (together with any new directors whose election or appointment by such board or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the board of directors then in office; provided, however, that no Change of Control shall occur if the "person" or "group" in the case of clause (i) above is a Strategic Investor or the "beneficial owner" of voting power in excess of 50% of the voting power of the Company in the case of clause (ii) above is a Strategic Investor and such Strategic Investor beneficially owns in excess of 50% of the voting power of the Company.

"Independent Financial Advisor" means a United States investment banking firm of national standing in the United States which does not, and whose directors, officers and employees or affiliates do not, have a direct or indirect financial interest in the Company.

"Permitted Holders" means The Huff Alternative Income Fund, L.P., ING Equity Partners, L.P.I., Apex Investment Fund I, L.P., Apex Investment Fund II, L.P., The Productivity Fund II, L.P. and Anthony J. Pompliano and the respective affiliates (other than the Company and its subsidiaries) of each of the foregoing.

"Strategic Investor" means a publicly traded company (i) whose principal business is operating a public utility company and/or a cable and/or telephone and/or telecommunications system in the United States or which, after the consummation of the relevant transaction, is or will be delivering its own services over the networks or systems of the Company and any business reasonably related to the foregoing, or creating, developing or marketing communications related network equipment, software or other devices for use in transmitting voice, video or data, (ii) which has, or the parent of which has, a Total Equity Market Capitalization in excess of $1.0 billion and (iii) whose senior unsecured debt securities are rated (or carry an implied rating) by Moody's Investors Service, Inc. (or any successor to the rating agency business thereof) or Standard & Poor's Corporation (or any successor to the rating agency business thereof) as Baa- or BBB-, respectively, or better, on a pro forma basis assuming the consummation of any transaction with the Company, provided that if such securities are rated by both such rating agencies, the lowest rating of the two shall govern for purposes of this definition.

"Total Equity Market Capitalization" of any person means, as of any day of determination, the sum of (1) the product of (A) the aggregate number of outstanding primary shares of common stock of such person on such day (which shall not include any options or warrants on, or securities convertible or exchangeable into or exercisable for, shares of common stock of such person) multiplied by (B) the average closing price of such common stock over the 20 consecutive trading days immediately preceding such day, plus (2) the liquidation value of any outstanding shares of preferred stock of such person on such day.

OPTIONAL REDEMPTION

The Preferred Stock may be redeemed, in whole or in part, at the option of the Company, at any time after October 15, 2003, at the redemption prices (expressed in percentages of an amount equal to the sum of (i) the Liquidation Preference thereof and (ii) the liquidation preference of any accrued and unpaid dividends to the date of redemption payable in Preferred Stock) set forth below, plus, without duplication, an amount in cash equal to all accrued and unpaid cash dividends to the redemption date (including an amount in cash equal to a prorated dividend for the period from the Dividend Payment Date immediately prior to the redemption date to the redemption date), if redeemed during the 12-month period beginning on October 15 of each of the years set forth below:

<TABLE>
<CAPTION>

YEAR	PERCENTAGE
<S>	<C>
2003	106.375%
2004	104.781
2005	103.188
2006	101.594
2007 and thereafter	100.000%

</TABLE>

Notwithstanding the foregoing, the Company will have the option, on or prior to October 15, 2000, to redeem up to 35% of the outstanding Preferred Stock at a price of 112.75% (expressed as a percentage of an amount equal to the sum of (i) the Liquidation Preference thereof and (ii) the liquidation preference of any accrued and unpaid dividends to the date of redemption payable in Preferred Stock), plus, without duplication, accrued and unpaid cash dividends to the date of redemption, with the proceeds of (i) one or more public common equity offerings generating cash proceeds to the Company of at least $25 million or (ii) the sale of capital stock generating cash proceeds to the Company of at least $25 million to a company which has, or whose parent has, a Total Equity Market Capitalization of at least $1.0 billion on a consolidated basis (an "Eligible Equity Investor"); provided that at least 65% of the Preferred Stock initially issued remains outstanding after any such redemption.

In the event of a redemption of only a portion of the then outstanding shares of the Preferred Stock, the Company shall effect such redemption on a pro rata basis, except that the Company may redeem such shares held by holders of fewer than ten shares (or shares held by holders who would hold less than ten shares as a result of such redemption), as may be determined by the Company.

The AT&T Credit Facility, the indentures relating to the Existing Notes and the 14 3/4% Certificate restrict the ability of the Company to redeem the Preferred Stock. See "Description of Certain Indebtedness" and "Description of Capital Stock."

MANDATORY REDEMPTION

The Company will be required to redeem (subject to the legal availability of funds therefor) all outstanding shares of the Preferred Stock on October 15, 2009, at a price equal to 100% of the Liquidation Preference thereof, plus, without duplication, all accrued and unpaid dividends to the date of redemption. Future agreements of the Company may restrict or prohibit the Company from redeeming the Preferred Stock.

PROCEDURE FOR REDEMPTION

On and after any redemption date, unless the Company defaults in the payment of the applicable redemption price, dividends will cease to accumulate on shares of Preferred Stock called for redemption and all rights of holders of such shares will terminate except for the right to receive the redemption price, without interest; provided, however, that if a notice of redemption shall have been given as provided in the succeeding

sentence and the funds necessary for redemption (including an amount in respect of all dividends that will accrue to the redemption date) shall have been segregated and irrevocably set apart by the Company, in trust for the benefit of the holders of the shares called for redemption, then dividends shall cease to accumulate on the redemption date on the shares to be redeemed and, at the close of business on the day or when such funds are segregated and set apart, the holders of the shares to be redeemed shall cease to be stockholders of the Company and shall be entitled only to receive the redemption price for such shares. The Company will send a written notice of redemption by first-class mail to each holder of record of shares of Preferred Stock, not fewer than 30 days nor more than 60 days prior to the date fixed for such redemption at its registered address. Shares of Preferred Stock issued and reacquired will, upon compliance with the applicable requirements of Delaware law, have the status of authorized but unissued shares of preferred stock of the Company undesignated as to series and may, with any and all other authorized but unissued shares of preferred stock of the Company, be designated or redesignated and issued or reissued, as the case may be, as part of any series of preferred stock of the Company, except that any issuance or reissuance of shares of Preferred Stock must be in compliance with the Certificate of Designation.

LIQUIDATION RIGHTS

Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company, holders of the Preferred Stock will be entitled to be paid, out of the assets of the Company available for distribution to stockholders, after payment to the holders of any then outstanding Senior Stock (including, without limitation, the 14 3/4% Preferred Stock), the full amount of the liquidation preference and accrued and unpaid dividends to which they are entitled, the Liquidation Preference per share of Preferred Stock, plus, without duplication, an amount in cash equal to all accrued and unpaid dividends thereon to the date fixed for liquidation, dissolution or winding-up (including an amount equal to a prorated dividend for the period from the last Dividend Payment Date to the date fixed for liquidation, dissolution or winding-up and including an amount equal to the redemption premium that would have been payable had the Preferred Stock been the subject of an optional redemption on such date), before any distribution is made on any Junior Stock, including, without limitation, Common Stock of the Company. If, upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company, the amounts payable with respect to the Preferred Stock and all other Parity Stock are not paid in full, the holders of the Preferred Stock and the Parity Stock will share equally and ratably in any distribution of assets of the Company in proportion to the full liquidation preference to which each is entitled. After payment of the full amount of the Liquidation Preference and accrued and unpaid dividends to which they are entitled, the holders of Preferred Stock will not be entitled to any further participation in any distribution of assets of the Company. However, neither the sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Company, nor the consolidation or merger of the Company with one or more entities, shall be deemed to be a liquidation, dissolution or winding-up of the Company.

VOTING RIGHTS

The holders of Preferred Stock, except as otherwise required under Delaware law or as set forth below, shall not be entitled or permitted to vote on any matter required or permitted to be voted upon by the stockholders of the Company.

The Certificate of Designation provides that if (i) the Company fails to pay cash dividends on the Preferred Stock for six or more Dividend Periods (whether or not consecutive) beginning October 15, 2002, or (ii) the Company fails to pay dividends, either in cash or by the issuance of additional shares of Preferred Stock, for six or more Dividend Periods (whether or not consecutive), whether before or after October 15, 2002, or (iii) the Company fails to comply with the Change of Control covenant contained in the Certificate of Designation, or (iv) the Company fails to comply with any other covenant contained in the Certificate of Designation and such failure continues for 30 consecutive days after receipt of written notice of such failure from the holders of at least 25% of the shares of Preferred Stock then outstanding, or (v) there occurs a default under any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness for money borrowed by the Company or any of its Subsidiaries (or

the payment of which is guaranteed by the Company or any of its Subsidiaries) whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, which default (x) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "Payment Default") or (y) results in the acceleration of such Indebtedness prior to its express maturity and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $10.0 million or more, at any time, in each case, after a 60-day period during which such Payment Default shall not have been cured or such acceleration rescinded or (vi) the Company fails to redeem all of the outstanding Preferred Stock on October 15, 2009, then the holders of a majority of the then outstanding shares of Preferred Stock, voting as a class, shall be entitled to elect the lesser of (a) such number of directors as will constitute 25% of the number of members of the Company's Board of Directors and (b) two directors to the Company's Board of Directors, and the Company shall take such action as may be required to cause the total number of directors of the Company to be increased by such number. Such voting rights will continue until such time as, in the case of a dividend default, all dividends in arrears on the Preferred Stock are paid in full, in the case of a failure to comply with a covenant set forth in the Certificate of Designation (including the Change of Control covenant), such failure is remedied or waived by the holders of a majority of the then outstanding shares of Preferred Stock, and, in all other cases, any failure or default giving rise to such voting rights is remedied or waived by the holders of at least two-thirds of the shares of Preferred Stock then outstanding, at which time the term of any directors elected pursuant to the provisions of this paragraph shall terminate. The foregoing voting rights provided for in the Certificate of Designation will be the holder's exclusive remedy at law or in equity.

The Certificate of Designation also provides that the Company will not authorize any series of preferred stock that ranks senior to the Preferred Stock, without the affirmative vote or consent of holders of at least two-thirds of the shares of Preferred Stock then outstanding, voting or consenting, as the case may be, as one class. In addition, the Certificate of Designation provides that without the affirmative vote or consent of the holders of at least two-thirds of the then outstanding shares of Preferred Stock, voting or consenting, as the case may be, as one class, the Company may not amend the terms of the Preferred Stock (other than the covenants described herein under "Certain Covenants," which may be amended with the affirmative vote or consent of the holders of a majority of the then outstanding shares of Preferred Stock, voting or consenting, as the case may be, as one class; provided, however, that, during the pending of any Change of Control Offer, the consent of every holder of Preferred Stock shall be necessary to modify any Change of Control Offer required under the covenant entitled "-- Change of Control"). The Certificate of Designation also provides that, except as set forth above, (a) the creation, authorization or issuance of any shares of Junior Stock, Parity Stock or Senior Stock or (b) the increase or decrease in the amount of authorized Capital Stock of any class, including any preferred stock, shall not require the consent of the holders of Preferred Stock and shall not be deemed to affect adversely the rights, preferences, privileges or voting rights of shares of Preferred Stock.

CERTAIN COVENANTS

The sole remedy to holders of Preferred Stock in the event of the Company's failure to comply with any of the covenants described below and the continuation of such failure to for 30 consecutive days after receipt of written notice thereof from the holders of 25% of the Preferred Stock then outstanding, will be the voting rights described above and such breach by the Company will not cause any action taken by the Company to be invalid or unauthorized under its charter documents.

Incurrence of Indebtedness and Issuance of Disqualified Stock or Preferred Stock

The Certificate of Designation provides that the Company will not, and will not permit any of its Subsidiaries to directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable for the payment of (collectively, "incur" and, correlatively, "incurred" and "incurrence") any Indebtedness (including, without limitation, Acquired Indebtedness) and that the Company will not issue any Disqualified Stock and will not permit any of its Subsidiaries to issue any shares of Subsidiary Preferred Stock;

provided that the Company may incur Indebtedness (including Acquired Indebtedness) or issue shares of Disqualified Stock or Subsidiary Preferred Stock if the Company's Consolidated Leverage Ratio as of the last day of the Company's most recently ended fiscal quarter for which internal financial statements are available immediately preceding the date on which such Indebtedness is incurred, or such Disqualified Stock or Subsidiary Preferred Stock is issued, as the case may be, would have been (a) greater than zero and less than 5.5 to 1.0, if such incurrence or issuance is on or prior to December 31, 1999, and (b) greater than zero and less than 5.0 to 1.0, if such incurrence or issuance is after December 31, 1999, determined on a pro forma basis (including pro forma application of the net proceeds therefrom) as if such Indebtedness had been incurred, or such Disqualified Stock had been issued, as the case may be, at the beginning of such fiscal quarter.

The foregoing limitation will not apply to:

(a) the incurrence of Indebtedness by the Company or any Subsidiary pursuant to Credit Agreement(s); provided that the aggregate principal amount of such Credit Agreement(s) at any one time outstanding under this clause (a) does not exceed $100.0 million for the Company and all of its Subsidiaries;

(b) the Existing Indebtedness (including all amounts that accrue thereon);

(c) the incurrence of Vendor Debt by the Company or any Subsidiary; provided that the aggregate principal amount of such Vendor Debt does not exceed 80% of the purchase price or cost of the construction, acquisition or improvement of the applicable Telecommunications Related Assets financed therewith (or 100% of the total cost of the Telecommunications Related Assets financed therewith if such Vendor Debt was extended for the purchase of tangible physical assets and was so financed by the vendor thereof or an affiliate of such vendor);

(d) the incurrence by the Company or any of its Restricted Subsidiaries of Refinancing Indebtedness with respect to Indebtedness permitted pursuant to clause (b) of this paragraph;

(e) the incurrence of Indebtedness by the Company not to exceed, at any one time outstanding, 2.0 times the sum of (i) the net cash proceeds received by the Company from the issuance and sale of the Preferred Stock and the issuance and sale of any other class or series of its Capital Stock (other than Disqualified Stock) from and after September 30, 1997 plus (ii) the fair market value at the time of issuance of Capital Stock (other than Disqualified Stock) issued in connection with any acquisition of a Telecommunications Company, in each case to a Person other than a Subsidiary of the Company; and

(f) the incurrence by the Company of Indebtedness (in addition to Indebtedness permitted by any other clause of this paragraph) in an aggregate principal amount (or accreted value, as applicable) at any time outstanding not to exceed $100.0 million;

For purposes of this covenant, the Certificate of Designation provides that, in the event that the Company proposes to incur Indebtedness pursuant to clause (e) above, the Company shall, simultaneously with the incurrence of such Indebtedness, deliver to the Transfer Agent a resolution of the Board of Directors set forth in an Officers' Certificate stating that the sale or sales of Capital Stock forming the basis for the incurrence of such Indebtedness (i) constitutes an investment in the Company and (ii) has not been made for the purpose of circumventing this covenant. The Certificate of Designation will also provide that, in the event that the Company rescinds, reverses or unwinds such sale of Capital Stock or otherwise returns or refunds all or any portion of the net cash proceeds of such sale of Capital Stock (whether by dividend, distribution or otherwise) within 270 days of the date of the incurrence of such Indebtedness, such Indebtedness will be deemed to be incurred on the date of, and immediately after giving effect to, such rescission, reversal, unwinding, return or refund.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness, Disqualified Stock, or Subsidiary Preferred Stock meets the criteria of more than one of the categories described in clauses (a) through (f) above or is entitled to be incurred pursuant to the first paragraph of this covenant, the Company shall, in its sole discretion, classify such item in any manner that complies with this covenant and such item will be treated as having been incurred pursuant to only one of such clauses or

pursuant to the first paragraph herein. Accrual of interest or dividends, the accretion of accreted value or liquidation preference and the payment of interest or dividends in the form or additional Indebtedness or shares of Capital Stock will not be deemed to be an incurrence of Indebtedness for purposes of this covenant.

Dividend and Other Payment Restrictions Affecting Subsidiaries

The Certificate of Designation provides that the Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

(i)(a) pay dividends or make any other distributions to the Company or any of its Restricted Subsidiaries on its Capital Stock or (b) pay any indebtedness owed to the Company or any of its Restricted Subsidiaries,

(ii) make loans or advances to the Company or any of its Restricted Subsidiaries,

(iii) transfer any of its properties or assets to the Company or any of its Subsidiaries,

except for such encumbrances or restrictions existing under or by reason of:

(a) Existing Indebtedness as in effect on the Issue Date;

(b) any Credit Agreement creating or evidencing Indebtedness permitted by clause (a) under the "Incurrence of Indebtedness and Issuance of Disqualified Stock on Preferred Stock" covenant described above and any amendments, modifications, restatement, renewals, increases, supplements, refundings, replacements or refinancings thereof;

(c) any encumbrance or restriction pursuant to an agreement relating to an acquisition of assets or Property, so long as the encumbrances or restrictions in any such agreement relate solely to the assets or Property so acquired;

(d) the Certificate of Designation, the Old Preferred Stock or the New Preferred Stock;

(e) applicable law;

(f) customary provisions restricting subletting or assignment of any lease of the Company or any Restricted Subsidiary or customary provisions in certain agreements that restrict the assignment of such agreement or any rights thereunder;

(g) purchase money obligations or Vendor Debt for property acquired in the ordinary course of business that impose restrictions of the nature described in clause (iii) above on the property so acquired;

(h) any encumbrance or restriction relating to any Indebtedness of any Restricted Subsidiary existing on the date on which such Restricted Subsidiary is acquired by the Company or any Restricted Subsidiary (other than Indebtedness issued by such Restricted Subsidiary in connection with or in anticipation of its acquisition), provided that the EBITDA of such Restricted Subsidiary is not taken into account in determining whether such acquisition is permitted by the terms of the Indenture;

(i) any temporary encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or Property and assets of, such Restricted Subsidiary;

(j) any restriction on the sale or other disposition of assets or Property securing Indebtedness as a result of a Permitted Lien on such assets or Property; and

(k) Refinancing Indebtedness; provided that such encumbrances or restrictions are not materially more restrictive than those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

Merger, Consolidation or Sale of Assets

The Company will not, in any transaction or series of transactions, consolidate with, or merge with or into, any other Person (other than a merger of a Restricted Subsidiary into the Company in which the Company is the continuing corporation), or sell, convey, assign, transfer, lease or otherwise dispose of all or substantially all of the Property and assets of the Company and the Restricted Subsidiaries taken as a whole to any other Person, unless:

(i) either (a) the Company shall be the continuing corporation or (b) the corporation (if other than the Company) formed by such consolidation or into which the Company is merged, or the Person which acquires, by sale, assignment, conveyance, transfer, lease or disposition, all or substantially all of the Property and assets of the Company and the Restricted Subsidiaries taken as a whole (such corporation or Person, the "Surviving Entity"), shall be a corporation organized and validly existing under the laws of the United States of America, any political subdivision thereof, any state thereof or the District of Columbia, and the Preferred Stock shall be converted into or exchanged for, and shall become shares of, such Surviving Entity, successor, transferee or resulting Person, having in respect of such Surviving Entity the same powers, preferences and relative participating, optional and other special rights and qualifications, limitations or restrictions thereon, that the Preferred Stock had with respect to the Company immediately prior to such transaction;

(ii) immediately after giving effect to such transaction or series of related transactions on a pro forma basis (including, without limitation, any Indebtedness incurred or anticipated to be incurred in connection with or in respect of such transaction or series of related transactions), no Voting Rights Triggering Event shall have occurred or resulted therefrom; and

(iii) immediately after giving effect to such transaction or series of related transactions on a pro forma basis (including, without limitation, any Indebtedness incurred or anticipated to be incurred in connection with or in respect of such transaction or series of related transactions), the Company (or the Surviving Entity, if the Company is not continuing) would (A) be permitted to incur $1.00 of additional Indebtedness pursuant to the first paragraph of "-- Incurrence of Indebtedness and Issuance of Disqualified Stock or Preferred Stock" or (B) have a Total Equity Market Capitalization of at least $1.0 billion and total Indebtedness, net of cash and cash equivalents (as presented on the Company's consolidated balance sheet), in an amount less than 40% of its Total Market Capitalization.

Reports

The Certificate of Designation provides that, whether or not the Company is subject to Section 13(a) or 15(d) of the Exchange Act, or any successor provision thereto, the Company shall file with the SEC the annual reports, quarterly reports and other documents which the Company would have been required to file with the SEC pursuant to such Section 13(a) or 15(d) or any successor provision thereto if the Company were subject thereto, such documents to be filed with the SEC on or prior to the respective dates (the "Required Filing Dates") by which the Company would have been required to file them. The Company shall also (whether or not it is required to file reports with the SEC), within 30 days of each Required Filing Date, (i) transmit by mail to all holders of the Preferred Stock, as their names and addresses appear on the records of the Transfer Agent and to any Persons that request such reports in writing, without cost to such holders or Persons, and (ii) file with the Transfer Agent copies of the annual reports, quarterly reports and other documents (without exhibits) which the Company has filed or would have filed with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act, any successor provisions thereto or this covenant. The Company shall not be required to file any report with the SEC if the SEC does not permit such filing. In addition to the foregoing, commencing with the unaudited information for the fiscal quarter ended September 30, 1997, the Company will file with the SEC and will thereafter transmit by mail to holders of the Preferred Stock and file with the Transfer Agent within the same time periods as set forth in the second next preceding sentence, unaudited information, on an aggregate Fiber Network basis (before headquarter allocations) segmented by the calendar year in which each such Fiber Network became operational, setting forth the investment in plant, property and equipment to date, revenue, EBITDA, EBIT, access lines, fiber miles, route miles, buildings

connected and voice grade equivalents; provided, however, that the Company will provide such unaudited information with respect to (i) all Fiber Networks that were initially operational at any time prior to December 31, 1995 (all such Fiber Networks shall be deemed to have become operational in calendar year 1995) and (ii) all Fiber Networks that were initially operational in each succeeding calendar year (including all or any portion of the then current year); and provided, further, that the Company need no longer comply with the information requirements of this sentence after four consecutive fiscal quarters for which the ratio of EBITDA of the Company to Consolidated Interest Expense (other than dividends or distributions with respect to preferred stock or Disqualified Stock of the Company) of the Company is greater than 1.0 or after the occurrence of a Change of Control.

CERTAIN DEFINITIONS

Set forth below is a summary of certain of the defined terms used in the Certificate of Designation. Reference is made to the Certificate of Designation for the full definition of all such terms, as well as any capitalized terms used herein for which no definition is provided.

"Acquired Indebtedness" means, with respect to any specified Person, Indebtedness of any other Person existing at the time such other Person merged with or into or became a Subsidiary of such specified Person, including Indebtedness incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Subsidiary of such specified Person, but excluding Indebtedness which is extinguished, retired or repaid in connection with such other Person merging with or into or becoming a Subsidiary of such specified Person.

"Affiliate" means, as to any Person, any other Person which directly or indirectly controls, or is under common control with, or is controlled by, such Person; provided that each Unrestricted Subsidiary shall be deemed to be an Affiliate of the Company and of each other Subsidiary of the Company; provided, further, that neither the Company nor any of its Restricted Subsidiaries shall be deemed to be Affiliates of each other; and provided, further, that any lender under the Secured Credit Facility and its Affiliates shall not be deemed to be Affiliates of the Company or any Restricted Subsidiary solely as a result of the existence of the Secured Credit Facility or their holdings of Capital Stock of the Company or any Restricted Subsidiary acquired in connection with the Secured Credit Facility. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "under common control with" and "controlled by"), and as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of Voting Stock, by agreement or otherwise; provided that beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control.

"Annualized Pro Forma EBITDA" means with respect to any Person, such Person's Pro Forma EBITDA for the latest fiscal quarter for which internal financial statements are then available multiplied by four.

"Asset Sale" means, with respect to any Person, any transfer, conveyance, sale, lease or other disposition (including, without limitation, by way of consolidation or merger, but excluding by means of any Sale and Leaseback Transaction or by the granting of a Lien permitted under the definition of "Permitted Liens") by such Person or any of its Restricted Subsidiaries to any Person other than the Company or a Restricted Subsidiary of the Company, in one transaction, or a series of related transactions (each hereinafter referred to as a "Disposition"), of Property or assets of such Person or any of its Restricted Subsidiaries, the Fair Market Value of which exceeds $2 million, other than (i) a Disposition of Property in the ordinary course of business consistent with industry practice and (ii) a Disposition by the Company in connection with a transaction permitted under "-- Merger, Consolidation, Sale of Assets."

"Attributable Indebtedness" means, with respect to any Sale and Leaseback Transaction of any Person, as at the time of determination, the greater of (i) the capitalized amount in respect of such transaction that would appear on the balance sheet of such Person in accordance with GAAP and (ii) the present value (discounted at a rate consistent with accounting guidelines, as determined in good faith by such Person) of the payments during the remaining term of the lease (including any period for which such lease has been extended or may, at the option of the lessor, be extended) or until the earliest date on which the lessee may terminate

such lease without penalty or upon payment of a penalty (in which case the rental payments shall include such penalty).

"Capital Lease Obligation" of any Person means the obligation to pay rent or other payment amounts under a lease of (or other Indebtedness arrangement conveying the right to use) real or personal property of such Person which is required to be classified and accounted for as a capital lease or a liability on the face of a balance sheet of such Person in accordance with GAAP and the stated maturity thereof shall be the date of the last payment of rent or any amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" in any Person means any and all shares, interests, participations or other equivalents in the equity interest (however designated) in such Person and any rights (other than Indebtedness convertible into an equity interest), warrants or options to acquire an equity interest in such Person.

"Cash Equivalents" means (i) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof), (ii) time deposits and certificates of deposit of any commercial bank organized in the United States having capital and surplus in excess of $500 million with a maturity date not more than one year from the date of acquisition, (iii) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (i) above entered into with any bank meeting the qualifications specified in clause (ii) above, (iv) direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing, or subject to tender at the option of the holder thereof within ninety days after the date of acquisition thereof and, at the time of acquisition, having a rating of A or better from Standard & Poor's Ratings Group ('Standard & Poor's") or A-2 or better from Moody's Investors Service, Inc. ("Moody's"), (v) commercial paper issued by the parent corporation of any commercial bank organized in United States having capital and surplus in excess of $500 million and commercial paper issued by others having one of the two highest ratings obtainable from either Standard & Poor's or Moody's and in each case maturing within ninety days after the date of acquisition, (vi) overnight bank deposits and bankers' acceptances at any commercial bank organized in the United States having capital and surplus in excess of $500 million, (vii) deposits available for withdrawal on demand with a commercial bank organized in the United States having capital and surplus in excess of $500 million and (viii) investments in money market funds substantially all of whose assets comprise securities of the types described in clauses (i) through (vi).

"Consolidated Interest Expense" means, with respect to any Person for any period, without duplication, (A) the sum of (i) the aggregate amount of cash and non-cash interest expense (including capitalized interest) of such Person and its Restricted Subsidiaries for such period as determined on a consolidated basis in accordance with GAAP in respect of Indebtedness (including, without limitation, (v) any amortization of debt discount, (w) net costs associated with Interest Hedging Obligations (including any amortization of discounts), (x) the interest portion of any deferred payment obligation, (y) all accrued interest and (z) all commissions, discounts and other fees and charges owed with respect to letters of credit, bankers' acceptances or similar facilities) paid or accrued, or scheduled to be paid or accrued, during such period; (ii) dividends or distributions with respect to preferred stock or Disqualified Stock of such Person (and of its Restricted Subsidiaries if paid to a Person other than such Person or its Restricted Subsidiaries) declared and payable in cash; (iii) the portion of any rental obligation of such Person or its Restricted Subsidiaries in respect of any Capital Lease Obligation allocable to interest expense in accordance with GAAP; (iv) the portion of any rental obligation of such Person or its Restricted Subsidiaries in respect of any Sale and Leaseback Transaction allocable to interest expense (determined as if such were treated as a Capital Lease Obligation); and (v) to the extent any Indebtedness of any other Person is Guaranteed by such Person or any of its Restricted Subsidiaries, the aggregate amount of interest paid, accrued or scheduled to be paid or accrued, by such other Person during such period attributable to any such Indebtedness, less (B) to the extent included in (A) above, amortization or write-off of deferred financing costs of such Person and its Restricted Subsidiaries during such period and any charge related to any premium or penalty paid in connection with redeeming or retiring any Indebtedness of such Person and its Restricted Subsidiaries prior to its stated maturity; in the case

of both (A) and (B) above, after elimination of intercompany accounts among such Person and its Restricted Subsidiaries and as determined in accordance with GAAP.

"Consolidated Leverage Ratio" means, for any Person, as of any date, the ratio of (i) the sum of the aggregate outstanding amount of all Indebtedness of a Person and its Subsidiaries determined on a consolidated basis in accordance with GAAP to (ii) Annualized Pro Forma EBITDA.

"Consolidated Net Income" of any Person means, for any period, the aggregate net income (or net loss) of such Person and its Restricted Subsidiaries for such period on a consolidated basis determined in accordance with GAAP, provided that there shall be excluded therefrom, without duplication, (i) all items classified as extraordinary, (ii) any net income of any Person other than such Person and its Restricted Subsidiaries, except to the extent of the amount of dividends or other distributions actually paid to such Person or its Restricted Subsidiaries by such other Person during such period; (iii) the net income of any Person acquired by such Person or any of its Restricted Subsidiaries in a pooling-of-interests transaction for any period prior to the date of the related acquisition; (iv) any gain or loss, net of taxes, realized on the termination of any employee pension benefit plan; (v) net gains (but not net losses) in respect of Asset Sales by such Person or its Restricted Subsidiaries; (vi) the net income (but not net loss) of any Restricted Subsidiary of such Person to the extent that the payment of dividends or other distributions to such Person is restricted by the terms of its charter or any agreement, instrument, contract, judgment, order, decree, statute, rule, governmental regulation or otherwise, except for any dividends or distributions actually paid by such Restricted Subsidiary to such Person; (vii) with regard to a non-wholly owned Restricted Subsidiary, any aggregate net income (or loss) in excess of such Person's or such Restricted Subsidiary's pro rata share of such non-wholly owned Restricted Subsidiary's net income (or loss); and (viii) the cumulative effect of changes in accounting principles.

"Consolidated Net Worth" means, with respect to any Person as of any date, the sum of (i) the consolidated equity of the common stockholders of such Person and its consolidated Subsidiaries as of such date plus (ii) the respective amounts reported on such Person's balance sheet as of such date with respect to any series of preferred stock (other than Disqualified Stock) that by its terms is not entitled to the payment of dividends unless such dividends may be declared and paid only out of net earnings in respect of the year of such declaration and payment, but only to the extent of any cash received by such Person upon issuance of such preferred stock, less (x) all write-ups (other than write-ups resulting from foreign currency translations and write-ups of tangible assets of a going concern business made within 12 months after the acquisition of such business) subsequent to the Issue Date in the book value of any asset owned by such Person or a consolidated Subsidiary of such Person, (y) all investments as of such date in unconsolidated Subsidiaries and in Persons that are not Subsidiaries (except, in each case, Permitted Investments) and (z) all unamortized debt discount and expense and unamortized deferred charges as of such date, all of the foregoing determined in accordance with GAAP.

"Credit Agreement" means, with respect to any Person, any agreement entered into by and among such Person and one or more commercial banks or financial institutions, providing for senior term or revolving credit borrowings of a type similar to credit agreements typically entered into by commercial banks and financial institutions, including any related notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, as such credit agreement and related agreements may be amended, extended, refinanced, renewed, restated, replaced or refunded from time to time.

"Disqualified Stock" means any Capital Stock (other than the 14 3/4% Preferred Stock) which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, or otherwise, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, or is exchangeable for Indebtedness at any time, in whole or in part, on or prior to the mandatory redemption date of the Preferred Stock.

"EBIT" means the amount calculated in the same manner as EBITDA, but not including clauses (iii) and (iv) of the definition thereof.

"EBITDA" means, with respect to any Person for any period, the sum for such Person for such period of Consolidated Net Income plus, to the extent reflected in the income statement of such Person for such period from which Consolidated Net Income is determined, without duplication, (i) Consolidated Interest Expense, (ii) income tax expense, (iii) depreciation expense, (iv) amortization expense, (v) any non-cash expense related to the issuance to employees of such Person of options to purchase Capital Stock of such Person and (vi) any charge related to any premium or penalty paid in connection with redeeming or retiring any Indebtedness prior to its stated maturity and minus, to the extent reflected in such income statement, any non-cash credits that had the effect of increasing Consolidated Net Income of such Person for such period. This definition of EBITDA is used only for the purpose of this Description of the Preferred Stock and the Certificate of Designation.

"Exchange Rate Obligation" means, with respect to any Person, any currency swap agreements, forward exchange rate agreements, foreign currency futures or options, exchange rate collar agreements, exchange rate insurance and other agreements or arrangements, or combination thereof, designed to provide protection against fluctuations in currency exchange rates.

"Existing Indebtedness" means Indebtedness outstanding on the date of initial issuance of the Preferred Stock, including the Existing Notes and the AT&T Credit Facility.

"Fair Market Value" means, with respect to any asset or Property, the sale value that would be obtained in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors.

"Fiber Network" means a digital fiber optic telecommunications network wholly owned by the Company that serves a Metropolitan Area.

"GAAP" means United States generally accepted accounting principles, consistently applied, as set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board, or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, that are applicable to the circumstances as of the date of determination; provided that, except as otherwise specifically provided, all calculations made for purposes of determining compliance with the terms of the provisions of the Certificate of Designation shall utilize GAAP as in effect on the Issue Date.

"Guarantee" means any direct or indirect obligation, contingent or otherwise, of a Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person in any manner (and "Guaranteed," "Guaranteeing" and "Guarantor" shall have meanings correlative to the foregoing).

"Indebtedness" means at any time (without duplication), with respect to any Person, whether recourse is to all or a portion of the assets of such Person, and whether or not contingent, (i) any obligations of such Person for money borrowed, (ii) any obligation of such Person evidenced by bonds, debentures, notes, Guarantees or other similar instruments, including, without limitation, any such obligations incurred in connection with acquisition of Property, assets or businesses, excluding trade accounts payable made in the ordinary course of business, (iii) any reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person, (iv) any obligation of such Person issued or assumed as the deferred purchase price of Property or services (but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business, which in either case are not more than 60 days overdue or which are being contested in good faith), (v) any Capital Lease Obligation of such Person, (vi) the maximum fixed redemption or repurchase price of Disqualified Stock of such Person and, to the extent held by other Persons, the maximum fixed redemption or repurchase price of Disqualified Stock of such Person's Restricted Subsidiaries, at the time of determination, (vii) the notional amount of any Interest Hedging Obligations or Exchange Rate Obligations of such Person at the time of determination, (viii) any Attributable Indebtedness with respect to any Sale and Leaseback Transaction to which such Person is a party and (ix) any obligation of the type referred to in clauses (i) through (viii) of this definition of another Person and all dividends and distributions of another Person the payment of which, in either case, such Person has

Guaranteed or is responsible or liable for, directly or indirectly, as obligor, Guarantor or otherwise. For purposes of the preceding sentence, the maximum fixed repurchase price of any Disqualified Stock that does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were repurchased on any date on which Indebtedness shall be required to be determined pursuant to the Certificate of Designation; provided that if such Disqualified Stock is not then permitted to be repurchased, the repurchase price shall be the book value of such Disqualified Stock. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability of any Guarantees at such date; provided that for purposes of calculating the amount of the 2005 Notes or 2006 Notes outstanding at any date, the amount of such 2005 Notes or 2006 Notes shall be the Accreted Value (as defined in the relevant indenture) thereof as of such date unless cash interest has commenced to accrue pursuant to the relevant indenture, in which case the amount of the 2005 Notes or 2006 Notes outstanding will be determined pursuant to the relevant indenture and will not include any accrued and unpaid cash interest which would otherwise be included in Accreted Value because of clause (iii) of the definition thereof in the relevant indenture.

"Interest Hedging Obligation" means, with respect to any Person, an obligation of such Person pursuant to any interest rate swap agreement, interest rate cap, collar or floor agreement or other similar agreement or arrangement designed to protect against or manage such Person's or any of its Subsidiaries' exposure to fluctuations in interest rates.

"Investment" in any Person means any direct, indirect or contingent (i) advance or loan to, Guarantee of any Indebtedness of, extension of credit or capital contribution to such Person, (ii) the acquisition of any shares of Capital Stock, bonds, notes, debentures or other securities of such Person, or (iii) the acquisition, by purchase or otherwise, of all or substantially all of the business, assets or stock or other evidence of beneficial ownership of such Person; provided that Investments shall exclude commercially reasonable extensions of trade credit. The amount of any Investment shall be the original cost of such Investment, plus the cost of all additions thereto and minus the amount of any portion of such investment repaid to such person in cash as a repayment of principal or a return of capital, as the case may be, but without any other adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment. In determining the amount of any Investment involving a transfer of any Property other than cash, such Property shall be valued at its Fair Market Value at the time of such transfer.

"Issue Date" means the date of initial issuance of the Preferred Stock.

"Lien" means, with respect to any Property or other asset, any mortgage or deed or trust, pledge, hypothecation, assignment, deposit arrangement, security interest, lien (statutory or other), charge, easement, encumbrance, preference, priority or other security or similar agreement or preferential arrangement of any kind or nature whatsoever on or with respect to such Property or other asset (including, without limitation, any conditional sale or title retention agreement having substantially the same economic effect as any of the foregoing).

"Metropolitan Area" means the 31 metropolitan areas in which the Company, as of June 30, 1997, has a Fiber Network and other metropolitan areas deemed in the reasonable business judgment of the management of the Company to provide an opportunity for the building and operation of such a Fiber Network with the reasonable potential to produce financial results for the Company at least substantially comparable to the metropolitan areas in which the Company has such operational Fiber Networks.

"Net Income" means, with respect to any Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however, (i) any gain or loss, together with any related provision for taxes on such gain or loss, realized in connection with (a) any Asset Sale (including, without limitation, dispositions pursuant to Sale and Leaseback Transactions) or (b) the disposition of any securities by such Person or any of its Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Subsidiaries and (c) any extraordinary or nonrecurring gain or loss, together with any related provision for taxes on such extraordinary or nonrecurring gain or loss.

"New Preferred Stock" means the 12 3/4% Junior Redeemable Preferred Stock due 2009 authorized by the Certificate of Designation that may be issued pursuant to the Exchange Offer pursuant to the Registration Rights Agreement.

"Obligations" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President or a Vice President, and by the Chief Financial Officer, the Chief Accounting Officer, the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary of the Company and delivered to the Transfer Agent, which shall comply with the Indenture.

"Permitted Liens" means (i) Liens on Property or assets of a Person existing at the time such Person is merged into or consolidated with the Company or any Subsidiary of the Company, provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not secure any Property or assets of the Company or any of its Subsidiaries other than the Property or assets subject to the Liens prior to such merger or consolidation; (ii) Liens on Telecommunications Related Assets existing during the time of the construction thereof; (iii) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business consistent with industry practice; (iv) Liens existing as of the Issue Date; (v) Liens to secure borrowings permitted under clause (a) of the second paragraph of "-- Incurrence of Indebtedness and Issuance of Disqualified Stock or Preferred Stock" (including any such liens arising in connection with the Secured Credit Facility); (vi) any Lien on Property of the Company in favor of the United States of America or any state thereof, or any instrumentality of either, to secure certain payments pursuant to any contract or statute; (vii) any Lien for taxes or assessments or other governmental charges or levies not then due and payable (or which, if due and payable, are being contested in good faith and for which adequate reserves are being maintained, to the extent required by GAAP); (viii) easements, rights-of-way, licenses and other similar restrictions on the use of Properties or minor imperfections of title that, in the aggregate, are not material in amount and do not in any case materially detract from the Properties subject thereto or interfere with the ordinary conduct of the business of the Company or its Subsidiaries; (ix) any Lien to secure obligations under workmen's compensation laws or similar legislation, including any Lien with respect to judgments which are not currently dischargeable; (x) any statutory warehousemen's, materialmen's or other similar Liens for sums not then due and payable (or which, if due and payable, are being contested in good faith and with respect to which adequate reserves are being maintained, to the extent required by GAAP); (xi) any interest or title of a lessor in Property subject to a Capital Lease Obligation; (xii) Liens to secure any Vendor Debt; provided that such Liens do not extend to any Property or assets other than the Property or assets the acquisition of which was financed by such Indebtedness; (xiii) Liens in favor of the Company or any Restricted Subsidiary; (xiv) Liens on Property or assets of a Person existing prior to the time such Person is acquired by the Company as a result of (a) Investments by the Company or a Restricted Subsidiary in or in respect of a Person to the extent the consideration for such Investment consists of shares of Qualified Stock of the Company or (b) Investments in certain joint venture entities; provided that such Liens were in existence prior to the contemplation of such Investment and do not secure any Property or assets of the Company or any of its Subsidiaries other than the Property or assets subject to the Liens prior to such Investment; (xv) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other Property relating to such letters of credit and the products and proceeds thereof; (xvi) Liens on the escrow account for the 2007 Notes and all funds and securities therein securing only the 2007 Notes equally and ratably and (xvii) Liens to secure any permitted extension, renewal, refinancing or refunding (or successive extensions, renewals, refinancings or refundings), in whole or in part, of any Indebtedness secured by Liens referred to in the foregoing clauses (i) through (v) and (xii), provided that such Liens do not extend to any other Property or assets and the principal amount of the Indebtedness secured by such Liens is not increased.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Pro Forma EBITDA" means, for any Person, for any period, the EBITDA of such Person as determined on a consolidated basis in accordance with GAAP consistently applied, after giving effect to the following: (i) if, during or after such period, such Person or any of its Subsidiaries shall have made any Asset Sale, Pro Forma EBITDA for such Person and its Subsidiaries for such period shall be reduced by an amount equal to the Pro Forma EBIDTA (if positive) directly attributable to the assets which are the subject of such Asset Sale for the period or increased by an amount equal to the Pro Forma EBITDA (if negative) directly attributable thereto for such period and (ii) if, during or after such period, such Person or any of its Subsidiaries completes an acquisition of any Person or business which immediately after such acquisition is a Subsidiary of such Person, Pro Forma EBITDA shall be computed so as to give pro forma effect to such Asset Sale or the acquisition of such Person or business, as the case may be, as if such acquisition had been completed as of the beginning of such period, and (iii) if, during or after such period, such Person or any of its Subsidiaries incurs any Indebtedness (including without limitation, any Acquired Indebtedness) or issues any Disqualified Stock, Pro Forma EBITDA shall be computed so as to give pro forma effect (including pro forma application of the proceeds therefrom) thereto as if such Indebtedness or Disqualified Stock had been incurred as of the beginning of such period.

"Property" means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, excluding Capital Stock in any other Person.

"Qualified Stock" of any Person means a class of Capital Stock other than Disqualified Stock.

"Refinancing Indebtedness" means Indebtedness issued in exchange for, or the proceeds of which are used to refinance, repurchase, replace, refund or defease other Indebtedness.

"Restricted Subsidiary" means any Subsidiary of the Company that has not been classified as an "Unrestricted Subsidiary."

"Sale and Leaseback Transaction" means, with respect to any Person, any direct or indirect arrangement pursuant to which Property is sold or transferred by such Person or a Restricted Subsidiary of such Person and is thereafter leased back from the purchaser or transferee thereof by such Person or one of its Restricted Subsidiaries.

"Secured Credit Facility" means the AT&T Credit Facility as in effect on the Issue Date and additional secured credit agreements to which the Company is or becomes a party, in an aggregate amount not to exceed $35 million, and all related amendments, notes, collateral documents, guarantees, instruments and other agreements executed in connection therewith, as the same may be amended, modified, supplemented, restated, renewed, extended, refinanced, substituted or replaced from time to time.

"Significant Restricted Subsidiary" means a Restricted Subsidiary that is a "significant subsidiary" as defined in Rule 1-02(w) of Regulation S-X under the Securities Act and the Exchange Act.

"Subsidiary" means, with respect to any Person, (i) any corporation more than 50% of the outstanding shares of Voting Stock of which is owned, directly or indirectly, by such Person, or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries of such Person, (ii) any general partnership, joint venture or similar entity, more than 50% of the outstanding partnership or similar interests of which are owned, directly or indirectly, by such Person, or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries of such Person and (iii) any limited partnership of which such Person or any Subsidiary of such Person is a general partner.

"Subsidiary Preferred Stock" means Capital Stock of a Subsidiary of any class or classes (however designated) that ranks prior, as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up of such a Subsidiary, to shares of Capital Stock of any other class of such a Subsidiary.

"Telecommunications Business" means the business of (i) transmitting, or providing services relating to the transmission of, voice, video or data through owned or leased transmission facilities, (ii) creating, developing or marketing communications-related network equipment, software and other devices for use in (i) above or (iii) evaluating, participating or pursuing any other activity or opportunity that is related to those specified in (i) or (ii) above.

"Telecommunications Company" means any Person substantially all of the assets of which consist of Telecommunications Assets.

"Telecommunications Related Assets" means all assets, rights (contractual or otherwise) and properties, whether tangible or intangible, used or intended for use in connection with a Telecommunications Business.

"Telecommunications Service Market" means a network built by the Company to service a market.

"Total Equity Market Capitalization" of any person means, as of any day of determination, the sum of (1) the product of (A) the aggregate number of outstanding primary shares of common stock of such person on such day (which shall not include any options or warrants on, or securities convertible or exchangeable into or exercisable for, shares of common stock of such person) multiplied by (B) the average closing price of such common stock over the 20 consecutive trading days immediately preceding such day, plus (2) the liquidation value of any outstanding shares of preferred stock of such person on such day.

"Total Market Capitalization" of any person means, as of any day of determination, the sum of (1) the consolidated Indebtedness of such Person and its Subsidiaries on such day, plus (2) the product of (i) the aggregate number of outstanding primary shares of common stock of such Person on such day (which shall not include any options or warrants on, or securities convertible or exchangeable into, shares of common stock of such Person) and (ii) the average closing price of such common stock over the 20 consecutive trading days immediately preceding such day, plus (3) the liquidation value of any outstanding shares of preferred stock of such Person on such day, less (4) cash and cash equivalents as presented on such Person's consolidated balance sheet on such date. If no such closing price exists with respect to shares of any such class, the value of such shares for purposes of clause (2) of the preceding sentence shall be determined by the Company's Board of Directors in good faith and evidenced by a resolution of the Board of Directors.

"Unrestricted Subsidiary" means any Subsidiary of the Company that the Company has classified as an "Unrestricted Subsidiary" and that has not been reclassified as a Restricted Subsidiary, pursuant to the terms of each of the indentures governing the Existing Notes.

"Vendor Debt" means any purchase money Indebtedness of the Company or any Subsidiary incurred in connection with the acquisition of Telecommunications Related Assets.

"Voting Stock" means, with respect to any Person, securities of any class or classes of Capital Stock in such Person entitling the holders thereof (whether at all times or at the times that such class of Capital Stock has voting power by reason of the happening of any contingency) to vote in the election of members of the board of directors or comparable body of such Person.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment, by (ii) the then outstanding principal amount of such Indebtedness.

"Wholly Owned Subsidiary" of any Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests (other than directors' qualifying shares) of which shall at the time be owned by such Person or by one or more Wholly Owned Subsidiaries of such Person or a combination thereof.

TRANSFER AGENT AND REGISTRAR

The Bank of New York will be the transfer agent and registrar for the Preferred Stock.

EXCHANGE OFFER; REGISTRATION RIGHTS

The Company entered into the Registration Rights Agreement concurrently with the issuance of the Old Preferred Stock. Pursuant to the Registration Rights Agreement, the Company agreed to file with the Commission no later than 45 days after the date of issuance of the Preferred Stock, the Exchange Offer Registration Statement on the appropriate form under the Securities Act with respect to the New Preferred Stock. Upon the effectiveness of the Exchange Offer Registration Statement, the Company will offer to the holders of Transfer Restricted Securities pursuant to the Exchange Offer who are able to make certain representations the opportunity to exchange their Transfer Restricted Securities for New Preferred Stock. If (i) the Company is not required to file the Exchange Offer Registration Statement or permitted to consummate the Exchange Offer because the Exchange Offer is not permitted by applicable law or Commission policy or (ii) any holder of Transfer Restricted Securities notifies the Company prior to the 20th day following consummation of the Exchange Offer that (A) it is prohibited by law or Commission policy from participating in the Exchange Offer or (B) that it may not resell the New Preferred Stock acquired by it in the Exchange Offer to the public without delivering a prospectus and the prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales, the Company will file with the Commission a Shelf Registration Statement to cover resales of the Preferred Stock by the holders thereof who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement. The Company will use its best efforts to cause the applicable registration statement to be declared effective as promptly as possible by the Commission. For purposes of the foregoing, "Transfer Restricted Securities" means each share of Preferred Stock until (i) the date on which such Preferred Stock has been exchanged by a person other than a broker-dealer for New Preferred Stock in the Exchange Offer, (ii) following the exchange by a broker-dealer in the Exchange Offer of Preferred Stock for New Preferred Stock or New Exchange Debentures the date on which such New preferred Stock are sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of the prospectus contained in the Exchange Offer Registration Statement, (iii) the date on which such Preferred Stock has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement or (iv) the date on which such Preferred Stock is distributed to the public pursuant to Rule 144A under the Act.

The Registration Rights Agreement provides that (i) the Company will file an Exchange Offer Registration Statement with the Commission on or prior to 45 days after the Closing Date, (ii) the Company will use its best efforts to have the Exchange Offer Registration Statement declared effective by the Commission on or prior to 120 days after the Closing Date, (iii) unless the Exchange Offer would not be permitted by applicable law or Commission policy, the Company will commence the Exchange Offer and use its best efforts to issue on or prior to 30 business days after the date on which the Exchange Offer Registration Statement was declared effective by the Commission, shares of New Preferred Stock in exchange for all Preferred Stock tendered prior thereto in the Exchange Offer and (iv) if obligated to file the Shelf Registration Statement, the Company will use its best efforts to file the Shelf Registration Statement with the Commission on or prior to 30 days after such filing obligation arises (and in any event within 90 days after the Closing Date) and to cause the Shelf Registration to be declared effective by the Commission (1) in the case of a Shelf Registration Statement filed pursuant to clause (i) of the fourth sentence of the preceding paragraph, 120 days after the date the Company becomes obligated to file such Shelf Registration Statement and (2) in the case of a Shelf Registration Statement filed pursuant to clause (ii) of the fourth sentence of the preceding paragraph, 150 days after the date on which the Company receives the notice specified in clause (ii) of the fourth sentence of the preceding paragraph. If (a) the Company fails to file any of the Registration Statements required by the Registration Rights Agreement on or before the date specified for such filing, (b) any of such Registration Statements is not declared effective by the Commission on or prior to the date specified for such effectiveness (the "Effectiveness Target Date"), or (c) the Company fails to consummate the Exchange Offer within 30 business days following the Effectiveness Target Date with respect to the Exchange Offer Registration Statement, or (d) the Shelf Registration Statement or the Exchange Offer Registration Statement is declared effective but thereafter ceases to be effective or usable in connection with resales of Transfer Restricted Securities during the periods specified in the Registration Rights Agreement (each such event referred to in clauses (a) through (d) above a "Registration Default"), then additional dividends ("Additional Dividends") will accrue on the Preferred Stock from and including the date on which

any Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured at a rate per annum of 0.25% for each 90-day period that such Registration Default continues; provided, that such rate shall in no event exceed 1.0% per annum. Additional Dividends shall be paid, either in cash or, at the Company's option, in additional shares of Preferred Stock, on each regular quarterly Dividend Payment Date following the occurrence of such Registration Default through the Dividend Payment Date next following the date when such Registration Default shall have been cured. Following the cure of all Registration Defaults, the accrual of Additional Dividends will cease.

The Registration Rights Agreement also provides that the Company (i) shall pay, as applicable, certain reasonable expenses incident to the Shelf Registration Statement and (ii) will indemnify certain holders of the Preferred Stock against certain liabilities, including liabilities under the Securities Act.

Holders of the Old Preferred Stock will be required to make certain representations to the Company (as described above) and will be required to deliver information to be used in connection with the Shelf Registration Statement in order to have their Preferred Stock included in the Shelf Registration Statement. A holder who sells Preferred Stock pursuant to the Shelf Registration Statement generally will be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the Registration Rights Agreement which are applicable to such a holder (including certain indemnification obligations).

For so long as the Preferred Stock is outstanding, the Company will continue to provide to holders of the Preferred Stock and to prospective purchasers of the Preferred Stock the information required by Rule 144A(d)(4) under the Securities Act. The Company will provide a copy of the Registration Rights Agreement to prospective purchasers of Preferred Stock identified to the Company upon request.

The foregoing description of the Registration Rights Agreement is a summary only, does not purport to be complete and is qualified in its entirety by reference to all provisions of the Registration Rights Agreement.

BOOK-ENTRY, DELIVERY AND FORM

The certificates representing the shares of New Preferred Stock will be issued in fully registered form without interest coupons. Shares of New Preferred Stock will be represented by one or more permanent global securities in definitive, fully registered form (each a "Global Security") and will be deposited with the Transfer Agent as custodian for, and registered in the name of, Cede & Co., as nominee of The Depository Trust Company (the "Depositary") (such nominee being referred to herein as the "Global Security Holder")

Except in the limited circumstances described below regarding "Certificated Securities," owners of beneficial interests in a Global Security will not be entitled to receive physical delivery of Certificated Securities (as defined below).

The Depositary is a limited-purpose trust company that was created to hold securities for its participating organizations (collectively, the "Participants" or the "Depositary's Participants") and to facilitate the clearance and settlement of transactions in such securities between Participants through electronic book-entry changes in accounts of its Participants. The Depositary's Participants include securities brokers and dealers (including the Initial Purchaser), banks and trust companies, clearing corporations and certain other organizations. Access to the Depositary's system is also available to other entities such as banks, brokers, dealers and trust companies (collectively, the "Indirect Participants" or the "Depositary's Indirect Participants") that clear through or maintain a custodial relationship with a Participant, either directly or indirectly. Persons who are not Participants may beneficially own securities held by or on behalf of the Depositary only through the Depositary's Participants or the Depositary's Indirect Participants.

The Company expects that pursuant to procedures established by the Depositary (i) upon deposit of the Global Security, the Depositary will credit the accounts of Participants designated by the Initial Purchaser with the appropriate number of shares of the Global Security and (ii) ownership of the Preferred Stock evidenced by the Global Security will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by the Depositary (with respect to the interests of the Depositary's Participants),

the Depositary's Participants and the Depositary's Indirect Participants. Prospective purchasers are advised that the laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer Preferred Stock evidenced by the Global Security will be limited to such extent. For certain other restrictions on the transferability of the Preferred Stock see "Notice to Investors."

So long as the Global Security Holder is the registered owner of any Preferred Stock the Global Security Holder will be considered the sole holder under the Certificate of Designation of any Preferred Stock evidenced by the Global Security. Beneficial Owners of Preferred Stock evidenced by the Global

Security will not be considered the owners or holders thereof under the Certificate of Designation for any purpose. Neither the Company nor the Transfer Agent will have any responsibility or liability for any aspect of the records of the Depositary or for maintaining, supervising or reviewing any records of the Depositary relating to the Preferred Stock.

Payments in respect of dividends and redemption payments and Additional Dividends, if any, on any Preferred Stock registered in the name of the Global Security Holder on the applicable record date will be payable by the Company to or at the direction of the Global Security Holder in its capacity as the registered holder under the Certificate of Designation. Under the terms of the Certificate of Designation, the Company and the Transfer Agent may treat the persons in whose names Preferred Stock, including the Global Security, are registered as the owners thereof for the purpose of receiving such payments. Consequently, neither the Company nor the Transfer Agent has or will have any responsibility or liability for the payment of such amounts to beneficial owners of Preferred Stock. The Company believes, however, that it is currently the policy of the Depositary to immediately credit the accounts of the relevant Participants with such payments, in amounts proportionate to their respective holdings of beneficial interests in the relevant security as shown on the records of the Depositary. Payments by the Depositary's Participants and the Depositary's Indirect Participants to the Beneficial Owners of Preferred Stock will be governed by standing instructions and customary practice and will be the responsibility of the Depositary's Participants or the Depositary's Indirect Participants.

CERTIFICATED SECURITIES

Subject to certain conditions, any person having a beneficial interest in the Global Security may, upon request to the Transfer Agent, exchange such beneficial interest for Preferred Stock in the form of Certificated Securities. Upon any such issuance, the Transfer Agent is required to register such Certificated Securities in the name of, and cause the same to be delivered to, such person or persons (or the nominee of any thereof). In addition, if (i) the Company notifies the Transfer Agent in writing that the Depositary is no longer willing or able to act as a depositary and the Company is unable to locate a qualified successor within 90 days or (ii) the Company, at its option, notifies the Transfer Agent in writing that it elects to cause the issuance of Preferred Stock in the form of Certificated Securities under the Certificate of Designation, then, upon surrender by the Global Security Holder of its Global Security, Preferred Stock in such form will be issued to each person that the Global Security Holder and the Depositary identify as being the Beneficial Owner of the related Preferred Stock.

Neither the Company nor the Transfer Agent will be liable for any delay by the Global Security Holder or the Depositary in identifying the Beneficial Owners of Preferred Stock and the Company and the Transfer Agent may conclusively rely on, and will be protected in relying on, instructions from the Global Security Holder or the Depositary for all purposes.

DESCRIPTION OF CAPITAL STOCK

ACSI's authorized capital stock consists of 76,500,000 shares of capital stock, consisting of 75,000,000 shares of Common Stock, par value $.01 per share, and 1,500,000 shares of preferred stock, par value $1.00 per share. On June 30, 1997, there were 35,926,902 shares of Common Stock issued and outstanding and held of record by approximately 292 persons. Prior to the Common Stock Offering the Company had designated 186,664 shares (of which 183,754 remain outstanding) of its authorized Preferred Stock as 9% Series A-1 Convertible Preferred Stock, 100,000 shares as its 9% Series B-1 Convertible Preferred Stock, 102,500 shares as its 9% Series B-2 Convertible Preferred Stock, 25,000 shares as its 9% Series B-3 Convertible Preferred Stock, and 50,000 shares as its 9% Series B-4 Convertible Preferred Stock. Upon completion of the Common Stock Offering, the 461,254 issued and outstanding shares of preferred stock were converted into 17,260,864 shares of Common Stock and became authorized but unissued shares of preferred stock. As of July 10, 1997, the Company had 1,500,000 shares of preferred stock that were authorized and 75,000 shares issued of its 14 3/4% Preferred Stock.

PREFERRED STOCK

The authorized but unissued preferred stock may be issued by the Board of Directors of the Company from time to time in one or more series with such preferences, terms and rights as the Board of Directors may determine without further action by the stockholders of the Company. Accordingly, the Board of Directors has the power to fix the dividend rate and to establish the provisions, if any, relating to dividends, voting rights, redemption rates, sinking funds, liquidation preferences and conversion rights for any series of preferred stock issued in the future.

It is not possible to state the actual effect of the authorization of any particular series of preferred stock upon the rights of holders of the Common Stock until the Board of Directors determines the specific rights of the holder of preferred stock of any further series. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders.

Dividends on the 14 3/4% Preferred Stock will accrue from July 10, 1997, are cumulative and will be payable quarterly in arrears, commencing September 30, 1997, out of funds legally available therefor, at a rate per annum of 14 3/4% of the liquidation preference per share. Dividends will also accrue and cumulate on any accrued and unpaid dividends. The liquidation preference of the 14 3/4% Preferred Stock is $1,000 per share. Dividends may be paid, at the Company's option, on any dividend payment date either in cash or by the issuance of additional shares of 14 3/4% Preferred Stock (and, at the Company's option, payment of cash in lieu of fractional shares); provided, however, that after June 30, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the 14 3/4% Preferred Stock by the terms of any then outstanding indebtedness or any other agreement or instrument to which the Company is subject, the Company shall pay dividends in cash. The 14 3/4% Preferred Stock will be redeemable at the Company's option, in whole or in part, at any time on or after January 1, 2003, at the redemption prices set forth in the 14 3/4% Certificate, plus, without duplication, accrued and unpaid dividends to the date of redemption. In addition, prior to June 30, 2000, the Company may, at its option, redeem up to an aggregate of 30% of the shares of 14 3/4% Preferred Stock at a redemption price of 114.75% (expressed as a percentage of an amount equal to the sum of (i) the liquidation preference thereof and (ii) the liquidation preference of any accrued and unpaid dividends to the date of redemption payable in 14 3/4% Preferred Stock), plus, without duplication, accrued and unpaid dividends to the date of redemption, with the net proceeds of (i) one or more public common equity offerings generating cash proceeds of at least $25 million or (ii) the sale of capital stock generating cash proceeds of at least $25 million to an Eligible Equity Investor (as defined in the 14 3/4% Certificate); provided that after any such redemption at least 70% of the 14 3/4% Preferred Stock initially issued remains outstanding. The Company is required to redeem all the 14 3/4% Preferred Stock outstanding on June 30, 2008 at a redemption price equal to 100.00% of the liquidation preference thereof, plus, without duplication, accrued and unpaid dividends to the date of redemption.

No full dividends may be declared or paid or funds set apart for the payment of dividends on any other class of capital stock or series of preferred stock established hereafter by the Board of Directors of the Company ranking on a parity with the 14 3/4% Preferred Stock (except dividends on parity stock payable in

additional shares of parity stock) for any period unless full cumulative dividends shall have been or contemporaneously are declared and paid (or are deemed declared and paid) in full or declared and, if payable in cash, a sum in cash sufficient for such payment set apart for such payment on the 14 3/4% Preferred Stock. If full dividends are not so paid, the 14 3/4% Preferred Stock will share dividends pro rata with such parity stock. No dividends may be paid or set apart for such payment on any class of capital stock or series of preferred stock ranking junior to the 14 3/4% Preferred Stock (except dividends on junior stock payable in additional shares of junior stock) and no junior stock or parity stock may be repurchased, redeemed or otherwise retired nor may funds be set apart for payment with respect thereto, if full cumulative dividends have not been paid in full (or deemed paid) on the 14 3/4% Preferred Stock.

Dividends on the Preferred Stock will accrue from October 16, 1997, are cumulative and will be payable quarterly in arrears, commencing January 15, 1998, out of funds legally available therefor, at a rate per annum of 12 3/4% of the liquidation preference per share. Dividends will also accrue and cumulate on any accrued and unpaid dividends. The liquidation preference of the Preferred Stock is $1,000 per share. Dividends may be paid, at the Company's option, on any dividend payment date either in cash or by the issuance of additional shares of Preferred Stock (and, at the Company's option, payment of cash in lieu of fractional shares); provided, however, that after October 15, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the Preferred Stock by the terms of any agreement or instrument governing any of its then outstanding indebtedness, the Company shall pay dividends in cash. The Preferred Stock will be redeemable at the Company's option, in whole or in part, at any time on or after October 15, 2003, at the redemption prices set forth in the Certificate of Designation, plus, without duplication, accrued and unpaid dividends to the date of redemption. In addition, prior to October 15, 2000, the Company may, at its option, redeem up to an aggregate of 35% of the shares of Preferred Stock at a redemption price of 112.75% (expressed as a percentage of an amount equal to the sum of (i) the liquidation preference thereof and (ii) the liquidation preference of any accrued and unpaid dividends to the date of redemption payable in Preferred Stock), plus, without duplication, accrued and unpaid dividends to the date of redemption, with the net proceeds of (i) one or more public common equity offerings generating cash proceeds of at least $25 million or (ii) the sale of capital stock generating cash proceeds of at least $25 million to an Eligible Equity Investor (as defined in the Certificate of Designation); provided that after any such redemption at least 65% of the Preferred Stock initially issued remains outstanding. The Company is required to redeem all the Preferred Stock outstanding on October 15, 2009 at a redemption price equal to 100.00% of the liquidation preference thereof, plus, without duplication, accrued and unpaid dividends to the date of redemption.

COMMON STOCK

ACSI is authorized to issue 75,000,000 shares of Common Stock. Under the Company's By-Laws, at least a majority of the issued and outstanding voting securities of the Company present at a duly called stockholders' meeting constitutes a quorum. Generally, if a quorum is present the affirmative vote of the majority of the voting securities represented at the meeting constitutes an act of the stockholders.

Subject to the rights of holders of the peffered stock, certain covenants contained in the Indentures which restrict the Company's ability to declare dividends on its Common Stock, and the restrictions on dividends contained in an agreement between the Company and AT&T Credit Corporation, holders of the Company's Common Stock are entitled to receive dividends, on a pro rata basis, as may from time to time be declared by the Board of Directors. The holders of Common Stock are entitled to one vote per share on every question submitted to them at a meeting of shareholders. In the event of liquidation, dissolution or winding up, the holders of Common Stock are, subject to the liquidation preference of the holders of preffered stock, entitled to share ratably in all assets of the Company available for distribution to stockholders along with the holders of the preffered stock, any other series or class of preferred stock entitled to a share of the remaining assets of the Company pro rata based on the number of shares of Common Stock held by each (assuming full conversion of all such preferred stock or such other series or class of preferred stock). The holders of the Company's Common Stock do not have pre-emptive rights or cumulative voting rights with respect to the election of directors.

ANTI-TAKEOVER STATUTE

Section 203 of the DGCL prohibits certain transactions between a Delaware corporation and an interested stockholder, which is defined therein as a person who, together with any affiliates and/or associates of such person, beneficially owns, directly or indirectly, 15% or more of the outstanding voting shares of a Delaware corporation. This provision prohibits certain business combinations (defined broadly to include mergers, consolidations, sales or other dispositions of assets having an aggregate value in excess of 10% of the consolidated assets of the corporation, and certain transactions that would increase the interested stockholder's proportionate share ownership in the corporation) between an interested stockholder and a corporation for a period of three years following the time the interested stockholder acquired its stock unless (i) the business combination is approved by the corporation's Board of Directors prior to the date the interested stockholder acquired shares, (ii) the interested stockholder acquired at least 85% of the voting stock of the corporation in the transaction in which it becomes an interested stockholder or (iii) the business combination is approved by a majority of the Board of Directors and by the affirmative vote of 66 2/3% of the votes entitled to be cast by disinterested stockholders at an annual or special meeting. The Charter and By-laws do not exclude the Company from the restrictions imposed under Section 203 of the DGCL.

LIMITATION OF LIABILITY OF DIRECTORS

The Charter provides that a director of the Company will not be personally liable for monetary damages to the Company or its stockholders for breach of fiduciary duty as a director, except for liability, (i) for any breach of the director's duty of loyalty to such corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemption as provided in Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit.

This provision is intended to afford directors additional protection and limit their potential liability from suits alleging a breach of the duty of care by a director. As a result of the inclusion of such a provision, stockholders may be unable to recover monetary damages against directors for actions taken by them that constitute negligence or gross negligence or that are otherwise in violation of their fiduciary duty of care, although it may be possible to obtain injunctive or other equitable relief with respect to such actions. If equitable remedies are found not to be available to stockholders in any particular situation, stockholders may not have an effective remedy against a director in connection with such conduct.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Amended and Restated Certificate of Incorporation and the By-laws provide that directors and officers of the Company (as well as agents and employees of the Company at the discretion of the Board) shall, to the fullest extent authorized by the DGCL or any other applicable laws then in effect, be indemnified against liabilities arising from their service as directors and officers. Additionally, the Company has entered into indemnification agreements with each of its executive officers and directors to reimburse them for certain liabilities incurred in connection with the performance of their fiduciary duties. Section 145 of the DGCL empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Section 145 also empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth

above, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted under similar standards, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless, and only to the extent that, the Delaware Court of Chancery or the court in which such action was brought shall determine that despite the adjudication of liability such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Section 145 further provides that to the extent a director, officer, employee or agent of a corporation has been successful in the defense of any action, suit or proceeding referred to above or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the corporation is empowered to purchase and maintain insurance on behalf of any person who is a or was a director, officer, employee or agent of the corporation against any liability asserted against him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liabilities under Section 145.

There has not been in the past and there is not presently pending any litigation or proceeding involving a director, officer, employee or agent of the Company which could give rise to an indemnification obligation on the part of the Company. In addition, except as described herein, the Board of Directors is not aware of any threatened litigation or proceeding which may result in a claim for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The foregoing summary of certain material provisions of ACSI's Charter and By-laws is qualified in its entirety by reference to the complete text of those documents.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar of ACSI's Common Stock is The Bank of New York, 101 Barclay Street, New York, New York 10286.

U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE EXCHANGE OFFER

The following is a general discussion of the material U.S. Federal income tax consequences of the Exchange Offer to holders of Old Preferred Stock. This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended, regulations of the Treasury Department, administrative rulings and pronouncements of the Internal Revenue Service and judicial decisions currently in effect, all of which are subject to change, possibly with retroactive effect. The discussion does not deal with all aspects of U.S. Federal income taxation that may be relevant to particular investors in light of their personal investment circumstances, nor does it address considerations applicable to investors subject to special treatment under the U.S. Federal income tax laws. In addition, the discussion does not consider the effect of any foreign, state, local, gift, estate or other tax laws that may be applicable to a particular investor. EACH POTENTIAL INVESTOR SHOULD CONSULT ITS TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF THE OLD PREFERRED STOCK AND THE NEW PREFERRED STOCK INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND FOREIGN TAX LAWS.

The exchange of Old Preferred Stock for New Preferred Stock pursuant to the Exchange Offer will not constitute a taxable exchange. As a result, a holder (i) will not recognize taxable gain or loss as a result of exchanging Old Preferred Stock for New Preferred Stock pursuant to the Exchange Offer; (ii) the holding period of the New Preferred Stock will include the holding period of the Old Preferred Stock exchanged therefor; and (iii) the adjusted tax basis of the New Preferred Stock will be the same as the adjusted tax basis of the Old Preferred Stock exchanged therefor immediately before the exchange.

PLAN OF DISTRIBUTION

Each broker-dealer that receives New Preferred Stock for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Preferred Stock. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Preferred Stock received in exchange for Preferred Stock where such Preferred Stock was acquired as a result of market-making activities or other trading activities. The Company has agreed that, starting on the Expiration Date and ending on the close of business 180 days after the Expiration Date, it will make this Prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until   , 1998 (90 days after the date of this Prospectus), all dealers effecting transactions in the New Preferred Stock may be required to deliver a prospectus.

The Company will not receive any proceeds from any sale of New Preferred Stock by broker-dealers. New Preferred Stock received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the New Preferred Stock or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such New Preferred Stock. Any broker-dealer that resells New Preferred Stock that was received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such New Preferred Stock may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit of any such resale of New Preferred Stock and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The Letter of Transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 180 days after the Expiration Date, the Company will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. The Company has agreed to pay all expenses incident to the Exchange Offer (including the expenses of one counsel for the holders of the Preferred Stock) other than commissions or concessions of any brokers or dealers and will indemnify the holders of the New Preferred Stock (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

Certain legal matters with respect to the New Preferred Stock will be passed upon for the Company by Riley M. Murphy, Annapolis Junction, Maryland.

EXPERTS

The consolidated financial statements of American Communications Services, Inc. as of June 30, 1995 and 1996 and December 31, 1996, and for the years ended June 30, 1995 and 1996 and six months ended December 31, 1996, have been included herein and in the registration statement in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

CHANGE IN INDEPENDENT PUBLIC ACCOUNTANTS

On April 21, 1995, pursuant to authorization of its Board of Directors and approval of its Audit Committee, the Company dismissed the firm of Coopers & Lybrand L.L.P. ("Coopers & Lybrand") as its auditors and retained KPMG Peat Marwick LLP ("KPMG Peat Marwick"). Coopers & Lybrand's report for each of the fiscal years ended June 30, 1993, and June 30, 1994, indicated uncertainties as to the Company's ability to continue as a going concern. However, Coopers & Lybrand's report for these years did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to audit scope or accounting principles.

During the fiscal years ended June 30, 1993, and June 30, 1994, and the subsequent interim periods immediately preceding the change in accountants, there were no disagreements with Coopers & Lybrand on any matter of accounting principles or practice, financial statement disclosure, or auditing scope or procedure, which if not resolved to the satisfaction of Coopers & Lybrand would have caused them to make reference to the subject matter of the disagreement in connection with their reports on the Company's financial statements. During the fiscal years ended June 30, 1993, and June 30, 1994, and the subsequent interim periods immediately preceding the change in accountants, there were no reportable events (as that term is used in Regulation S-K, Item 304(a)(1)(v)(A) through (D) of the Exchange Act), except that at the March 30, 1994, meeting of the Audit Committee at which representatives of Coopers & Lybrand were present, Coopers & Lybrand communicated to the Audit Committee that through approximately August 1993, documentation of equity or other non-cash transactions and controls over cash were less than adequate. This matter was then discussed. The Company has authorized Coopers & Lybrand to respond fully to the inquiries of KPMG Peat Marwick concerning such reportable events.

GLOSSARY

ACCESS CHARGES -- The fees paid by IXCs to LECs for originating and terminating long distance calls on their local networks.

ATM (ASYNCHRONOUS TRANSFER MODE) -- A recently commercialized switching and transmission technology that is one of a general class of packet technologies that relay traffic by way of an address contained within the first five bits of a standard fifty-three bit-long packet or cell. ATM switching was specifically developed to allow switching and transmission of mixed voice, data and video (sometimes referred to as "multi-media" information) at varying rates. The ATM format can be used by many different information systems, including LANs.

BROADBAND -- Broadband communications systems can transmit large quantities of voice, data and video by way of digital or analog signals. Examples of broadband communication systems include DS-3 fiber optic systems, which can transmit 672 simultaneous voice conversations, or a broadcast television station that transmits high resolution audio and video signals into the home. Broadband connectivity is also an essential element for interactive multimedia applications.

CAP (COMPETITIVE ACCESS PROVIDER) -- A company that provides its customers with an alternative to the local telephone company for local transport of private line, special access and interstate transport of switched access telecommunications services. CAPs are also referred to in the industry as alternative local telecommunications service providers (ALTs) and metropolitan area network providers (MANs) and were formerly referred to as alternative access vendors (AAVs).

CATVS -- Cable television service providers.

CENTRAL OFFICES -- The switching centers or central switching facilities of the LECs.

CENTREX -- Centrex is a service that offers features similar to those of a Private Branch Exchange (PBX), except the equipment is located at the carrier's premises and not at the premises of the customer. These features include direct dialing within a given phone system, direct dialing of incoming calls, and automatic identification of outbound calls. This is a value-added service that carriers can provide to a wide range of customers who do not have the size or the funds to support their own on-site PBX.

CLEC (COMPETITIVE LOCAL EXCHANGE CARRIER) -- a CAP that also provides Switch Local Services such as local dial tone and centrex.

CO-CARRIER STATUS -- A relationship between a CLEC and an ILEC that affords the same access and rights to the other's network, and provides access and services on an equal basis.

COLLOCATION -- The ability of a CAP such as the Company to connect its network to the LEC's central offices. Physical collocation occurs when a CAP places its network connection equipment inside the LEC's central offices. Virtual collocation is an alternative to physical collocation pursuant to which the LEC permits a CAP to connect its network to the LEC's central offices at competitive prices, even though the CAP's network connection equipment is not physically located inside the central offices.

DEDICATED LINES -- Telecommunications lines dedicated or reserved for use exclusively by particular customers along predetermined routes (in contrast to telecommunications lines within the LEC's public switched network).

DEDICATED SERVICES -- Special access, switched transport and private line services generally offered by CAPs, including the Company.

DIGITAL -- A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary code digits 0 and 1. Digital transmission and switching technologies employ a sequence of these pulses to represent information as opposed to the continuously variable analog signal. Digital transmission and switching technologies offer a threefold improvement in speed and capacity over analog techniques, allowing much more efficient and cost-effective transmission of voice, video and data.

DS-0, DS-1, DS-3 -- Standard telecommunications industry digital signal formats, which are distinguishable by bit rate (the number of binary digits (0 and 1) transmitted per second). DS-0 service has a bit

rate of 64 kilobits per second. DS-1 service has a bit rate of 1.544 megabits per second and DS-3 service has a bit rate of 45 megabits per second.

EBITDA -- Net income (loss) before net interest, income taxes, depreciation and amortization.

FCC -- Federal Communications Commission.

FIBER MILES -- The number of route miles installed (excluding pending installations) along a telecommunications path multiplied by the number of fibers along that path. See the definition of "Route Miles" below.

FIBER OPTICS -- Fiber optic cable is the medium of choice for the telecommunications and cable industries. Fiber is immune to electrical interference and environmental factors that affect copper wiring and satellite transmission. Fiber optic technology involves sending laser light pulses across glass strands in order to transmit digital information. A strand of fiber optic cable is as thick as a human hair yet has significantly greater bandwidth capacity than copper cable, which is many times greater in size.

FIBER OPTIC RING NETWORK -- Most CAPs have built their networks in ring configurations in order to ensure that, if one segment of a network is damaged or cut, the traffic is simply re-routed and sent to its destination in the opposite direction. The Company uses a "self-healing" optical fiber ring architecture in its networks.

FRAME RELAY -- Frame relay is a high-speed data packet switching service used to transmit data between computers. Frame Relay supports data units of variable lengths at access speeds ranging from 56kbs to 1.5 mbs. This service is ideal for connecting LANs, but is not appropriate for voice and video applications due to the variable delays that can occur. Frame Relay was designed to operate at higher speeds on modern fiber optic networks.

ILEC (INCUMBENT LOCAL EXCHANGE CARRIER) -- An incumbent carrier providing local exchange services.

INTERCONNECTION DECISIONS -- Rulings by the FCC announced in September 1992 and August 1993, which require the RBOCs and most other LECs to provide interconnection in LEC central offices to any CAP, long distance carrier or end-user seeking such interconnection for the provision of interstate special access and switched access transport services.

INTERNET PROTOCOL (IP) -- A compilation of network- and transport-level protocols that allow computers with different architectures and operating system software to communicate with other computers on the Internet.

ISDN (INTEGRATED SERVICES DIGITAL NETWORK) -- An internationally agreed upon standard which, through special equipment, allows two-way, simultaneous voice and data transmission in digital formats over the same transmission line. ISDN permits video-conferencing over a single line, for example, and also supports a multitude of value-added networking capabilities, reducing costs for end-users and results in more efficient use of available facilities. ISDN combines standards for highly flexible customers to network signaling with both voice and data within a common facility.

ISP -- An Internet service provider provides customers with access to the Internet by linking its network directly or through other ISPs to the Internet backbone network.

IXC (INTEREXCHANGE CARRIERS) -- See Long Distance Carrier.

LANS (LOCAL AREA NETWORKS) -- The interconnection of computers for the purpose of sharing files, programs and various devices such as work stations, printers and high-speed modems. LANs may include dedicated computers or file servers that provide a centralized source of shared files and programs.

LATAS (LOCAL ACCESS AND TRANSPORT AREAS) -- The geographically defined areas in which LECs are authorized by the MFJ to provide local switched services.

LEC (LOCAL EXCHANGE CARRIER) -- A company providing local telephone services.

LOCAL EXCHANGE AREAS -- A geographic area determined by the appropriate state regulatory authority in which local calls generally are transmitted without toll charges to the calling or called party.

LONG DISTANCE CARRIERS OR IXCS (INTEREXCHANGE CARRIERS) -- Long distance carriers provide services between local exchanges on an interstate or intrastate basis. A long distance carrier may offer services over its

own or another carrier's facilities. Long distance carriers include, among others, AT&T, MCI, Sprint, WorldCom and LCI, as well as resellers of long distance capacity.

NAP -- Network Access Points are points where the national ISPs interconnect their networks, allowing a multitude of local and regional ISPs to exchange data and access the Internet globally.

NODE -- An individual point of origination and termination of data on the network transported using frame relay or similar technology.

OFF-NET -- A customer that is not physically connected to one of the Company's networks but who is accessed through interconnection with a LEC network.

ON-NET -- A customer that is physically connected to one of the Company's networks.

PBX (PRIVATE BRANCH EXCHANGE) -- A switching system within an office building which allows calls from outside to be routed directly to the individual instead of through a central number. This PBX also allows for calling within an office by way of four digit extensions. Centrex is a service which can simulate this service from an outside switching source, thereby eliminating the need for a large capital expenditure on a PBX.

PCS (PERSONAL COMMUNICATIONS SERVICE) -- A type of wireless telephone system that uses light, inexpensive handheld sets and communicates via low power antennas.

POPS (POINTS OF PRESENCE) -- Locations where a long distance carrier has installed transmission equipment in a service area that serves as, or relays calls to, a network switching center of that long distance carrier.

PRIVATE LINE -- A private, dedicated telecommunications connection between end-user locations (excluding long distance carrier POPs).

RBOCS (REGIONAL BELL OPERATING COMPANIES) -- The seven local telephone companies established by the MFJ. These RBOCs are prohibited from providing interLATA services and from manufacturing telecommunications equipment.

ROUTE MILES -- The number of miles of the telecommunications path in which fiber optic cables are installed as it would appear on a network map.

SONET (SYNCHRONOUS OPTICAL NETWORK) -- A self-healing fiber optic ring that constitutes a local network.

SPECIAL ACCESS SERVICES -- The lease of private, dedicated telecommunications lines or "circuits" along the network of a ILEC or a CAP (such as the Company), whose lines or circuit run to or from the long distance carrier POPs. Examples of special access services are telecommunications lines running between POPs of a single long distance carrier, from one long distance carrier POP to the POP of another long distance carrier or from an end-user to its long distance carrier POP. Special access services do not require the use of switches.

SWITCH -- A sophisticated computer that accepts instructions from a caller in the form of a telephone number. Like an address on an envelope, the numbers tell the switch where to route the call. The switch opens or closes circuits or selects the paths or circuits to be used for transmission of information. Switching is a process of interconnecting circuits to form a transmission path between users. Switches allow local telecommunications service providers to connect calls directly to their destination, while providing advanced features and recording connection information for future billing.

SWITCHED ACCESS SERVICES -- The origination or termination of long distance traffic between a customer premise and an IXC POP via shared local trunks using a local switch.

SWITCHED TRANSPORT SERVICES -- Transportation of switched traffic along dedicated lines between the LEC central offices and IXC POPs.

SWITCHED TRAFFIC -- Telecommunications traffic along a switched network.

VGE (VOICE GRADE EQUIVALENT CIRCUITS) -- A measure of service equivalent to one telephone line (64 kilobits of bandwidth) actually billed to a customer.

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INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS AND STOCKHOLDERS
AMERICAN COMMUNICATIONS SERVICES, INC.:

We have audited the accompanying consolidated balance sheets of American Communications Services, Inc. and subsidiaries as of June 30, 1995 and 1996 and December 31, 1996, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended June 30, 1995 and 1996 and the six months ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Communications Services, Inc. and subsidiaries as of June 30, 1995 and 1996 and December 31, 1996, and the results of their operations and their cash flows for the years ended June 30, 1995 and 1996 and for the six months ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ KPMG PEAT MARWICK LLP

KPMG PEAT MARWICK LLP

Washington, D.C.
February 14, 1997

AMERICAN COMMUNICATIONS SERVICES, INC.

CONSOLIDATED BALANCE SHEETS
JUNE 30, 1995 AND 1996 AND DECEMBER 31, 1996

<TABLE>
<CAPTION>

<S>	JUNE 30, 1995 <C>	JUNE 30, 1996 <C>	DECEMBER 31, 1996 <C>
ASSETS			
Current assets:			
Cash and cash equivalents (note 1)	$20,350,791	$134,115,981	$ 78,618,544
Restricted cash (note 1)	752,000	2,342,152	2,342,152
Trade accounts receivable, net of allowance for doubtful accounts of $8,600, $189,500, and $432,400 at June 30, 1995, June 30, 1996 and December 31, 1996, respectively	350,436	735,260	2,429,077
Other current assets	92,325	1,003,465	1,202,711
Total current assets	21,545,552	138,196,858	84,592,484
Networks, equipment and furniture, gross (note 2)	15,897,562	80,147,964	144,403,123
Less: accumulated depreciation and amortization	(330,272)	(3,408,698)	(8,320,372)
	15,567,290	76,739,266	136,082,751
Deferred financing fees, net of accumulated amortization of $64,458, $732,775 and $1,070,670, at June 30, 1995, June 30, 1996 and December 31, 1996, respectively	292,113	8,334,183	8,380,283
Other assets	222,010	329,584	982,649
Total assets	$37,626,965	$223,599,891	$230,038,167
LIABILITIES, REDEEMABLE STOCK, OPTIONS AND WARRANTS, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable -- current portion (note 4)	$ 146,083	$ 252,809	$ 872,031
Accounts payable	3,843,167	21,317,346	33,587,407
Accrued financing fees	1,542,255	--	--
Accrued employee costs	836,509	774,262	2,057,187
Other accrued liabilities	1,269,484	886,692	2,074,945
Total current liabilities	7,637,498	23,231,109	38,591,570
Long term liabilities:			
Notes payable, less current portion (notes 4 and 6)	3,652,085	184,129,361	209,538,226
Dividends payable (note 3)	1,070,985	4,942,313	6,945,943
Total liabilities	12,360,568	212,302,783	255,075,739
Redeemable stock, options and warrants (notes 6, 9			

and 11)	2,930,778	2,155,025	2,000,000
Minority interest (note 4)	194,402	160,270	--
Stockholders' equity (deficit) (notes 3, 4, 5 and 6):			
Preferred stock, $1.00 par value, 186,664 shares designated as 9% Series A-1 Convertible Preferred Stock authorized, issued and outstanding at June 30, 1995, June 30, 1996 and December 31, 1996, respectively, convertible into 7,466,560 shares of common stock (notes 3 and 4)	186,664	186,664	186,664

</TABLE>

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONSOLIDATED BALANCE SHEETS -- (CONTINUED)

<TABLE>
<CAPTION>

	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
<S>	<C>	<C>	<C>
Preferred stock, $1.00 par value, 277,500 shares authorized and designated as 9% Series B Convertible Preferred Stock; 227,500, 277,500 and 277,500 shares issued and outstanding at June 30, 1995, June 30, 1996 and December 31, 1996, respectively, convertible into 9,910,704 shares of common stock (notes 3 and 5)	227,500	277,500	277,500
Common stock, $.01 par value, 75,000,000 shares authorized, 5,744,782, 6,645,691 and 6,784,996 shares issued and outstanding at June 30, 1995, June 30, 1996 and December 31, 1996, respectively (note 5)	56,827	65,837	67,850
Additional paid-in capital	42,411,448	55,975,078	54,870,194
Accumulated deficit	(20,741,222)	(47,523,266)	(82,439,780)
Total stockholders' equity (deficit)	22,141,217	8,981,813	(27,037,572)
Commitments and contingencies (notes 1, 4, 6, 7, 8, and 9)			
Total liabilities, redeemable stock, options and warrants, minority interest and stockholders' equity (deficit)	$37,626,965	$223,599,891	$230,038,167

</TABLE>

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED		FOR THE SIX MONTHS ENDED
	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
<S>	<C>	<C>	<C>
Revenues (note 1)	$ 388,887	$ 3,415,137	$ 6,990,452
Operating expenses:			
Network development and operations	3,282,183	5,264,570	8,703,057
Selling, general and administrative	4,597,615	13,463,775	20,269,991
Noncash stock compensation (note 6)	6,419,412	2,735,845	549,645
Depreciation and amortization	497,811	3,078,426	4,911,674
Total operating expenses	14,797,021	24,542,616	34,434,367
Non-operating income (expenses):			
Interest and other income	217,525	4,409,733	2,757,461

Interest and other expense (note 4)	(170,095)	(10,476,904)	(10,390,330)
Debt conversion expense (note 4)	(385,000)	--	--
Loss before minority interest	(14,745,704)	(27,194,650)	(35,076,784)
Minority interest	48,055	412,606	160,270
Net loss	(14,697,649)	(26,782,044)	(34,916,514)
Preferred stock dividends and accretion (note 3)	(1,070,985)	(3,871,328)	(2,003,630)
Net loss to common stockholders	$(15,768,634)	$(30,653,372)	$(36,920,144)
Net loss per common share	$ (3.30)	$ (4.96)	$ (5.48)
Average number of common shares outstanding	4,771,689	6,185,459	6,733,759

</TABLE>

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED JUNE 30, 1995 AND 1996 AND THE SIX MONTHS ENDED DECEMBER 31, 1996

<TABLE>
<CAPTION>

	PREFERRED STOCK		SERIES A-1 PREFERRED STOCK		SERIES B PREFERRED STOCK		COMMON STOCK
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances at June 30, 1994	1,700	$ 1,700,000	--	$ --	--	$ --	2,755,005
Preferred Stock exchange (note 12)	(1,700)	(1,700,000)	--	--	--	--	548,387
Set par value for common stock (note 5)	--	--	--	--	--	--	--
Acquisition of Piedmont Teleport, Inc. (note 13)	--	--	--	--	--	--	62,000
Write-off of note receivable for common stock	--	--	--	--	--	--	--
Series A Preferred private placement, net of related costs (note 3)	--	--	186,664	186,664	--	--	--
Series B Preferred private placement, net of related costs (note 3)	--	--	--	--	227,500	227,500	--
Issuance of put right obligations (notes 6 and 9)	--	--	--	--	--	--	--
Cancelation of put right obligation (note 9)	--	--	--	--	--	--	--
Warrant and stock option exercises and stock grant (note 6)	--	--	--	--	--	--	2,379,390
Establish limitation on common stock put right obligation (note 6)	--	--	--	--	--	--	--
Series A Preferred Stock dividends accrued (note 3)	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--
Balances at June 30, 1995	--	$ --	186,664	$186,664	227,500	$227,500	5,744,782
Issuance of Series B-4 Preferred Stock (note 3)	--	--	--	--	50,000	50,000	--
Issuance of detachable warrants (notes 4 and 6)	--	--	--	--	--	--	--
Warrants and stock options exercised (note 6)	--	--	--	--	--	--	900,909
Series A and B Preferred Stock dividends accrued (note 3)	--	--	--	--	--	--	--
Cancelation of and adjustments to put right obligations (note 6)	--	--	--	--	--	--	--
Stock compensation expense	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--
Balances at June 30, 1996	--	$ --	186,664	$186,664	277,500	$277,500	6,645,691
Warrants and stock options exercised (note 6)	--	--	--	--	--	--	139,305
Series A and B Preferred Stock dividends accrued (note 3)	--	--	--	--	--	--	--
Accretion of consulting agreement credit to exercise price of warrants (note 9)	--	--	--	--	--	--	--
Cancelation of and adjustments to put right obligations (note 6)	--	--	--	--	--	--	--
Stock compensation expense	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--
Balances at December 31, 1996	--	$ --	186,664	$186,664	277,500	$277,500	6,784,996

<CAPTION>

	AMOUNT	ADDITIONAL PAID-IN CAPITAL	NOTES RECEIVABLE ON SALE OF COMMON STOCK	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
<S>	<C>	<C>	<C>	<C>	<C>
Balances at June 30, 1994.......................	$ --	$ 1,080,566	$ (2,750)	$ (6,043,573)	$ (3,265,757)
Preferred Stock exchange (note 12)..............	--	1,700,000	--	--	--
Set par value for common stock (note 5).........	33,033	(33,033)	--	--	--
Acquisition of Piedmont Teleport, Inc. (note 13)...	--	--	--	--	--
Write-off of note receivable for common stock....	--	(2,750)	2,750	--	--
Series A Preferred private placement, net of related costs (note 3)..........................	--	15,009,461	--	--	15,196,125
Series B Preferred private placement, net of related costs (note 3)..........................	--	20,434,000	--	--	20,661,500
Issuance of put right obligations (notes 6 and 9)...	--	(53,303)	--	--	(53,303)
Cancelation of put right obligation (note 9).....	--	487,500	--	--	487,500
Warrant and stock option exercises and stock grant (note 6)................................	23,794	349,030	--	--	372,824
Establish limitation on common stock put right obligation (note 6)............................	--	4,510,962	--	--	4,510,962
Series A Preferred Stock dividends accrued (note 3)...	--	(1,070,985)	--	--	(1,070,985)
Net loss..	--	--	--	(14,697,649)	(14,697,649)
	-------	-----------	-------	------------	------------
Balances at June 30, 1995.......................	$56,827	$42,411,448	$ --	$(20,741,222)	$ 22,141,217
Issuance of Series B-4 Preferred Stock (note 3)...	--	4,950,000	--	--	5,000,000
Issuance of detachable warrants (notes 4 and 6)...	--	8,684,000	--	--	8,684,000
Warrants and stock options exercised (note 6)....	9,010	289,360	--	--	298,370
Series A and B Preferred Stock dividends accrued (note 3)......................................	--	(3,871,328)	--	--	(3,871,328)
Cancelation of and adjustments to put right obligations (note 6)...........................	--	775,753	--	--	775,753
Stock compensation expense......................	--	2,735,845	--	--	2,735,845
Net loss..	--	--	--	(26,782,044)	(26,782,044)
	-------	-----------	-------	------------	------------
Balances at June 30, 1996.......................	$65,837	$55,975,078	$ --	$(47,523,266)	$ 8,981,813
Warrants and stock options exercised (note 6)....	1,393	175,945	--	--	177,338
Series A and B Preferred Stock dividends accrued (note 3)......................................	--	(2,003,630)	--	--	(2,003,630)
Accretion of consulting agreement credit to exercise price of warrants (note 9)............	--	18,750	--	--	18,750
Cancelation of and adjustments to put right obligations (note 6)...........................	620	154,405	--	--	155,025
Stock compensation expense......................	--	549,646	--	--	549,646

Net loss	--	--	--	(34,916,514)	(34,916,514)
Balances at December 31, 1996	$67,850	$54,870,194	$ --	$(82,439,780)	$ (27,037,572)

</TABLE>

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED JUNE 30, 1995	FOR THE YEAR ENDED JUNE 30, 1996	FOR THE SIX MONTHS ENDED DECEMBER 31, 1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss	$(14,697,649)	$ (26,782,044)	$(34,916,514)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	497,811	3,078,426	4,911,674
Interest deferral and accretion	--	10,447,687	10,041,189
Amortization of deferred financing fees	323,900	668,317	334,671
Provision for doubtful accounts	8,570	180,940	242,915
Loss from impairment of assets	--	--	318,737
Loss attributed to minority interest	(48,055)	(412,606)	(160,270)
Noncash compensation, consultants and other expenses	6,419,412	2,735,845	549,645
Accretion of consulting agreement credit to exercise price of warrants	--	--	18,750
Noncash debt conversion expense	385,000	--	--
Changes in operating assets and liabilities:			
Trade accounts receivable	(359,007)	(565,764)	(1,936,732)
Restricted cash related to operating activities	200,000	--	--
Other current assets	(92,325)	(911,140)	(199,246)
Other assets	(26,545)	(107,574)	(653,065)
Accounts payable	3,170,885	17,474,179	12,270,061
Accrued financing fees	1,542,255	(1,542,255)	--
Accrued employee costs	719,333	(62,247)	1,282,925
Other accrued liabilities	1,055,673	(382,792)	1,188,253
Net cash (used in) provided by operating activities	(900,742)	3,818,972	(6,707,007)
Cash flows from investing activities:			
Purchase of net assets of Piedmont Teleport, Inc	(19,135)	--	--
Purchase of equipment and furniture	(306,454)	(2,966,987)	(1,827,119)
Restricted cash related to network activities	(752,000)	(1,590,152)	--
Network development costs	(14,996,303)	(57,889,227)	(62,746,777)
Net cash used in investing activities	(16,073,892)	(62,446,366)	(64,573,896)
Cash flows from financing activities:			
Issuance of notes payable	3,510,349	166,888,210	16,329,923
Payment of deferred financing fees	(310,175)	(8,710,387)	(380,771)
Warrant and stock option exercises	372,824	298,370	177,338
Issuances of Series A Preferred Stock, net of offering costs and conversion of bridge financing	10,962,046	--	--
Issuances of Series B Preferred Stock, net of offering costs	20,661,500	5,000,000	--
Issuance of warrants with 2005 Notes	--	8,684,000	--
Issuance of notes payable--stockholders	250,000	--	--
Proceeds from sale of minority interest in subsidiaries	242,457	378,474	--
Payment of equipment financing	--	--	(343,024)
Payments of notes payable--stockholders	(481,692)	(146,083)	--
Payments of bridge notes	(1,000,000)	--	--
Payments of secured note	(75,000)	--	--
Payments of secured convertible notes	(77,281)	--	--
Net cash provided by financing activities	34,055,028	172,392,584	15,783,466
Net (decrease) increase in cash and cash equivalents	17,080,394	113,765,190	(55,497,437)
Cash and cash equivalents, beginning of year	$ 3,270,397	$ 20,350,791	$134,115,981
Cash and cash equivalents, end of year	$ 20,350,791	$ 134,115,981	$78,618,544

Supplemental disclosure of cash flow information--interest paid on all debt obligations	$ 219,554	$ 29,217	$ 14,470
Supplemental disclosure of noncash investing and financing activities:			
Equipment financing	$ --	$ 343,024	--
Dividends declared in connection with Series A Preferred Stock	$ 1,070,985	$ 3,871,328	$ 2,003,630
Bridge financing, secured convertible notes, and notes payable--stockholders converted to equity in connection with Offerings	$ 4,080,079	$ --	$ --
Cancellation of and adjustments to put right obligations	$ (487,500)	$ (775,753)	$ (155,025)
Write off of note receivable from sale of common stock	$ 2,750	$ --	$ --
Preferred stock exchange	$ 1,700,000	$ --	$ --
Purchase of Piedmont Teleport, Inc. for common stock and related put right obligation	$ 192,303	$ --	$ --
Negotiation of right-of-way agreement for option discount	$ 201,000	$ --	$ --

</TABLE>

See accompanying notes to consolidated financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1995 AND 1996 AND DECEMBER 31, 1996

(1) BASIS OF PRESENTATION AND RELATED MATTERS

Fiscal Year

Effective December 31, 1996, the Company changed its fiscal year from a twelve-month period ending June 30 to a twelve-month period ending December 31. The consolidated statements of operations, stockholders' equity (deficit) and cash flows are presented for the twelve month period ended June 30, 1995, the twelve month period ended June 30, 1996 and the six month period ended December 31, 1996.

The Unaudited Condensed Consolidated Statement of Operations information for the six months ended December 31, 1995 is as follows:

<TABLE>

<S>	<C>
Revenues	$ 988,877
Operating expenses	7,966,463
Non-operating expenses	2,057,410
Loss before minority interest	(9,034,996)
Minority interest	155,861
Net loss	(8,879,135)
Preferred stock dividends and accretion	(1,854,495)
Net loss to common stockholders	(10,733,630)
Net loss per common share	(1.82)
Average number of common shares outstanding	5,900,606

</TABLE>

Organization

The consolidated financial statements include the accounts of American Communications Services, Inc. and its majority-owned subsidiaries (ACSI or the Company). As discussed in note 4 to the consolidated financial statements, all of the Company's subsidiaries are wholly owned with the exception of the Louisville, Fort Worth, El Paso, Greenville, and Columbia subsidiaries, in which the Company has a 92.75% controlling ownership interest. All material intercompany accounts and transactions have been eliminated in consolidation.

Business and Operating Environment

ACSI constructs and operates digital fiber optic networks and offers local telecommunications services to long distance companies and business and government end-users in selected target markets, principally in the southern

United States. The Company provides nonswitched dedicated services, including special access, switched transport and private line services. In addition to these dedicated services, the Company is developing and has begun offering high speed data services to business, government and other communications carriers, including Internet service providers. The Company has also begun offering, on a limited basis, enhanced voice messaging services and plans to begin offering local switched voice services in the future. The Company is a competitive local exchange carrier and is referred to as a competitive access provider with respect to provision of dedicated services.

To date, the Company has funded the construction of its networks and its operations with external financing. Prior to November 1995, the primary sources of funds were two Preferred Stock private offerings completed in October 1994 and June 1995 (see note 3), and a credit facility from AT&T Credit Corporation (see note 4). During the fiscal year ended June 30, 1996, the Company raised additional funds through an additional sale of Preferred Stock (see note 3), two private offerings of Senior Notes, one of which included detachable warrants and further borrowings under the AT&T Credit Corporation Credit Facility (see note 4).

The Company has never been profitable, has never generated positive cash flow from consolidated operations and, since its inception has incurred significant net operating losses and negative cash flow. In accordance with the terms of its debt facilities the Company has also deferred payment of most of its interest charges. The Company's continued development, construction, expansion, operation and potential acquisition of local networks, as well as the further development of new services, including local switched voices and high-speed data services, will require substantial capital expenditures. The Company's ability to fund these expenditures is dependent upon the Company's raising substantial financing. To meet its remaining capital requirements and to fund operations and cash flow deficiencies, ACSI will be required to sell additional equity securities, increase its existing credit facility, acquire additional credit facilities or sell additional debt securities, certain of which would require the consent of the Company's debtholders. Before incurring additional indebtedness, the Company may be required to seek additional equity financing to maintain balance sheet and liquidity ratios under certain of its debt instruments. There can be no assurance that the Company will be able to obtain the additional financing necessary to satisfy its cash requirements or to successfully implement its growth strategy. Failure to raise sufficient capital could compel the Company to delay or abandon some or all of its plans or expenditures, which could have a material adverse effect on its business, results of operations and financial condition.

Cash Equivalents and Restricted Cash

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

The Company's investments consist of commercial paper, U.S. Government Securities and money market instruments, all with original maturities of 90 days or less. The fair market value of such securities approximates amortized cost. At June 30, 1995 and 1996 and December 31, 1996, cash equivalents consists of government securities and overnight investments.

The Company has provided performance bonds and letters of credit in various cities in connection with its operations, resulting in a restriction of cash amounting to $752,000, $2,342,000 and $2,342,000 at June 30, 1995, June 30, 1996 and December 31, 1996, respectively. The face amount of all bonds and letters of credits was approximately $6,200,000 as of December 31, 1996.

Networks, Equipment and Furniture

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

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

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

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

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

Deferred Financing Fees

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

Revenue Recognition

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

Earnings (Loss) Per Common Share

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

Income Taxes

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

Reclassifications

Certain reclassifications have been made to the June 30, 1995 and 1996 consolidated financial statements to conform to the December 31, 1996 presentation. Such reclassifications had no effect on net loss or total stockholders' equity (deficit).

Stock Option Plan

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Concentration of Credit Risk

The Company receives a significant portion of its revenues from a small number of major customers, particularly the long distance telecommunications companies that service the Company's markets. For the years ended June 30, 1995 and June 30, 1996 and the six months ended December 31, 1996 approximately 85%, 60% and 40% of the Company's revenues were attributable to services provided to three, four and four of the largest long distance telecommunications companies, respectively. The loss of any one of these customers could have an adverse material impact on the Company's revenues.

The Company provides managed services to certain Internet service providers. Such companies operate in a highly competitive and uncertain environment. Approximately 19% of the Company's revenues for the six months ended December 31, 1996 were attributed to these companies. At December 31, 1996, the Company had trade accounts receivable of $923,000 from Internet service providers. The Company also has approximately $4.5 million in equipment dedicated to providing service to these companies. The Company believes that, if necessary, this equipment could be redeployed throughout the Company's data network.

(2) NETWORKS, EQUIPMENT AND FURNITURE

Networks, equipment and furniture consists of the following:

<TABLE>
<CAPTION>

<S>	JUNE 30, 1995 <C>	JUNE 30, 1996 <C>	DECEMBER 31, 1996 <C>
Networks and telecommunications equipment	$15,570,450	$76,853,865	$139,129,495
Furniture and fixtures	188,534	1,982,910	3,334,147
Computer software	56,485	948,848	1,558,384
Leasehold improvements	82,093	362,341	381,097
	15,897,562	80,147,964	144,403,123
Less -- accumulated depreciation and amortization	330,272	3,408,698	8,320,372
Total, net of accumulated depreciation and amortization	$15,567,290	$76,739,266	$136,082,751

</TABLE>

For the years ended June 30, 1995 and 1996, the Company capitalized interest of approximately $536,000 and $3,051,000, respectively. For the six months ended December 31, 1996, the Company capitalized interest of approximately $2,268,000.

(3) PRIVATE PLACEMENTS

In October 1994, the Company completed a private placement of its 9% Series A Convertible Preferred Stock, $1.00 par value (the "Series A Preferred Stock"). There were 138,889 shares issued for cash at $90 per share resulting in proceeds of $10,962,046, net of placement agent commissions and related placement fees and costs.

In addition, bridge financing was converted and several other obligations were retired with proceeds of the offering. See note 4 to the consolidated financial statements. Further, as discussed in note 6 to the consolidated financial statements, certain parties obtained warrants to purchase shares of the Company's common stock. In June 1995, the Series A Preferred Stock was exchanged for an identical number of 9% Series A-1 Convertible Preferred Stock, $1.00 par value (the "Series A-1 Preferred Stock").

In June 1995, the Company completed a private placement of its 9% Series B-1 Convertible Preferred Stock (the "Series B-1 Preferred"), 9% Series B-2 Convertible Preferred Stock (the "Series B-2 Preferred") and 9% Series B-3 Convertible Preferred Stock (the "Series B-3 Preferred"), each having a par value of $1.00 per share. There were 227,500 shares issued for cash at $100 per share with proceeds of $20,661,500, net of placement agent commissions and related placement fees and costs. In November 1995, 50,000 shares of 9% Series B-4 Convertible Preferred Stock (the "Series B-4 Preferred") were issued for cash of $100 per share resulting in proceeds of $5,000,000. The Series B-1 Preferred, the Series B-2 Preferred, the Series B-3 Preferred and the Series B-4 Preferred are hereafter collectively referred to as the "Series B Preferred Stock." The Series A-1 Preferred Stock and the Series B Preferred Stock are hereafter collectively referred to as the "Preferred Stock." Further, as discussed in note 6 to the consolidated financial statements, certain parties obtained warrants to purchase shares of the Company's common stock.

The Company's Preferred Stock and common stock vote as a single class (except with respect to the election of directors and certain other transactions and matters) with the common stock entitled to one vote per share and the Preferred Stock entitled to one vote for each share of common stock into which it is convertible. At December 31, 1996, the outstanding Series A-1 Preferred Stock was convertible into 7,466,560 shares of common stock and the outstanding Series B Preferred Stock was convertible into 9,910,704 shares of common stock.

Pursuant to the Company's certificate of incorporation, the board of directors is currently comprised of seven directors. The holders of common stock are entitled to elect four directors and the holders of the

Preferred Stock are entitled to elect three directors. In addition, certain transactions and matters require the consent of the holders of at least 75% of the shares of Preferred Stock voting as a separate class.

Certain holders of the Company's Preferred Stock and common stock have entered into a Voting Rights Agreement pursuant to which such stockholders have agreed to vote their shares of Preferred Stock and common stock for the election of directors designated by the majority Preferred stockholders.

In connection with its Series A-1 and Series B Preferred Stock, the Company has recorded approximately $1,071,000, $4,942,000 and $6,946,000 as of June 30, 1995, June 30, 1996 and December 31, 1996, respectively, as a reduction in additional paid-in capital, for the payment of anticipated dividends. The Company's certificate of incorporation requires the Company to accrue dividends, on a quarterly basis, at an annual rate of 9% of the face value of the Series A-1 and B Preferred Stock.

Although the Board of Directors of the Company has not taken any formal action as of December 31, 1996, as a condition of the aforementioned provisions of the certificate of incorporation, the dividends have been deemed declared and properly reflected in the accompanying consolidated financial statements. Pursuant to the Company's certificate of incorporation, dividends accrued shall be paid cumulatively, beginning January 1, 1998, or earlier upon conversion. Upon a voluntary conversion on or before December 31, 1997, the Company shall, in lieu of accrued and unpaid dividends, issue promissory notes to the holders of the Preferred Stock. The Company expects to issue promissory notes to the holders on January 1, 1998 for dividends accrued, if conversion has not occurred, subject to restrictions included in the Senior Discount Note Indentures. Conversion may occur at any time at the holder's option or automatically, upon a certain qualifying issuance of common stock. As of December 31, 1996, no conversions had occurred.

(4) DEBT

Long-term debt consists of the following:

	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
Notes payable -- stockholders at 10-15%, maturing September 15, 1995	$ 146,083	--	--
AT&T Credit Corporation equipment and working capital financing facility	3,652,085	$ 14,971,122	$ 30,183,264
2006 Senior Discount notes, interest at 12 3/4%, maturing April 1, 2006	--	66,635,887	70,824,922
2005 Senior Discount notes, interest at 13%, maturing November 1, 2005	--	102,432,137	109,402,071
Secured equipment note payable, interest of 9.98%, payable in 36 equal monthly installments of $2,766, including interest commencing March 1, 1996	--	343,024	--
Total long-term debt	3,798,168	184,382,170	210,410,257
Less current portion	146,083	252,809	872,031
	$3,652,085	$184,129,361	$209,538,226

Principal payments for each of the years from 1997 to 2001 and thereafter are due as follows at December 31, 1996:

YEAR ENDING DECEMBER 31,	
1997	$ 872,031
1998	1,190,150
1999	2,124,721
2000	3,250,483
2001	4,618,260
Thereafter	198,354,612
	$210,410,257

Notes Payable -- Stockholders

At June 30, 1995, the Company had a total of $146,083 in notes payable to stockholders which matured and were repaid on September 14, 1995.

AT&T Credit Corporation Equipment and Working Capital Financing Facility

In October 1994, the Company entered into the AT&T Credit Facility pursuant to which AT&T Credit Corporation has agreed to provide financing for the development and construction of fiber optic networks by certain of the Company's subsidiaries. In accordance with the terms of the facility, the Company is obligated to use at least 10% of the borrowed funds for purchases of equipment manufactured by AT&T or its affiliates. Pursuant to the AT&T Credit Facility, during fiscal 1995 the Company's subsidiaries in Louisville, Fort Worth, Greenville and Columbia entered into loan agreements with AT&T Credit Corporation providing for up to $19.8 million in loans collateralized by the assets of such subsidiaries. As of June 30, 1995, an aggregate of approximately $3.7 million had been borrowed under these agreements. Subsequent to June 30, 1995, the Company's subsidiary in E1 Paso entered into a separate loan agreement with AT&T Credit Corporation pursuant to the AT&T Credit Facility providing for up to an aggregate of approximately $5.5 million in loans collateralized by its assets. During the fiscal year ended June 30, 1996, the existing loan agreements were amended to increase the aggregate credit available under such agreements to $31.2 million. As of June 30, 1996 and December 31, 1996, outstanding borrowings under the AT&T Credit Facility totaled approximately $15 million and $30 million, respectively, including accrued interest of approximately $1.4 million and $2.7 million, respectively. Interest rates currently applicable to the loans range from 11.93% to 14.47%.

The loans under the AT&T Credit Facility are collateralized by all of the assets of the respective borrowing subsidiary, including its installed fiber optic system and other equipment. The principal is payable in 28 consecutive quarterly installments, beginning with the ninth quarter after the date of the loan. The principal may be prepaid in certain circumstances, and must be prepaid along with a premium in other circumstances. Interest is due quarterly. At the borrowing subsidiary's option, the interest rate may be fixed or variable. The borrowing subsidiary has a one-time option to convert all variable rate loans to fixed rate loans. Upon certain events of default, additional interest ranging from 2% to 4% will become payable. Interest may generally be deferred so long as it would not cause the outstanding principal balance to exceed the commitment amounts for Capital Loans and for Equipment Loans (as defined in the loan documents). To date, the Company has elected to defer all interest due under the loans. In addition, the AT&T Credit Facility includes covenants, some of which impose certain restrictions on the Company and its restricted subsidiaries including restrictions on the declaration or payment of dividends, the conduct of certain activities, certain capital expenditures, the creation of additional liens or indebtedness, the disposition of assets, transactions with affiliates and extraordinary corporate transactions. The AT&T Credit Facility imposes restrictions on the ability of those subsidiaries of ACSI that incur indebtedness thereunder to transfer funds to ACSI in the form of dividends or

other distributions. The AT&T Credit Facility also imposes restrictions on the ability of such subsidiaries to raise capital by incurring additional indebtedness. These restrictions could limit ACSI's ability to meet its obligations with respect to the 2005 and 2006 Senior Discount Notes.

Pursuant to the AT&T Credit Facility, AT&T Credit Corporation purchased 7.25% of the outstanding capital stock of each of the Company's operating subsidiaries for which it provided financing. The Company was required to pledge its interest in these subsidiaries to AT&T Credit Corporation as a condition to each loan. Under certain circumstances, this pledge agreement also restricts the Company's ability to pay dividends on its capital stock.

2005 Senior Discount Notes and 2006 Senior Discount Notes

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

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

The 2005 Notes and 2006 Notes (collectively the "Notes") are general, unsubordinated and unsecured obligations of the Company. The Company's subsidiaries have no obligation to pay amounts due on the Notes and do not guarantee the notes. Therefore, the Notes are effectively subordinated to all liabilities of ACSI's subsidiaries, including trade payables. Any rights of the Company and its creditors, including the holders of the Notes, to participate in the assets of any of the Company's subsidiaries upon any liquidation or reorganization of any such subsidiaries will be subject to the prior claims of that subsidiary's creditors.

The Notes are subject to certain covenants which, among other things, restrict the ability of ACSI and certain of its subsidiaries to incur additional indebtedness, pay dividends or make distributions.

Debt Conversion

On June 28, 1994, the Company issued a total of $4,300,720 principal of its 15 percent convertible bridge notes due December 31, 1994, including $1,300,720 issued to then existing stockholders. During 1995, the holders of $3,300,720 of these convertible bridge notes converted the notes plus accrued interest thereon of $35,754 into 37,073 shares of Series A Preferred Stock. The remaining

$1,000,000 principal amount was retired by cash payment from the proceeds of the Series A Preferred Stock private offering (see note 3). The Company recorded noncash debt conversion expense of $231,000 associated with the related unamortized financing fees.

At June 30, 1994, the Company had outstanding loans from affiliates with an aggregate principal balance of $606,640, which were notes secured by certain assets of the Company. These loans bore interest at 15% per annum and had a scheduled maturity date of December 31, 1994.

In October 1994, the holders of $529,359 principal amount of these notes, plus accrued interest thereon of $29,368, converted the notes into 7,924 shares of Series A Preferred Stock. The remaining principal on the

secured convertible notes of $77,281 was retired by a cash payment from the proceeds of the Series A Preferred Stock private offering (see note 3). The Company recorded noncash debt conversion expense of $154,000 equal to the premium to induce conversion.

In August 1994, the Company borrowed $250,000, at a rate of 15% per annum from an affiliate that was payable on demand. In October 1994, this note was converted into 2,778 shares of Series A Preferred Stock.

(5) STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock

In fiscal 1995, the Company established a par value of $.01 for its issued and outstanding common stock.

Preferred Stock

Pursuant to the Series B Preferred Stock offerings, as described in note 3, four classes of Series B Preferred Stock have been designated and issued. The composition of the Series B Preferred Stock at December 31, 1996 is as follows:

Preferred Stock, $1.00 par value, 100,000 shares designated as 9% Series B-1 Convertible Preferred Stock authorized, issued and outstanding......	$100,000
Preferred Stock, $1.00 par value, 102,500 shares designated as 9% Series B-2 Convertible Preferred Stock authorized, issued and outstanding......	102,500
Preferred Stock, $1.00 par value, 25,000 shares designated as 9% Series B-3 Convertible Preferred Stock authorized, issued and outstanding......	25,000
Preferred Stock, $1.00 par value, 50,000 shares designated as 9% Series B-4 Convertible Preferred Stock authorized, issued and outstanding......	50,000
Total..	$277,500

(6) STOCK OPTIONS AND STOCK PURCHASE WARRANTS

The Company has a stock option plan which provides for the granting of options to officers, employees, directors and consultants of the Company to purchase shares of its common stock within prescribed periods.

In 1994, the Company entered into employment agreements with five executive officers. Pursuant to the agreements, as amended, such officers have been granted options to purchase an aggregate of 4,149,834 shares of common stock of the Company at exercise prices ranging from $.875 to $3.40 per share. The options vest at various dates as specified in the employment agreements with 4,069,834 of the options vesting on specific dates ranging from November 1, 1993 to November 4, 2001, and 80,000 of such options which vested upon the occurrence of certain specified performance milestones. When the employment of these individuals with the Company terminates, these individuals have the right to sell certain of their shares to the Company (the put right) for a price equal to fair market value. On June 26, 1995, the employment agreements were amended to limit the purchase price paid by the Company pursuant to the put right to a maximum of $2,500,000, which amount is subject to further reductions based on the employees' sales of stock. During the year ended June 30, 1996, the limit was further reduced to $2,000,000.

The Company has also issued 500,000 options to a supplier to purchase stock at 90% of the fair value at the date of exercise. Such options give the supplier the right to sell the stock acquired back to the Company at fair value under certain circumstances. None of the options have been exercised to date and they expire in December, 1997.

The Company applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, compensation cost has been recognized for its stock option plans based on the intrinsic value of the option at the date of grant. The compensation cost that has been charged against income was

approximately $6.4 million, $2.7 million and $550,000 for the years ended June 30, 1995 and June 30, 1996 and for the six months ended December 31, 1996, respectively. Had compensation cost for the Company's plan been determined based on the fair value at the grant dates consistent with the method of FASB Statement 123 for all options granted after June 30, 1995, and the intrinsic value for all options granted prior to July 1, 1995, the Company's net loss and loss per share would have been reduced to the pro forma amounts indicated below:

		YEAR ENDED JUNE 30, 1996	SIX MONTHS ENDED DECEMBER 31, 1996
Net loss	As reported:.........	$(26,782,044)	$(34,916,514)
	Pro forma:...........	(27,533,636)	(36,828,677)
Loss per common share	As reported:.........	(4.96)	(5.48)
	Pro forma:...........	(5.08)	(5.77)

Pro forma net loss reflects compensation cost under SFAS No. 123 only for options granted for the year ended June 30, 1996 and for the six months ended December 31, 1996. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net loss amounts presented above because compensation cost is reflected over the vesting period and compensation cost under SFAS No. 123 for options granted prior to July 1, 1995 is not considered.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the year ended June 30, 1996 and the six months ended December 31, 1996, respectively: dividend yield of 0% for both periods; expected volatility of 50% and 50%, risk-free interest rates of 5.97% and 6.4% and expected lives of 4.74 and 4.37 years.

A summary of the status of the Company's stock options as of June 30, 1995, June 30, 1996 and December 31, 1996 and changes during the period ending on those dates is presented below:

	YEARS ENDED				SIX MONTHS ENDED	
	JUNE 30, 1995		JUNE 30, 1996		DECEMBER 31, 1996	
	SHARES (000)	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES (000)	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES (000)	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year.........	859	$2.22	5,042	$ 1.72	6,095	$ 2.21
Granted..................................	4,283	1.64	1,228	4.30	1,433	9.45
Exercised................................	--	--	(105)	2.46	(48)	2.02
Forfeited................................	(100)	2.51	(70)	3.57	(23)	3.54
Outstanding at end of year...............	5,042	1.72	6,095	2.21	7,457	3.60
Options exercisable at year-end..........	2,387		3,461		4,140	
Weighted-average fair value of options granted during the year................	$1.16		$3.35		$5.95	

The following table summarizes information about fixed stock options at December 31, 1996:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE EXERCISABLE EXERCISE PRICE	NUMBER OUTSTANDING AT 12/31/96	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/96	WEIGHTED-AVERAGE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
$0.875 to 2.25.........	4,038,777	2.2 years	$ 1.46	3,596,275	$ 1.35
2.80 to 4.78...........	1,672,974	3.4	3.31	496,058	3.21
6.00 to 9.375..........	1,662,000	4.7	8.53	47,500	6.00
15.00..................	83,334	4.9	15.00	--	--
$0.875 to 15.00........	7,457,085	3.1	3.60	4,139,833	1.64

</TABLE>

During fiscal years ended June 30, 1995 and 1996, in connection with the Series A-1 and Series B Preferred Stock private placements and related bridge note conversions, warrants for 4,367,078 shares of common stock were issued at prices ranging from $.01 to $3.10. In fiscal 1996, as part of the issuance of the 2005 Notes, detachable warrants to purchase 2,432,000 shares of the Company's common stock at a price of $7.15 per share were issued. These warrants include certain anti-dilution provisions.

At December 31, 1996, unexercised warrants outstanding are as follows:

<TABLE>
<CAPTION>

	NUMBER	PRICE PER SHARE
<S>	<C>	<C>
Series A and Series B Preferred Stock placements...	1,474,836	$0.01-3.10
2005 Senior Discount Notes offering................	2,432,000	7.15
Other..	865,000	0.01-9.68
Total..	4,771,836	$0.01-9.68

</TABLE>

The gross proceeds that would be received by the Company on the exercise of all outstanding options and warrants is approximately $53,400,000.

(7) COMMITMENTS AND CONTINGENCIES

Certain Agreements

The Company has signed nonexclusive license agreements with various utility and inter-exchange carrier companies, including an affiliate of one of the country's three largest long distance carriers, to install and maintain fiber cable systems for the Company's use for periods up to 15 years or more, upon exercising of extensions available to the parties. Under these agreements, the Company has use of these rights-of-way for its telecommunications systems, and may be entitled to certain payments for providing telecommunications service, subject to its satisfactory performance of certain agreed upon requirements.

Retirement Plan

On February 1, 1996, the Company began sponsoring the American Communications Services, Inc. 401(k) Plan (the "Plan"), a defined contribution plan. All individuals employed on February 1, 1996 were eligible to participate. Participation to all other employees is available after three months of full-time equivalent service. The Company contributions under the Plan are discretionary and may be as much as 6% of an employee's gross compensation subject to certain limits. Total expense under the Plan amounted to approximately $30,000 and $95,000 for the year ended June 30, 1996 and for the six months ended December 31, 1996, respectively.

Legal Proceedings

On July 24, 1996, the Company was named as a codefendant in a lawsuit arising from a personal injury sustained during the construction of one of its networks. At the time of the incident giving rise to the lawsuit, the plaintiff was an employee of a subcontractor hired by the Company's general contractor for the construction project. The lawsuit seeks recovery from the Company and the general contractor of at least $25 million plus punitive damages. The Company, the general contractor, and the Company's insurance carrier have begun investigations into the facts surrounding the incident and intend to defend against this suit vigorously. In addition, the Company is a party to certain litigation and regulatory proceedings arising in the ordinary course of business.

In the opinion of management, based upon the advice of counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

(8) LEASES

The Company is obligated under various noncancelable operating leases for office and node space as well as office furniture. The minimum future lease obligations under these noncancelable operating leases as of December 31, 1996 are approximately as follows:

YEAR ENDING DECEMBER 31,	AMOUNT
1997	$ 3,980,000
1998	4,320,000
1999	4,560,000
2000	4,051,000
2001	3,078,000
Thereafter	13,640,000
	$33,629,000

Rent expense for the years ended June 30, 1995 and June 30, 1996 and for the six months ended December 31, 1996 was approximately $200,000, $1,166,000 and $1,700,000, respectively.

(9) RELATED-PARTY TRANSACTIONS

In October 1993, the Company executed a financial consulting and advisory agreement with a related party for a period of six months. In consideration, the related party received warrants to purchase 300,000 shares of ACSI common stock exercisable at $.875 per share if a future equity financing was successfully completed. The related party had the right to resell the shares to ACSI for $2.50 per share two years from the date of the agreement. At June 30, 1994, the Company provided an accrual of $487,500 for this redemption privilege at the redemption price net of the exercise price. In June 1995, the Company's obligations to repurchase the shares were assumed by a stockholder of the Company. Accordingly, as of June 30, 1995, the $487,500 share value has been transferred from redeemable stock, options, and warrants to additional paid-in-capital.

On June 16, 1994, the Company entered into a financial consulting agreement for capital raising activities with an entity controlled by significant stockholders of the Company. Under this agreement, the Company paid $153,750 for consulting services rendered through the date of the agreement relating to placement of the Convertible Bridge Notes. Additionally, the Company agreed to pay a $7,500 monthly consulting fee for a two year period beginning on the closing date of the first private placement. During the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995, the Company paid $22,500, $90,000 and $67,500 under this arrangement, respectively.

Effective July 1, 1994, the Company engaged SGC Advisory Services, Inc. ("SGC") as a financial and business consultant for three years. SGC is an affiliate of a former director of the Company. Pursuant to the agreement, the Company will compensate SGC as follows: (1) a monthly fee of $5,000; and (2) options to purchase up to 50,000 shares of the Company's Common Stock which vest on July 1, 1997, and are exercisable on or before July 1, 1999. At the end of each month of the term of the agreement, SGC earns a credit against the exercise price of those options equal to 1/36th of the exercise price. The shares issued upon exercise of the options will be priced at $2.25 per share and the shares issued will have piggy back registration rights.

(10) INCOME TAXES

Temporary differences and carryforwards that give rise to deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

	JUNE 30, 1995	JUNE 30, 1996	DECEMBER 31, 1996
<S>	<C>	<C>	<C>
Deferred tax assets:			
Capitalized start-up and other costs...	$4,163,941	$ 3,733,898	$ 3,972,981
Stock options--noncash compensation....	2,768,488	3,848,128	4,085,146
Net operating loss carryforwards.......	1,149,755	12,181,162	31,310,726
Other accrued liabilities.............	454,391	496,634	964,786
Total gross deferred assets.............	8,536,575	20,259,822	40,333,639
Less: valuation allowance.............	8,291,380	18,304,754	31,990,518
Net deferred tax assets..................	245,195	1,955,068	8,343,121
Deferred tax liabilities--fixed assets depreciation and amortization..........	245,195	1,955,068	8,343,121
Net deferred tax assets (liabilities)....	--	--	--

</TABLE>

The valuation allowance for deferred tax assets as of July 1, 1994 was $2,375,327. The net change in the total valuation allowance for the years ended June 30, 1995 and June 30, 1996 and for the six months ended December 31, 1996 was an increase of $5,916,053, $10,013,374 and $13,685,764, respectively. The valuation allowances at June 30, 1996 and December 31, 1996 are a result of the uncertainty regarding the ultimate realization of the tax benefits related to the deferred tax assets. The utilization of the tax benefits associated with net operating losses of approximately $80,000,000 at December 31, 1996 is dependent upon the Company's ability to generate future taxable income. The net operating loss carryforward period expires commencing in 2008 through the year 2012. Further, as a result of certain financing and capital transactions, an annual limitation on the future utilization of the net operating loss carryforward may have occurred.

No income tax provision has been provided for the years ended June 30, 1995 and June 30, 1996 and the six months ended December 31, 1996 as the aforementioned deferred tax assets have provided no tax benefit.

(11) ACQUISITION

On September 12, 1994 the Company executed a Stock Purchase Agreement with Piedmont Teleport, Inc. under which the Company acquired certain assets, liabilities, and certain right-of-way agreements for $20,000 in cash and the issuance of 62,000 shares of the Company's common stock. The Company accounted for the acquisition as a purchase and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at September 12, 1994. The seller had the right to put these shares back to the Company on November 1, 1996 for a price of $2.50 per share. Accordingly, this obligation was recorded as redeemable stock until November 1996 at which time it was reclassed to additional paid in capital.

(12) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following notes summarize the major methods and assumptions used in estimating the fair value of financial instruments:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the relatively short period to maturity of these instruments.

Letters of Credit

The fair value of the Letters of credit is based on fees currently charged for similar agreements.

Short-Term and Long-Term Debt

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues if available or based on the present value of expected cash flows at rates currently available to the Company for borrowings with similar terms.

The carrying amounts and fair values of the Company's financial instruments at December 31, 1996 were:

	1996	
	CARRYING VALUE	FAIR VALUE
Cash and cash equivalents (including restricted cash)...	80,960,696	80,960,696
Letters of credit.....................................	--	25,000
Long-term debt..	210,410,259	208,583,264

(13) SUBSEQUENT EVENT

On January 17, 1997, the Company acquired 100% of the outstanding capital stock of Cybergate, Inc. in exchange for 1,030,000 shares of common stock plus up to an additional 150,000 shares if certain performance goals are achieved. Cybergate, a Florida based Internet services provider, delivers high-speed data communications services. The acquisition will be recorded using the purchase method of accounting.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
($ IN THOUSANDS)

	DECEMBER 31, 1996	SEPTEMBER 30, 1997 (UNAUDITED)
Assets		
Current Assets		
Cash and cash equivalents....................................	$ 78,619	$ 149,874
Restricted cash..	2,342	29,570
Accounts receivable, net.....................................	2,429	10,703
Other current assets...	1,203	3,742
Total current assets.....................................	84,592	193,889
Networks, furniture and equipment, gross.......................	144,403	250,363
(less: Accumulated depreciation)...........................	(8,320)	(23,358)
	136,083	227,005
Deferred financing fees..	8,380	26,034
Restricted cash, less current portion..........................	--	45,375
Goodwill (net of accumulated amortization).....................	--	7,546
Other assets...	982	756
Total assets...	$230,038	$ 500,605
Liabilities, Redeemable Stock, Options and Warrants and Stockholders' Equity		
Current Liabilities		
Accounts payable...	$ 33,587	$ 8,589
Accrued liabilities..	4,132	14,586
Notes payable -- current portion.............................	872	1,446
Total current liabilities................................	38,591	24,621
Long Term Liabilities		
Notes payable..	209,538	449,507
Other Long Term Liabilities..................................	--	267
Dividends payable..	6,946	--
Total liabilities..	255,075	474,395
Redeemable stock, options and warrants.........................	2,000	53,793

Stockholders' Equity/(Deficit)		
Preferred stock, $1.00 par value, 186,664 shares authorized and designated as 9% Series A-1 Convertible Preferred Stock, 186,664 and 0 shares, respectively, issued and outstanding	187	0
Preferred stock, $1.00 par value, 277,500 shares designated as 9% Series B Convertible Preferred Stock, authorized, 277,500 and 0, respectively, issued and outstanding	278	0
Common Stock, $0.01 par value, 75,000,000 shares authorized, 6,784,996 and 35,926,902 shares, respectively, issued and outstanding	68	364
Additional paid-in-capital	54,870	134,133
Accumulated deficit	(82,440)	(162,080)
Total stockholders' equity/(deficit)	(27,037)	(27,583)
Total Liabilities, Redeemable Stock, Options and Warrants and Stockholders' Equity/(deficit)	$230,038	$ 500,605

</TABLE>

See accompanying notes to unaudited condensed consolidated interim financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
($ IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	SEPTEMBER 30, 1996	SEPTEMBER 30, 1997	SEPTEMBER 30, 1996	SEPTEMBER 30, 1997
		(UNAUDITED)		
<S>	<C>	<C>	<C>	<C>
Revenues	$ 2,812	$ 16,055	$ 5,239	$ 35,847
Operating Expenses				
Network, development and operations	3,709	10,642	6,052	28,668
Selling, general and administrative	5,674	18,156	16,060	47,975
Non-cash compensation expense	174	500	1,706	1,324
Depreciation and amortization	2,401	6,621	4,717	16,077
Total Operating Expenses	11,958	35,919	28,535	94,044
Loss from operations	(9,146)	(19,864)	(23,296)	(58,197)
Non-operating income/expenses				
Interest and other income	(1,460)	(2,815)	(5,093)	(3,893)
Interest and other expense	6,011	12,915	13,653	25,336
Net loss before minority interest	(13,697)	(29,964)	(31,856)	(79,640)
Minority interest	96	0	353	0
Net loss	(13,601)	(29,964)	(31,503)	(79,640)
Preferred stock dividends/accretion	1,007	2,489	3,024	3,584
Net loss to common stockholders	$ (14,608)	$ (32,453)	$ (34,527)	$ (83,224)
Net loss per common/common equivalent share	$ (2.18)	$ (0.90)	$ (5.22)	$ (3.45)
Average number of common/common equivalent shares outstanding	6,703,579	36,228,568	6,613,543	24,139,630

</TABLE>

See accompanying notes to unaudited condensed consolidated interim financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
($ IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 <C>	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 <C>
Cash Flow from Operating Activities		
Net Loss	$ (31,503)	$ (79,640)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	4,311	15,610
Interest deferral and accretion	13,182	19,268
Amortization of deferred financing fees	1,074	1,767
Provision for doubtful accounts	177	1,236
Loss attributable to minority interest	(353)	--
Noncash compensation	1,706	1,324
Changes in operating assets and liabilities:		
Restricted cash related to operating activities	1,360	(2,603)
Trade accounts receivable	(1,491)	(9,509)
Other current assets	(1,651)	(2,540)
Other assets	246	226
Accounts payable	5,657	(24,998)
Accrued financing fees	(1,542)	--
Other accrued liabilities	1,337	10,455
Net cash used in operating activities	(7,490)	(69,404)
Cash flows from investing activities		
Restricted cash related to network activities	(2,300)	--
Purchase of furniture and equipment	--	(8,216)
Investment in marketable securities and other	63,422	--
Network development costs	(78,528)	(95,635)
Net cash used in investing activities	(17,406)	(103,851)
Cash flows from financing activities		
Issuance of notes payable	73,913	1,492
Issuance of common stock	--	40,702
Issuance of Redeemable Preferred Stock and warrants	--	70,855
Issuance of Senior Notes	--	220,000
Issuance of Series B Preferred Stock	275	--
Payment of notes payable	--	(1,134)
Payment of deferred financing fees	(4,211)	(19,421)
Restricted cash related to financing activities	--	(70,000)
Warrant and stock option exercises	390	2,016
Net cash flow provided by financing activities	70,367	244,510
Net increase in cash and cash equivalents	45,471	71,255
Cash and cash equivalents -- beginning of period	57,348	78,619
Cash and cash equivalents -- end of period	$ 102,819	$ 149,874
Supplemental disclosure of cash flow information		
Dividends declared with preferred stock	$ 3,024	$ 3,584
Decrease in accrued redeemable warrant cost	$ 505	$ --
Increase in goodwill	$ --	$ 8,119

</TABLE>

See accompanying notes to unaudited condensed consolidated interim financial statements.

AMERICAN COMMUNICATIONS SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

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

The consolidated balance sheet as of September 30, 1997, the consolidated statements of earnings for the three and nine months ended September 30, 1997 and 1996, and the consolidated statements of cash flows for the nine months ended September 30, 1997 and 1996 have been prepared by the Company, without audit. In the opinion of management, all adjustments, which include normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows at September 30, 1997, and for all periods presented, have been made. Certain amounts in the consolidated statements have been reclassified to conform to the 1997 presentation. Operating results for the three and nine months ended September 30, 1997 are not necessarily indicative of the operating results for the full year.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures provided are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and the related notes included in the Company's 1996 annual report to shareholders.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

CASH EQUIVALENTS AND RESTRICTED CASH

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

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

The Company has provided performance bonds and letters of credit in various cities in connection with its operations, resulting in a restriction of cash amounting to $2.3 million and $4.9 million at December 31, 1996 and September 30, 1997, respectively. In addition, at September 30, 1997, the Company has approximately $70 million of cash restricted to fund the first five interest payments of its 13 3/4% Senior Notes due 2007 issued in July 1997 (the "2007 Notes") resulting in total restricted cash of $74.9 million, of which $29.6 million has been classified as current. The face amount of all bonds and letters of credits was approximately $6.2 million as of December 31, 1996, and $8.3 million as of September 30, 1997.

NETWORKS, EQUIPMENT AND FURNITURE

Networks, equipment and furniture are stated at cost less accumulated depreciation and amortization. Costs capitalized include expenses associated with network engineering, design and construction, negotiation

of rights-of-way, obtaining legal and regulatory authorizations and the amount of interest costs associated with the network development.

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

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

<TABLE>

<S>	<C>
Networks:	
Fiber optic cables and installation costs...........	20 years
Telecommunications equipment........................	3-7 years
Interconnection and collocation costs..............	3-10 years

Leasehold improvements	Life of lease
Furniture and fixtures	5 years
Capitalized network development costs	3-20 years

</TABLE>

DEFERRED FINANCING FEES

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

REVENUE RECOGNITION

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

EARNINGS (LOSS) PER COMMON SHARE

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

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

CONCENTRATION OF CREDIT RISK

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

NOTE 3: FINANCING ACTIVITIES

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

AT&T CREDIT FACILITY

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

The Company has entered into negotiations with AT&T Capital Corporation to roll-up the five existing loan agreements comprising the AT&T Credit Facility into one loan agreement to be entered into with the Company, and to be secured by the existing assets of the Company (including the stock, but not the assets, of certain of the Company's subsidiaries) (the "New AT&T Facility"). The Company expects the New AT&T Facility to otherwise be on terms substantially similar to those of the existing AT&T Credit Facility. The maximum aggregate amount of credit available under the proposed New AT&T Facility will not exceed $35.0 million as defined by the Company's existing indentures. AT&T Credit Corporation has issued to each of the Company's Subsidiaries that are parties to the AT&T Credit Facility a waiver through November 30, 1997, of compliance by such subsidiaries with certain covenants contained therein. Such covenants are not expected to be included in the New AT&T Facility.

9% SERIES A CONVERTIBLE PREFERRED STOCK

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

9% SERIES B CONVERTIBLE PREFERRED STOCK

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

2005 SENIOR DISCOUNT NOTES (2005 NOTES)

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

2006 SENIOR DISCOUNT NOTES (2006 NOTES)

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

ACQUISITION

On January 17, 1997, the Company acquired 100% of the outstanding stock of Cybergate in exchange for 1,030,000 shares of Common Stock plus up to an additional 150,000 shares if certain performance goals are met. The acquisition has been accounted for using the purchase method and, therefore, the Company's consolidated financial statements include the results of operations of Cybergate from the date of acquisition. The purchase price of $8,755,000 plus transaction expenses of approximately $500,000 has been allocated to assets and liabilities acquired based on their fair values and goodwill of approximately $8,400,000 has been recorded. The goodwill is being amortized on a straight line basis over a ten year period.

COMMON EQUITY (APRIL OFFERING)

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

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

14-3/4% REDEEMABLE PREFERRED STOCK (UNIT OFFERING)

On July 10, 1997, the Company consummated the private placement of 75,000 units, (the "Unit Offering"), consisting of its 14-3/4% Redeemable Preferred Stock due 2008 (the "Redeemable Preferred Stock") and warrants to purchase shares of common stock. The Company received net proceeds of approximately $67 million from the sale of these units. Each unit includes a warrant to purchase 80.318 shares of ACSI common stock subject to an increase of 22.645 additional shares of common stock in the event that the Company fails to raise net proceeds of at least $50 million through the issuance and sale of its qualified capital stock on or before December 31, 1998. Dividends on the Redeemable Preferred Stock will accrue from the date of issuance, are cumulative and will be payable in arrears on March 31, June 30, September 30 and

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

2007 SENIOR NOTES (2007 NOTES)

On July 18, 1997, the Company completed the private placement of $220 million of 13-3/4% Senior Notes due 2007. The Company received net proceeds of approximately $209 million from the sale of the 2007 Notes, of which, approximately $70 million has been placed in escrow solely to fund the first five interest payments or otherwise for the benefit of the holders of the 2007 Notes. The 2007 Notes bear interest at 13-3/4% compounded semi-annually in arrears, payable on January 15 and July 15 each year, commencing on January 15, 1998. The notes mature on July 15, 2007. The 2007 Notes will not be redeemable at the option of the Company prior to July 15, 2002, except that any time prior to July 15, 2000, the Company may redeem up to 35% of the aggregate principal amount of the 2007 Notes with the net proceeds from one or more equity offerings of the Company, at a redemption price equal to 113.75% of the aggregate principal amount thereof on the date of the redemption, subject to other conditions.

12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK

On October 16, 1997, the Company completed the private placement of $150 million of 12 3/4% Junior Redeemable Preferred Stock due 2009 ("Junior Redeemable Preferred Stock"). The Company received net proceeds of approximately $145.6 million. Dividends on the Junior Redeemable Preferred Stock will accrue from the date of issuance, are cumulative and will be payable quarterly, in arrears, on January 15, April 15, July 15 and October 15 of each year commencing January 15, 1998. Dividends may be paid, at the Company's option, on any dividend payment date, either in cash or by the issuance of additional shares of Junior Redeemable Preferred Stock with an aggregate liquidation preference equal to the amount of such dividends; provided; however, that after October 15, 2002, to the extent and for so long as the Company is not precluded from paying cash dividends on the Junior Redeemable Preferred Stock by the terms of any agreement or instrument governing any of its then outstanding indebtedness, the Company shall pay dividends in cash. The Company is required to redeem all the Junior Redeemable Preferred Stock outstanding on October 15, 2009 at a redemption price equal to 100% of the liquidation preference thereof, plus, without duplication, accrued and unpaid dividends to the date of redemption.

NOTE 4: NEW ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 128 (FAS 128), "Earnings Per Share," which is required to be adopted for annual financial statement periods ending after December 15, 1997. Earlier application is not permitted. FAS 128 requires companies to change the method currently used to compute earnings per share and to restate all prior periods. While the Company does not know precisely the impact of adopting FAS No. 128, the Company does not expect that the adoption will have a material effect on the Company's consolidated financial statements.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 129 (FAS 129), "Disclosure of Information about Capital Structure." The Company is required to adopt the provisions of this Statement for fiscal years ending after December 15, 1997. This Statement

continues the previous requirement to disclose certain information about an entity's capital structure found in APB Opinions No. 10, "Omnibus Opinion -- 1966," No. 15, "Earnings per Share," and FASB Statement No. 47, "Disclosure of Long-Term Obligations," for entities that were subject to the requirements of those standards. As the Company has been subject to the requirements of each of those standards, adoption of FAS No. 129 will have no impact on the Company's financial statements.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 (FAS No. 130), "Reporting Comprehensive Income." FAS No. 130 established standards for the reporting and display of comprehensive income and its components in the financial statements. The Company is required to adopt the provisions of the Statement for fiscal years beginning after December 15, 1997. Earlier application is permitted; however, upon adoption the Company will be required to reclassify previously reported annual and interim financial statements. The Company believes that the disclosure of comprehensive income in accordance with the provisions of FAS No. 130 will not impact the manner of presentation of its financial statements as currently and previously reported.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 (FAS No. 131), "Disclosure about Segments of an Enterprise and Related Information." FAS No. 131 requires the Company to present certain information about operating segments and related information, including geographic and major customer data, in its annual financial statements and in condensed financial statements for interim periods. The Company is required to adopt the provisions of the Statement for fiscal years beginning after December 15, 1997. Earlier application is permitted; however, upon adoption the Company will be required to restate previously reported annual segment and related information in accordance with the provisions of FAS No. 131. The Company has not completed its analysis of the impact on the financial statements that will be caused by the adoption of this Statement.

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NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY OTHER THAN THE SECURITIES TO WHICH IT RELATES, NOR DOES IT CONSTITUTE AN OFFER TO SELL, OR THE SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY CIRCUMSTANCES OR IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF NOR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

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PROSPECTUS

$150,000,000

[ACSI LOGO]

OFFER TO EXCHANGE ITS
12 3/4% JUNIOR REDEEMABLE
PREFERRED STOCK
DUE 2009, WHICH HAS BEEN
REGISTERED UNDER THE
SECURITIES ACT OF 1933,
AS AMENDED, FOR ANY AND ALL
OUTSTANDING SHARES OF ITS 12 3/4%
JUNIOR REDEEMABLE PREFERRED STOCK
DUE 2009

, 199

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Second Restated Certificate of Incorporation provides that a director of the Company will not be personally liable for monetary damages to the Company or its stockholders for breach of fiduciary duty as a director, except for liability, (i) for any breach of the director's duty of loyalty to such corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemption as provided in Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit.

The Second Restated Certificate of Incorporation and the Amended and Restated By-laws further provide that directors and officers of the Company (as well as agents and employees of the Company at the discretion of the Board) shall, to the fullest extent authorized by the DGCL or any other applicable laws then in effect, be indemnified against liabilities arising from their service as directors and officers. The Company has entered into indemnification agreements with each of its executive officers and directors to reimburse them for certain liabilities incurred in connection with the performance of their fiduciary duties.

Section 145 of the DGCL empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Section 145 also empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted under similar standards, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless, and only to the extent that, the Delaware Court of Chancery or the court in which such action was brought shall determine that despite the adjudication of liability such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Section 145 further provides that to the extent a director, officer, employee or agent of a corporation has been successful in the defense of any action, suit or proceeding referred to above or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the corporation is empowered to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation against any liability asserted against him in any such capacity or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under Section 145.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the

question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION	INCORPORATION BY REFERENCE
<C>	<S>	<C>
3.1	Second Restated Certificate of Incorporation of the Company.	--
3.2	Certificate of Designation of the Company's 14.75% Redeemable Preferred Stock due 2008.	--
3.3	Certificate of Amendment of the Certificate of Designation of the Company's 14.75% Redeemable Preferred Stock due 2008.	--
3.4	Amended and Restated By-Laws of the Company.	(ooo)
3.5	Governance Agreement dated November 8, 1995, between the Company and the holders of its Preferred Stock.	++
3.6	Certificate of Designation of the Company's 12 3/4% Junior Redeemable Preferred Stock due 2009.	(ooo)
3.7	Certificate of Correction dated March 11, 1996......................	-
3.8	Supplemental Governance Agreement dated February 26, 1996...........	-
4.1	Specimen Certificate of the Company's Common Stock.	*
4.2	Indenture dated November 14, 1995, between the Company and Chemical Bank, as trustee, relating to $190,000,000 in principal amount of 13% Senior Discount Notes due 2005, including the form of global note (the "1995 Indenture").	++
4.3	March 11, 1996 Supplement to 1995 indenture.........................	++++

4.4	Initial Global Note dated November 14, 1995.	++
4.5	Warrant Agreement dated November 14, 1995, between the Company and Smith Barney Inc. and Salomon Brothers Inc.	+++
4.6	Initial Global Warrant dated November 14, 1995.	+++
4.7	Indenture dated March 21, 1996, between the Company and Chemical Bank, as trustee, relating to $120,000,000 in principal amount of 12 3/4% Senior Discount Notes due 2006, including the form of global note (the "1996 Indenture").	+++++
4.8	Supplemental Indenture dated as of January 13, 1997, between the Company and The Chase Manhattan Bank, as trustee, to the Indenture dated November 14, 1995, as amended, relating to the Company's 13% Senior Discount Notes due 2005.	++++
4.9	Supplemental Indenture dated as of January 13, 1997, between the Company and The Chase Manhattan Bank, as trustee, to the Indenture dated March 26, 1996, as amended, relating to the Company's 12 3/4% Senior Discount Notes due 2006.	++++
4.10	Supplemental Indenture dated as of July 7, 1997, between the Company and The Chase Manhattan Bank, as trustee, to the Indenture dated November 14, 1995, as amended, relating to the Company's 13% Senior Discount Notes due 2005.	--
4.11	Supplemental Indenture dated as of July 7, 1997, between the Company and The Chase Manhattan Bank, as trustee, to the Indenture dated March 26, 1996, as amended, relating to the Company's 12 3/4% Senior Discount Notes due 2006.	--
4.12	Specimen Certificate of the Company's 14.75% Redeemable Preferred Stock due 2008.	--
4.13	Warrant Agreement dated as of July 10, 1997, between the Company and The Chase Manhattan Bank, as warrant agent.	--
4.14	Form of Warrant.	--
4.15	Indenture dated as of July 23, 1997, between the Company and The Chase Manhattan Bank, as trustee, relating to the Company's 13 3/4% Senior Notes due 2007.	--
4.16	Escrow and Disbursement Agreement dated as of July 23, 1997, among the Company, The Bank of New York, as escrow agent, and The Chase Manhattan Bank, as trustee, relating to the Company's 13 3/4% Senior Notes due 2007.	--
4.17	Specimen Certificate of the Company's 12 3/4% Junior Redeemable Preferred Stock due 2009.	(ooo)
5	Opinion of Riley M. Murphy, General Counsel of the Company.	---

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EXHIBIT NO.	DESCRIPTION	INCORPORATION BY REFERENCE
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9.1	Standstill Agreement dated June 26, 1995, between the Company and certain of its Preferred Stockholders.	****
9.2	Standstill Agreement dated November 8, 1995, between the Company and certain of its Preferred Stockholders.	++
9.3	Voting Rights Agreement dated November 8, 1995, between the Company and certain of its Preferred Stockholders.	++
9.4	Amendment to Voting Rights Agreement dated December 14, 1995.	-
10.1	Exchange Agreement, dated June 1, 1994, between the Company and certain of its Preferred Shareholders.	*
10.2	Exchange Agreement, dated June 26, 1995, between the Company and its 9% Series A Preferred Shareholders.	**
10.3	Company's Amended 1994 Stock Option Plan.	++
10.4	Company's Employee Stock Purchase Agreement.	++++
10.5	Registration Rights Agreement dated July 1, 1992, between American Lightwave, Inc. and persons named therein.	*
10.6	Supplemental Registration Rights Agreement dated June 26, 1995.	****
10.7	Management Registration Rights Agreement dated June 30, 1995.	****
10.8	Registration Rights Agreement dated June 26, 1995, between the Company and certain Preferred Stockholders.	**
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10.10	Form of $.01 Warrant Agreement.	****
10.11	Form of $1.79 Warrant Agreement.	****
10.12	Form of $2.25 Warrant Agreement.	****
10.13	Stockholders Agreement dated June 26, 1995, between the Company and certain Preferred Stockholders.	****
10.14	Third Amended and Restated Employment Agreement between the Company and Anthony J. Pompliano.	****
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10.19	Form of Stock Option Certificates, as amended, issued to executive officers under employment agreements................................	****
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10.23	Lease Agreement for the Company's executive offices at 131 National Business Parkway, Suite 100, Annapolis Junction, Maryland, as amended.	****
10.24	Loan and Security Agreement, dated October 17, 1994, between AT&T Credit Corporation and American Communication Services of Louisville, Inc.	*
10.25	Loan and Security Agreement, dated February 28, 1995, between AT&T Credit Corporation and American Communication Services of Fort Worth, Inc.	****
10.26	Loan and Security Agreement, dated June 30, 1995, between AT&T Credit Corporation and American Communication Services of Greenville, Inc. and American Communication Services of Columbia, Inc.	****
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10.29	Amendment No. 1 to Loan and Security Agreement between American Communications Services of Louisville, Inc. and AT&T Credit Corporation.	****
10.30	Consulting Agreement, dated October 25, 1993, between the Company and Thurston Partners, Inc..	*
10.31	Consulting Agreement, effective July 1, 1994, between the Company and SGC Advisory Services, Inc.	*

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EXHIBIT NO.	DESCRIPTION	INCORPORATION BY REFERENCE
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10.32	Consulting Agreement, dated June 16, 1994, between the Company and Thurston Partners, Inc. and Global Capital, Inc.	*
10.33	Note Purchase Agreement, dated June 28, 1994.	*
10.34	Investment Agreement dated October 21, 1994, between the Company and the Purchasers named therein.	*
10.35	Stock Purchase Agreement, dated October 17, 1994, between the Company and AT&T Credit Corporation.	*
10.36	American Communication Services of Louisville, Inc. Common Stock Purchase Agreement, dated October 17, 1994	*
10.37	Stock Purchase Agreement, dated November 28, 1994, by and among the Company, CitiLink Corp., and the former directors and shareholders of CitiLink Corp., as amended August 3, 1995.	****
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10.39	Stock Purchase Agreement, dated May 12, 1995, by and among the Company, Piedmont Teleport, Inc., Randal Holcombe and Karen Holcombe, as amended.	****
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10.43	Registration Rights Agreement dated November 9, 1995, between the Company and certain initial purchasers.	++
10.44	Loan and Security Agreement, dated September 8, 1995, between AT&T Credit Corporation and American Communications Services of El Paso, Inc.	++
10.45	Parent Support and Pledge Agreement (El Paso) dated September 8, 1995, between the Company and AT&T Credit Corporation.	++
10.46	Letter Agreement dated November 14, 1995, between the Company and ING Equity Partners, L.P. I, with respect to the purchase of 50,000 shares of the Company's 9% Series B-4 Convertible Preferred Stock and warrants to purchase 214,286 shares of Common Stock.	++
10.47	Warrant to Purchase Shares of American Communications Services, Inc. Common Stock dated December 28, 1995, between the Company and Gerard Klauer, Mattison & Co. ("GKM Warrant I").	++
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	Company and Gerard Klauer, Mattison & Co. ("GKM Warrant II").	++
10.49	Amendment to Amended 1994 Stock Option Plan of the Company..........	(o)
10.50	Parent Pledge and Support Agreement dated as of October 17, 1994 between the Company and AT&T Credit Corporation.....................	*
10.51	American Communication Services of El Paso Inc. Common Stock Purchase Agreement dated September 8, 1995..................................	*
10.52	Registration Rights Agreement dated as of July 10, 1997, among the Company, BT Securities Corporation, Alex. Brown & Sons Incorporated, The Huff Alternative Income Fund, L.P., General Motors Domestic Group Pension Trust, Societe Generale Securities Corporation, ING Baring (U.S.) Securities, Inc. and McDermott Inc. Master Trust.	--
10.53	Registration Rights Agreement dated as of July 23, 1997 among the Company and BT Securities Corporation as representatives of the Initial Purchasers named therein. ...	--
10.54	Supplemental Registration Rights Agreement, dated as of July 10, 1997, among the Company, The Huff Alternative Income Fund, L.P., General Motors Domestic Group Pension Trust and McDermott Inc. Master Trust.	(oo)
10.55	Registration Rights Agreement, dated as of October 16, 1997, between the Company and Bear, Stearns & Co. Inc.	(ooo)
10.56	Second Amended and Restated Registration Rights Agreement...........	(ooo)
11.1	Statement re: computation of per share earnings (loss).	+
12.1	Statement re: Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends..	----
16.1	Letter re: change in certifying accountant.	***

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EXHIBIT NO.	DESCRIPTION	INCORPORATION BY REFERENCE
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21.1	Subsidiaries of the Registrant.	++++
23.1	Consent of KPMG Peat Marwick LLP.	---
23.2	Consent of Riley M. Murphy (included in Exhibit 5)	---
24.1	Power of Attorney.	----
99.1	Form of Letter of Transmittal.	---
99.2	Form of Notice of Guaranteed Delivery.	---
99.3	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.	---
99.4	Form of Letter to Clients.	---
99.5	Form of Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9......................................	---

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* Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 33-87200) and incorporated herein by reference thereto.

** Previously filed as an exhibit to the Company's Current Report on Form 8-K dated June 26, 1995, and incorporated herein by reference thereto.

*** Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 1995, and incorporated herein by reference thereto.

**** Previously filed as an exhibit to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1995, and incorporated herein by reference thereto.

\+ Previously filed as an exhibit to the Company's Transition Report on Form 10-KSB for the transition period from July 1, 1996 to December 31, 1996, and the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 1997, both of which are incorporated herein by reference thereto.

++ Previously filed as an exhibit to the Company's Registration

Statement on Form S-4 (File No. 33-80305) and incorporated herein by reference thereto.

+++ Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 33-80673) and incorporated herein by reference thereto.

++++ Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-20867) and incorporated herein by reference thereto.

+++++ Previously filed as an exhibit to the Company's Current Report on Form 8-K dated March 26, 1996 and incorporated herein by reference thereto.

++++++ Previously filed as an exhibit to the Company's Current Report on Form 8-K dated January 17, 1997 and incorporated herein by reference thereto.

+++++++ To be filed by amendment.

- Previously filed as an exhibit to the Company's Registration Statement on Form S-4 (File No. 333-3632) and incorporated herein by reference thereto.

-- Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 1997 and incorporated by reference hereto.

--- Filed herewith.

---- Previously filed.

(o) Previously filed as an exhibit to the Company's Definitive Proxy Statement filed on October 14, 1996 and incorporated herein by reference thereto.

(oo) Previously filed as an exhibit to the Company's Registration Statement on Form S-3 (File No. 333-35925) and incorporated herein by reference thereto.

(ooo) Previously filed as an exhibit to the Company's Registration Statement on Form S-4 (File No. 333-34395) and incorporated herein by reference thereto.

ITEM 22. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions set forth in response to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

The undersigned Registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in this Registration Statement when it became effective.

For purposes of determining any liability under the Securities Act, the registrant will treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant under rule 424(b)(1), or (4) or

497(h) under the Securities Act (sec.sec.230.424(b)(1), (4) or 230.497(h)) as part of this registration statement as of the time the Commission declared it effective.

For purposes of determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT, THE REGISTRANT HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF ANNAPOLIS JUNCTION, STATE OF MARYLAND, ON THIS 18TH DAY OF DECEMBER, 1997.

AMERICAN COMMUNICATIONS SERVICES, INC., Registrant

By: *

Jack E. Reich
Director, President and
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT EACH PERSON WHOSE SIGNATURE APPEARS BELOW CONSTITUTES AND APPOINTS JACK E. REICH AND DAVID L. PIAZZA AND EACH OF THEM, HIS OR HER TRUE AND LAWFUL ATTORNEYS-IN-FACT AND AGENTS, WITH FULL POWER OF SUBSTITUTION AND RESUBSTITUTION, FOR HIM OR HER AND IN HIS OR HER NAME, PLACE AND STEAD, IN ANY AND ALL CAPACITIES, TO SIGN ANY AND ALL AMENDMENTS (INCLUDING PRE-EFFECTIVE AND POST-EFFECTIVE AMENDMENTS) TO THIS REGISTRATION STATEMENT, AND TO FILE THE SAME, WITH ALL EXHIBITS THERETO, AND ALL DOCUMENTS IN CONNECTION THEREWITH, WITH THE SECURITIES AND EXCHANGE COMMISSION, GRANTING UNTO SAID ATTORNEYS-IN-FACT AND AGENTS, AND EACH OF THEM, FULL POWER AND AUTHORITY TO DO AND PERFORM EACH AND EVERY ACT AND THING REQUISITE AND NECESSARY TO BE DONE, IN AND ABOUT THE PREMISES, AS FULLY TO ALL INTENTS AND PURPOSES AS HE OR SHE MIGHT OR COULD DO IN PERSON, HEREBY RATIFYING AND CONFIRMING ALL THAT SAID ATTORNEYS-IN-FACT, AND EACH OF THEM, AND AGENTS OR THEIR SUBSTITUTES MAY LAWFULLY DO OR CAUSE TO BE DONE BY VIRTUE HEREOF.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED:

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
* Anthony J. Pompliano	Chairman of the Board of Directors	December 18, 1997
* Jack E. Reich	Director, President and Chief Executive Officer (Principal Executive Officer)	December 18, 1997
/s/ DAVID L. PIAZZA David L. Piazza	Chief Financial Officer (Principal Financial and Accounting Officer)	December 18, 1997
George M. Middlemas	Director	December 18, 1997
* Edwin M. Banks	Director	December 18, 1997

</TABLE>

SIGNATURE	TITLE	DATE
* Christopher L. Rafferty	Director	December 18, 1997
* Benjamin P. Giess	Director	December 18, 1997
* Olivier L. Trouveroy	Director	December 18, 1997
* Peter C. Bentz	Director	December 18, 1997

----

* The undersigned, by signing his name hereto, does hereby sign this registration statement or amendment thereto on behalf of the above indicated directors and officers of American Communications Services, Inc. pursuant to powers of attorney executed on behalf of each such director and officer.

By: /s/ DAVID L. PIAZZA

David L. Piazza

Attorney-in-Fact

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION	INCORPORATION BY REFERENCE	SEQUENTIALLY NUMBERED PAGE
3.1	Second Restated Certificate of Incorporation of the Company.	--	
3.2	Certificate of Designation of the Company's 14.75% Redeemable Preferred Stock due 2008.	--	
3.3	Certificate of Amendment of the Certificate of Designation of the Company's 14.75% Redeemable Preferred Stock due 2008.	--	
3.4	Amended and Restated By-Laws of the Company.	(ooo)	
3.5	Governance Agreement dated November 8, 1995, between the Company and the holders of its Preferred Stock.	++	
3.6	Certificate of Designation of the Company's 12 3/4% Junior Redeemable Preferred Stock due 2009.	(ooo)	
3.7	Certificate of Correction dated March 11, 1996.	-	
3.8	Supplemental Governance Agreement dated February 26, 1996.	-	
4.1	Specimen Certificate of the Company's Common Stock.	*	
4.2	Indenture dated November 14, 1995, between the Company and Chemical Bank, as trustee, relating to $190,000,000 in principal amount of 13% Senior Discount Notes due 2005, including the form of global note (the "1995 Indenture").	++	
4.3	March 11, 1996 Supplement to 1995 indenture.	++++	
4.4	Initial Global Note dated November 14, 1995.	++	
4.5	Warrant Agreement dated November 14, 1995, between the Company and Smith Barney Inc. and Salomon Brothers Inc.	+++	
4.6	Initial Global Warrant dated November 14, 1995.	+++	
4.7	Indenture dated March 21, 1996, between the Company and		

	Chemical Bank, as trustee, relating to $120,000,000 in principal amount of 12 3/4% Senior Discount Notes due 2006, including the form of global note (the "1996 Indenture").	+++++
4.8	Supplemental Indenture dated as of January 13, 1997, between the Company and The Chase Manhattan Bank, as trustee, to the Indenture dated November 14, 1995, as amended, relating to the Company's 13% Senior Discount Notes due 2005.	++++
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* Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 33-87200) and incorporated herein by reference thereto.

** Previously filed as an exhibit to the Company's Current Report on Form 8-K dated June 26, 1995, and incorporated herein by reference thereto.

*** Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 1995, and incorporated herein by reference thereto.

**** Previously filed as an exhibit to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 1995, and incorporated herein by reference thereto.

+ Previously filed as an exhibit to the Company's Transition Report on Form 10-KSB for the transition period from July 1, 1996 to December 31, 1996, and the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 1997, both of which are incorporated herein by reference thereto.

++ Previously filed as an exhibit to the Company's Registration Statement on Form S-4 (File No. 33-80305) and incorporated herein by reference thereto.

+++ Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 33-80673) and incorporated herein by reference thereto.

++++ Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-20867) and incorporated herein by reference thereto.

+++++ Previously filed as an exhibit to the Company's Current Report on Form 8-K dated March 26, 1996 and incorporated herein by reference thereto.

++++++ Previously filed as an exhibit to the Company's Current Report on Form 8-K dated January 17, 1997 and incorporated herein by reference thereto.

+++++++ To be filed by amendment.

- Previously filed as an exhibit to the Company's Registration Statement on Form S-4 (File No. 333-3632) and incorporated herein by reference thereto.

-- Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 1997 and incorporated by reference hereto.

--- Filed herewith.

---- Previously filed.

( )(o) Previously filed as an exhibit to the Company's Definitive Proxy Statement filed on October 14, 1996 and incorporated herein by reference thereto.

( )(oo) Previously filed as an exhibit to the Company's Registration Statement on Form S-3 (File No. 333-35925) and incorporated herein by reference thereto.

( )(ooo) Previously filed as an exhibit to the Company's Registration Statement on Form S-4 (File No. 333-34395) and incorporated herein by reference thereto.

EXHIBIT 5

Riley M. Murphy
American Communications Services, Inc.
131 National Business Parkway, Suite 100
Annapolis Junction, MD 20701

December 18, 1997

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549-1004

Re: AMERICAN COMMUNICATIONS SERVICES, INC. FORM S-4

Gentlemen:

The undersigned has acted as legal counsel to American Communications Services, Inc., a Delaware corporation (the "Company"), in connection with the Registration Statement on Form S-4 (as amended, the "Registration Statement") filed by the Company with the Securities and Exchange Commission on November 28, 1997, as amended by Amendment No. 1 filed on the date hereof, and relating to 150,000 shares of the Company's 12 3/4% Junior Redeemable Preferred Stock due 2009 (the "New Preferred Stock"), to be offered in exchange for an equal number of shares of the Company's outstanding 12 3/4% Junior Redeemable Preferred Stock due 2009 (the "Old Preferred Stock" and, together with the New Preferred Stock, the "Preferred Stock"; the exchange of the Old Preferred Stock for the New Preferred Stock is hereinafter referred to as the "Exchange Offer") pursuant to a Prospectus (the "Prospectus") contained in the Registration Statement.

In the capacity of legal counsel to the Company, the undersigned has examined originals or copies, certified or otherwise identified to the satisfaction of the undersigned, of such documents, corporate records and other instruments as the undersigned has deemed necessary for the purpose of rendering this opinion, including (a) the Certificate of Designation of the Powers, Preferences and Relative, Participating, Optional and Other Special Rights of Preferred Stock and Qualifications, Limitations and Restrictions Thereof as filed with the Secretary of State of the State of Delaware on October 15, 1997 (the "Certificate of Designation"), and (b) the Registration Rights Agreement dated as of October 16, 1997 between the Company and Bear Stearns & Co. Inc. (the "Registration Rights Agreement"). In the course of such examinations, the undersigned has assumed the genuineness of all documents submitted as originals and the conformity to originals and certified documents of all copies submitted as conformed copies.

Based upon and subject to the foregoing, and assuming that the Registration Statement becomes and remains effective and that applicable state securities laws are complied with, the undersigned is of the opinion that the New Preferred Stock, when duly executed by the Company and authenticated by the Transfer Agent for the Preferred Stock in accordance with the terms of the Certificate of Designation and duly issued and delivered by the Company in exchange for an equal number of shares of Old Preferred Stock pursuant to the terms of the Registration Rights Agreement, will be validly issued, fully paid and nonassessable.

The undersigned hereby consents to the filing of this opinion as Exhibit 5 to the Registration Statement and the reference to the undersigned under the caption "Legal Matters" in the Prospectus contained therein.

Very truly yours,

/s/ Riley M. Murphy

EXHIBIT 23.1

The Board of Directors
American Communications Services, Inc.:

We consent to the use of our report included herein and to the reference to our firm under the headings "Experts" and "Selected Consolidated Financial Data" in the prospectus.

KPMG Peat Marwick LLP

Washington, DC
December 18, 1997

EXHIBIT 99.1

LETTER OF TRANSMITTAL

AMERICAN COMMUNICATIONS SERVICES, INC.

OFFER TO EXCHANGE ITS REGISTERED

12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009

FOR ANY AND ALL OUTSTANDING SHARES

OF ITS

12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009

PURSUANT TO THE PROSPECTUS, DATED DECEMBER --, 1997

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M. NEW YORK CITY TIME, ON -- , 1998, UNLESS EXTENDED (THE "EXPIRATION DATE"). TENDERS MAY BE WITHDRAWN PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE.

By Mail:	Facsimile Transmission Number:	By Hand/Overnight Delivery:
Tender and Exchange Department	(212) 815-6213	Tender and Exchange Department
P.O. Box 11248	(For Eligible Institutions Only)	101 Barclay Street
Church Street Station	Confirm by Telephone:	Receive and Deliver Window
New York, New York 10286-1248	(800) 507-9357	New York, New York 10286
	For Information Call:	
	(800) 507-9357	

Delivery of this instrument to an address other than as set forth above, or transmission of instructions via facsimile other than as set forth above, will not constitute a valid delivery.

The undersigned acknowledges that he or she has received the Prospectus, dated December --, 1997 (the "Prospectus"), of American Communications Services, Inc., a Delaware corporation (the "Company"), and this Letter of Transmittal (this "Letter"), which together constitute the Company's offer (the "Exchange Offer") to exchange up to 150,000 shares of 12 3/4% Junior Redeemable Preferred Stock due 2009 (the "New Preferred Stock") of the Company for an equal number of shares of the Company's outstanding 12 3/4% Junior Redeemable Preferred Stock due 2009 (the "Old Preferred Stock").

For each share of Old Preferred Stock accepted for exchange, the holder of such Old Preferred Stock will receive a share of New Preferred Stock having a Liquidation Preference equal to that of the surrendered share of Old Preferred Stock. If (i) neither a Registration Statement relating to the Exchange Offer (the "Exchange Offer Registration Statement") has been declared effective by February 13, 1998, or (ii) notwithstanding that the Company has consummated or will consummate the Exchange Offer, the Company is required to file a shelf registration statement (the "Shelf Registration Statement") with respect to the Old Preferred Stock and such Shelf Registration Statement is not declared effective by the applicable date specified in the Prospectus under "Description of the Preferred Stock -- Exchange Offer; Registration Rights", then commencing on the date of such Registration Default (as defined), Additional Dividends (as defined) will accrue on the Old Preferred Stock owned by each holder affected by such Registration Default from and including the date on which any Registration Default shall occur to but excluding the date on which all Registration Defaults have been cured at a rate per annum of 0.25% for each 90-day period that such Registration Default continues; provided, that such rate shall in no event exceed 1.0% per annum. Additional Dividends shall be paid, either in cash or, at the Company's option, in additional shares of Old Preferred Stock, on each regular quarterly Dividend Payment Date following the occurrence of such Registration Default through the Dividend Payment Date next following the date when such Registration Default shall have been cured. Following the cure of all Registration Defaults, the accrual of Additional Dividends will cease. Upon the effectiveness of the Exchange Offer Registration Statement or a Shelf Registration

Statement, Additional Dividends payable on the shares of Old Preferred Stock from the date of such effectiveness will cease to accrue and all accrued and unpaid dividends as of the occurrence of such effectiveness shall be paid on the next Dividend Payment Date to the holders of the Old Preferred Stock exchanged for New Preferred Stock. The Company reserves the right, at any time or from time to time, to extend the Exchange Offer at its discretion, in which event the term "Expiration Date" shall mean the latest time and date to which the Exchange Offer is extended. The Company shall notify the holders of the Old Notes of any extension by means of a press release or other public announcement prior to 9:00 A.M., New York City time, on the next business day after the previously scheduled Expiration Date.

This Letter is to be completed by a holder of shares of Old Preferred Stock either if certificates are to be forwarded herewith or if a tender of shares of Old Preferred Stock, if available, is to be made by book-entry transfer to the account maintained by the Exchange Agent at The Depository Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedures set forth in "The Exchange Offer" section of the Prospectus. Holders of shares of Old Preferred Stock whose certificates are not immediately available, or who are unable to deliver their certificates or confirmation of the book-entry tender of their shares of Old Preferred Stock into the Exchange Agent's account at the Book-Entry Transfer Facility (a "Book-Entry Confirmation") and all other documents required by this Letter to the Exchange Agent on or prior to the Expiration Date, must tender their shares of Old Preferred Stock according to the guaranteed delivery procedures set forth in "The Exchange Offer -- Guaranteed Delivery Procedures" section of the Prospectus. See Instruction 1. Delivery of documents to the Book-Entry Transfer Facility does not constitute delivery to the Exchange Agent.

The undersigned has completed the appropriate boxes below and signed this Letter to indicate the action the undersigned desires to take with respect to the Exchange Offer.

List below the shares of Old Preferred Stock to which this Letter relates. If the space provided below is inadequate, the certificate numbers and number of shares of Old Preferred Stock should be listed on a separate signed schedule affixed hereto.

[CAPTION]

<TABLE>

DESCRIPTION OF OLD NOTES			
	1	2	3
NAMES(S) AND ADDRESS(ES) OF REGISTERED HOLDERS(S) (PLEASE FILL IN, IF BLANK)	CERTIFICATE NUMBER(S)*	AGGREGATE NUMBER OF SHARES OF OLD PREFERRED STOCK	NUMBER OF SHARES OF OLD PREFERRED STOCK**

TOTAL

* Need not be completed if shares of Old Preferred Stock are being tendered by book-entry transfer.

** Unless otherwise indicated in this column, a holder will be deemed to have tendered ALL shares of the Old Preferred Stock represented by the shares of Old Preferred Stock indicated in column 2. See Instruction 2. No fractional Shares of Old Preferred Stock may be tendered. See Instruction 1.

</TABLE>

[ ] CHECK HERE IF TENDERED SHARES OF OLD PREFERRED STOCK ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO THE ACCOUNT MAINTAINED BY THE EXCHANGE AGENT WITH THE BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING:

Name of Tendering Institution

Account Number
------------------------------ Transaction Code Number

[ ] CHECK HERE IF TENDERED SHARES OF OLD PREFERRED STOCK ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE EXCHANGE AGENT AND COMPLETE THE FOLLOWING:

Name(s) of Registered Holder(s)

Window Ticket Number (if any)

Date of Execution of Notice of Guaranteed Delivery

Name of Institution which guaranteed delivery

IF DELIVERED BY BOOK-ENTRY TRANSFER, COMPLETE THE FOLLOWING:

Account Number
------------------------------ Transaction Code Number

[ ] CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.

Name:

Address:

4

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

Ladies and Gentlemen:

Upon the terms and subject to the conditions of the Exchange Offer, the undersigned hereby tenders to the Company the total shares of Old Preferred Stock indicated above. Subject to, and effective upon, the acceptance for exchange of the shares of Old Preferred Stock tendered hereby, the undersigned hereby sells, assigns and transfers to, or upon the order of, the Company all right, title and interest in and to such shares of Old Preferred Stock as are being tendered hereby.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the shares of Old Preferred Stock tendered hereby and that the Company will acquire good and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim when the same are accepted by the Company. The undersigned hereby further represents that any shares of New Preferred Stock acquired in exchange for shares of Old Preferred Stock tendered hereby will have been acquired in the ordinary course of business of the person receiving such shares of New Preferred Stock, whether or not such person is the undersigned, that neither the holder of such shares of Old Preferred Stock nor any such other person is engaged in, or intends to engage in a distribution of such shares of New Preferred Stock, or has an arrangement or understanding with any person to participate in the distribution of such shares of New Preferred

Stock, and that neither the holder of such shares of Old Preferred Stock nor any such other person is an "affiliate," as defined in Rule 405 under the Securities Act of 1933, as amended (the "Securities Act"), of the Company.

The undersigned also acknowledges that this Exchange Offer is being made by the Company based upon the Company's understanding of an interpretation by the staff of the Securities and Exchange Commission (the "Commission") as set forth in no-action letters issued to third parties, that the shares of New Preferred Stock issued in exchange for the shares of Old Preferred Stock pursuant to the Exchange Offer may be offered for resale, resold and otherwise transferred by holders thereof (other than any such holder that is an "affiliate" of the Company within the meaning of Rule 405 under the Securities Act), without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that: (1) such holders are not affiliates of the Company within the meaning of Rule 405 under the Securities Act; (2) such shares of New Preferred Stock are acquired in the ordinary course of such holders' business; and (3) such holders are not engaged in, and do not intend to engage in, a distribution of such shares of New Preferred Stock and have no arrangement or understanding with any person to participate in the distribution of such shares of New Preferred Stock. However, the staff of the Commission has not considered the Exchange Offer in the context of a no-action letter and there can be no assurance that the staff of the Commission would make a similar determination with respect to the Exchange Offer as in other circumstances. If a holder of shares of Old Preferred Stock is an affiliate of the Company, and is engaged in or intends to engage in a distribution of the shares of New Preferred Stock or has any arrangement or understanding with respect to the distribution of the shares of New Preferred Stock to be acquired pursuant to the Exchange Offer, such holder could not rely on the applicable interpretations of the staff of the Commission and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any secondary resale transaction. If the undersigned is a broker-dealer that will receive shares of New Preferred Stock for its own account in exchange for shares of Old Preferred Stock, it represents that the shares of Old Preferred Stock to be exchanged for the shares of New Preferred Stock were acquired by it as a result of market-making activities or other trading activities and acknowledges that it will deliver a prospectus in connection with any resale of such shares of New Preferred Stock; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

The undersigned will, upon request, execute and deliver any additional documents deemed by the Company to be necessary or desirable to complete the sale, assignment and transfer of the shares of Old Preferred Stock tendered hereby. All authority conferred or agreed to be conferred in this Letter and every obligation of the undersigned hereunder shall be binding upon the successors, assigns, heirs, executors, administrators, trustees in bankruptcy and legal representatives of the undersigned and shall not be affected by, and shall survive, the death or incapacity of the undersigned. This tender may be withdrawn only in

accordance with the procedures set forth in "The Exchange Offer -- Withdrawal of Tenders" section of the Prospectus.

Unless otherwise indicated herein in the box entitled "Special Issuance Instructions" below, please deliver the shares of New Preferred Stock (and, if applicable, substitute certificates representing shares of Old Preferred Stock for any shares of Old Preferred Stock not exchanged) in the name of the undersigned or, in the case of a book-entry delivery of shares of Old Preferred Stock, please credit the account indicated above maintained at the Book-Entry Transfer Facility. Similarly, unless otherwise indicated under the box entitled "Special Delivery Instructions" below, please send the shares of New Preferred Stock (and, if applicable, substitute certificates representing shares of Old Preferred Stock for any shares of Old Preferred Stock not exchanged) to the undersigned at the address shown above in the box entitled "Description of Old Preferred Stock."

THE UNDERSIGNED, BY COMPLETING THE BOX ENTITLED "DESCRIPTION OF OLD PREFERRED STOCK" ABOVE AND SIGNING THIS LETTER, WILL BE DEEMED TO HAVE TENDERED

THE SHARES OF OLD PREFERRED STOCK AS SET FORTH IN SUCH BOX ABOVE.

SPECIAL ISSUANCE INSTRUCTIONS
(SEE INSTRUCTIONS 3 AND 4)

To be completed ONLY if certificates for shares of Old Preferred Stock not exchanged and/or shares of New Preferred Stock are to be issued in the name of and sent to someone other than the person(s) whose signature(s) appear(s) on this Letter above, or if shares of Old Preferred Stock delivered by book-entry transfer which are not accepted for exchange are to be returned by credit to an account maintained at the Book-Entry Transfer Facility other than the account indicated above.

Issue shares of New Preferred Stock and/or shares of Old Preferred Stock to:

Name(s):

(PLEASE TYPE OR PRINT)

(PLEASE TYPE OR PRINT)

Address:

(INCLUDING ZIP CODE)

(COMPLETE ACCOMPANYING SUBSTITUTION FORM W-9)

[ ] Credit unexchanged shares of Old Preferred Stock delivered by book-entry transfer to the Book-Entry Transfer Facility account set forth below.

(BOOK-ENTRY TRANSFER FACILITY
ACCOUNT NUMBER, IF APPLICABLE)

==

SPECIAL DELIVERY INSTRUCTIONS
(SEE INSTRUCTIONS 3 AND 4)

To be completed ONLY if certificates for shares of Old Preferred Stock not exchanged and/or shares of New Preferred Stock are to be sent to someone other than the person(s) whose signature(s) appear(s) on this Letter above or to such person(s) at an address other than shown in the box entitled "Description of Old Preferred Stock" on this Letter above.

Mail shares of New Preferred Stock and/or shares of Old Preferred Stock to:

Name(s):

(PLEASE TYPE OR PRINT)

(PLEASE TYPE OR PRINT)

Address:

(INCLUDING ZIP CODE)

IMPORTANT: THIS LETTER OR A FACSIMILE HEREOF (TOGETHER WITH THE CERTIFICATES FOR SHARES OF OLD PREFERRED STOCK OR A BOOK-ENTRY CONFIRMATION AND ALL OTHER REQUIRED DOCUMENTS OR THE NOTICE OF GUARANTEED DELIVERY) MUST BE RECEIVED BY THE EXCHANGE AGENT PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE.

PLEASE READ THIS ENTIRE LETTER OF TRANSMITTAL
CAREFULLY BEFORE COMPLETING ANY BOX ABOVE.

PLEASE SIGN HERE
(TO BE COMPLETED BY ALL TENDERING HOLDERS)
(COMPLETE ACCOMPANYING SUBSTITUTE FORM W-9 ON REVERSE SIDE)

Dated: , 1997

x:

------------------------------, 1997

x:

------------------------------, 1997
(SIGNATURE(S) OF OWNER) (DATE)

Area Code and Telephone Number:

If a holder is tendering any shares of Old Preferred Stock, this Letter must be signed by the registered holder(s) as the name(s) appear(s) on the certificate(s) for the shares of Old Preferred Stock or by any person(s) authorized to become registered holder(s) by endorsements and documents transmitted herewith. If signature is by a trustee, executor, administrator, guardian, officer or other person acting in a fiduciary or representative capacity, please set forth full title. See Instruction 3.

Name(s):

(PLEASE TYPE OR PRINT)

Capacity:

Address:

(INCLUDING ZIP CODE)

SIGNATURE GUARANTEE
(IF REQUIRED BY INSTRUCTION 3)

Signature Guaranteed by
an Eligible Institution:

(AUTHORIZED SIGNATURE)

(TITLE)

(NAME AND FIRM)

Dated: , 1997

INSTRUCTIONS

FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER TO EXCHANGE REGISTERED

12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009

FOR ANY AND ALL OUTSTANDING SHARES

OF ITS

12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009

AMERICAN COMMUNICATIONS SERVICES, INC.

1. DELIVERY OF THIS LETTER AND SHARES OF OLD PREFERRED STOCK; GUARANTEED DELIVERY PROCEDURES.

This Letter is to be completed by holders of shares of Old Preferred Stock either if certificates are to be forwarded herewith or if tenders are to be made pursuant to the procedures for delivery by book-entry transfer set forth in "The Exchange Offer -- Book-Entry Transfer" section of the Prospectus. Certificates for all physically tendered shares of Old Preferred Stock, or Book-Entry Confirmation, as the case may be, as well as a properly completed and duly executed Letter of Transmittal (or facsimile thereof) and any other documents required by this Letter, must be received by the Exchange Agent at the address set forth herein on or prior to the Expiration Date, or the tendering holder must comply with the guaranteed delivery procedures set forth below. No fractional shares of Old Preferred Stock may be tendered.

Holders of shares of Old Preferred Stock whose certificates for shares of Old Preferred Stock are not immediately available or who cannot deliver their certificates and all other required documents to the Exchange Agent on or prior to the Expiration Date, or who cannot complete the procedure for book-entry transfer on a timely basis, may tender their shares of Old Preferred Stock pursuant to the guaranteed delivery procedures set forth in "The Exchange Offer -- Guaranteed Delivery Procedures" section of the Prospectus. Pursuant to such procedures, (i) such tender must be made through an Eligible Institution (as defined below), (ii) prior to the Expiration Date, the Exchange Agent must receive from such Eligible Institution a properly completed and duly executed Letter of Transmittal (or facsimile thereof) and Notice of Guaranteed Delivery, substantially in the form provided by the Company (by facsimile transmission, mail or hand delivery), setting forth the name and address of the holder of shares of Old Preferred Stock and the amount of shares of Old Preferred Stock tendered, stating that the tender is being made thereby and guaranteeing that within five New York Stock Exchange ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery, the certificates for all physically tendered shares of Old Preferred Stock, or a Book-Entry Confirmation, as the case may be, and any other documents required by this Letter will be deposited by the Eligible Institution with the Exchange Agent, and (iii) the certificates for all physically tendered shares of Old Preferred Stock, in proper form for transfer, or Book-Entry Confirmation, as the case may be, and all other documents required by this Letter, are received by the Exchange Agent within five NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

The method of delivery of this Letter, the shares of Old Preferred Stock and all other required documents is at the election and risk of the tendering holders, but the delivery will be deemed made only when actually received or confirmed by the Exchange Agent. If shares of Old Preferred Stock are sent by mail, it is suggested that the mailing be made sufficiently in advance of the Expiration Date to permit delivery to the Exchange Agent prior to 5:00 p.m., New York City time, on the Expiration Date.

See "The Exchange Offer" section of the Prospectus.

2. PARTIAL TENDERS (NOT APPLICABLE TO HOLDERS OF SHARES OF OLD PREFERRED STOCK

WHO TENDER BY BOOK-ENTRY TRANSFER).

If less than all of the shares of Old Preferred Stock evidenced by a submitted certificate are to be tendered, the tendering holder(s) should fill in the aggregate principal amount of shares of Old Preferred Stock to be tendered in the box above entitled "Description of Shares of Old Preferred Stock -- Principal Amount Tendered." A reissued certificate representing the balance of nontendered shares of Old Preferred

Stock will be sent to such tendering holder, unless otherwise provided in the appropriate box on this Letter, promptly after the Expiration Date. ALL OF THE SHARES OF OLD PREFERRED STOCK DELIVERED TO THE EXCHANGE AGENT WILL BE DEEMED TO HAVE BEEN TENDERED UNLESS OTHERWISE INDICATED.

3. SIGNATURES ON THIS LETTER, BOND POWERS AND ENDORSEMENTS; GUARANTEE OF SIGNATURES.

If this Letter is signed by the registered holder of the shares of Old Preferred Stock tendered hereby, the signature must correspond exactly with the name as written on the face of the certificates without any change whatsoever.

If any tendered shares of Old Preferred Stock are owned of record by two or more joint owners, all such owners must sign this Letter.

If any tendered shares of Old Preferred Stock are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate copies of this Letter as there are different registrations of certificates.

When this Letter is signed by the registered holder of the shares of Old Preferred Stock specified herein and tendered hereby, no endorsements of certificates or separate bond powers are required. If, however, the shares of New Preferred Stock are to be issued, or any untendered shares of Old Preferred Stock are to be reissued, to a person other than the registered holder, then endorsements of any certificates transmitted hereby or separate bond powers are required. Signatures on such certificates must be guaranteed by an Eligible Institution.

If this Letter is signed by a person other than the registered holder of any certificates specified herein, such certificates must be endorsed or accompanied by appropriate bond powers, in either case signed exactly as the name of the registered holder appears on the certificates and the signatures on such certificates must be guaranteed by an Eligible Institution.

If this Letter or any certificates or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and, unless waived by the Company, proper evidence satisfactory to the Company of their authority to so act must be submitted.

Endorsements on certificates for shares of Old Preferred Stock or signatures on bond powers required by this Instruction 3 must be guaranteed by a firm which is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. or by a commercial bank or trust company having an office or correspondent in the United States (an "Eligible Institution").

SIGNATURES ON THIS LETTER NEED NOT BE GUARANTEED BY AN ELIGIBLE INSTITUTION, PROVIDED THE SHARES OF OLD PREFERRED STOCK ARE TENDERED: (I) BY A

REGISTERED HOLDER OF SHARES OF OLD PREFERRED STOCK (WHICH TERM, FOR PURPOSES OF THE EXCHANGE OFFER, INCLUDES ANY PARTICIPANT IN THE BOOK-ENTRY TRANSFER FACILITY SYSTEM WHOSE NAME APPEARS ON A SECURITY POSITION LISTING AS THE HOLDER OF SUCH SHARES OF OLD PREFERRED STOCK) TENDERED WHO HAS NOT COMPLETED THE BOX ENTITLED "SPECIAL ISSUANCE INSTRUCTIONS" OR "SPECIAL DELIVERY INSTRUCTIONS" ON THIS LETTER, OR (II) FOR THE ACCOUNT OF AN ELIGIBLE INSTITUTION.

4. SPECIAL ISSUANCE AND DELIVERY INSTRUCTIONS.

Tendering holders of shares of Old Preferred Stock should indicate in the applicable box the name and address to which shares of New Preferred Stock issued pursuant to the Exchange Offer and/or substitute certificates evidencing shares of Old Preferred Stock not exchanged are to be issued or sent, if different from the name or address of the person signing this Letter. In the case of issuance in a different name, the employer identification or social security number of the person named must also be indicated. A holder of shares of Old Preferred Stock tendering shares of Old Preferred Stock by book-entry transfer may request that shares of Old Preferred Stock not exchanged be credited to such account maintained at the Book-Entry Transfer Facility as such holder of shares of Old Preferred Stock may designate hereon. If no such instructions are given, such

shares of Old Preferred Stock not exchanged will be returned to the name or address of the person signing this Letter.

5. TAX IDENTIFICATION NUMBER.

Federal income tax law generally requires that a tendering holder whose shares of Old Preferred Stock are accepted for exchange must provide the Company (as payor) with such holder's correct Taxpayer Identification Number ("TIN") on Substitute Form W-9 below or otherwise establish a basis for exemption from backup withholding. If such holder is an individual, the TIN is his or her social security number. If the Company is not provided with the current TIN or an adequate basis for an exemption, such tendering holder may be subject to a $50 penalty imposed by the Internal Revenue Service. In addition, delivery of shares of New Preferred Stock to such tendering holder may be subject to backup withholding in an amount equal to 31% of all reportable payments made after the exchange.

Certain holders (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding and reporting requirements. See the enclosed Guidelines of Certification of Taxpayer Identification Number on Substitute Form W-9 (the "W-9 Guidelines") for additional instructions.

To prevent backup withholding, each tendering holder of shares of Old Preferred Stock must provide its correct TIN by completing the "Substitute Form W-9" set forth below, certifying that the TIN provided is correct (or that such holder is awaiting a TIN) and that (i) the holder is exempt from backup withholding, (ii) the holder has not been notified by the Internal Revenue Service that such holder is subject to a backup withholding as a result of a failure to report all interest or dividends or (iii) the Internal Revenue Service has notified the holder that such holder is no longer subject to backup withholding. If the tendering holder of shares of Old Preferred Stock is a nonresident alien or foreign entity not subject to backup withholding, such holder must give the Company a completed Form W-8, Certificate of Foreign Status. These forms may be obtained from the Exchange Agent. If the shares of Old Preferred Stock are in more than one name or are not in the name of the actual owner, such holder should consult the W-9 Guidelines for information on which TIN to report. If such holder does not have a TIN, such holder should consult the W-9 Guidelines for instructions on applying for a TIN, check the box in Part 2 of the Substitute Form W-9 and write "applied for" in lieu of its TIN. Note: checking this box and writing "applied for" on the form means that such holder has already applied for a TIN or that such holder intends to apply for one in the near future. If a holder checks the box in Part 2 of the Substitute Form W-9 and writes "applied for" on that form, backup withholding at a 31% rate will nevertheless apply to all reportable payments made to such holder. If such a holder furnishes its TIN to the Company within 60 days, however, any amounts so withheld shall be refunded to such holder.

Backup withholding is not an additional Federal income tax. Rather, the Federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in overpayment of taxes, a refund may be obtained from the Internal Revenue Service.

6. TRANSFER TAXES.

The Company will pay all transfer taxes, if any, applicable to the transfer of shares of Old Preferred Stock to it or its order pursuant to the Exchange Offer. If, however, shares of New Preferred Stock and/or substitute shares of Old Preferred Stock not exchanged are to be delivered to, or are to be registered or issued in the name of, any person other than the registered holder of the shares of Old Preferred Stock tendered hereby, or if tendered shares of Old Preferred Stock are registered in the name of any person other than the person signing this Letter, or if a transfer tax is imposed for any reason other than the transfer of shares of Old Preferred Stock to the Company or its order pursuant to the Exchange Offer, the amount of any such transfer taxes (whether imposed on the registered holder or any other persons) will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted herewith, the amount of such transfer taxes will be billed directly to such tendering holder.

EXCEPT AS PROVIDED IN THIS INSTRUCTION 6, IT WILL NOT BE NECESSARY FOR TRANSFER TAX STAMPS TO BE AFFIXED TO THE SHARES OF OLD PREFERRED STOCK SPECIFIED IN THIS LETTER.

7. WAIVER OF CONDITIONS.

The Company reserves the absolute right to waive satisfaction of any or all conditions enumerated in the Prospectus.

8. NO CONDITIONAL TENDERS.

No alternative, conditional, irregular or contingent tenders will be accepted. All tendering holders of shares of Old Preferred Stock, by execution of this Letter, shall waive any right to receive notice of the acceptance of their shares of Old Preferred Stock for exchange.

Neither the Company, the Exchange Agent nor any other person is obligated to give notice of any defect or irregularity with respect to any tender of shares of Old Preferred Stock nor shall any of them incur any liability for failure to give any such notice.

9. MUTILATED, LOST, STOLEN OR DESTROYED SHARES OF OLD PREFERRED STOCK.

Any holder whose shares of Old Preferred Stock have been mutilated, lost, stolen or destroyed should contact the Exchange Agent at the address indicated above for further instructions.

10. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES.

Questions relating to the procedure for tendering, as well as requests for additional copies of the Prospectus and this Letter, may be directed to the Exchange Agent, at the address and telephone number indicated above.

TO BE COMPLETED BY ALL TENDERING HOLDERS
(SEE INSTRUCTION 5)

<TABLE>

<S> <C> <C>

PAYOR'S NAME: AMERICAN COMMUNICATIONS SERVICES, INC.

SUBSTITUTE FORM W-9	PART 1 -- PLEASE PROVIDE YOUR TIN IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW	TIN: ------------------------------ SOCIAL SECURITY NUMBER(S) OR EMPLOYER IDENTIFICATION NUMBER(S)
DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE	PART 2 -- TIN APPLIED FOR [ ]	
PAYER'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER ("TIN") AND CERTIFICATION	CERTIFICATION -- UNDER PENALTIES OF PERJURY, I CERTIFY THAT: (1) the number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me), (2) I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (the "IRS") that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and (3) any other information provided on this form is true and correct. SIGNATURE DATE _______________	

You must cross out item (2) of the above certification if you have been notified by the IRS that you are subject to backup withholding because of underreporting of interest or dividends on your tax returns and you have not been notified by the IRS that you are no longer subject to backup withholding.
</TABLE>

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECKED THE BOX IN PART 2 OF SUBSTITUTE FORM W-9.

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury that a taxpayer identification number has not been issued to me, and either (a) I have mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administration Office or (b) I intend to mail or deliver an application in the near future. I understand that if I do not provide a taxpayer identification number by the time of the exchange, 31 percent of all reportable payments made to me thereafter will be withheld until I provide a number.

<TABLE>
<S> <C>

--	---
Signature	Date

</TABLE>

EXHIBIT 99.2

NOTICE OF GUARANTEED DELIVERY FOR
AMERICAN COMMUNICATIONS SERVICES, INC.

This form or one substantially equivalent hereto must be used to accept the Exchange Offer of American Communications Services, Inc. (the "Company") made pursuant to the Prospectus, dated December --, 1997 (the "Prospectus"), and the enclosed Letter of Transmittal (the "Letter of Transmittal") if certificates for shares of Old Preferred Stock of the Company are not immediately available or if the procedure for book-entry transfer cannot be completed on a timely basis or time will not permit all required documents to reach the Company prior to 5:00 P.M., New York City time, on the Expiration Date of the Exchange Offer. Such form may be delivered or transmitted by facsimile transmission, mail or hand delivery to The Bank of New York (the "Exchange Agent") as set forth below. In addition, in order to utilize the guaranteed delivery procedure to tender Old Notes pursuant to the Exchange Offer, a completed, signed and dated Letter of Transmittal (or facsimile thereof) must also be received by the Exchange Agent prior to 5:00 P.M., New York City time, on the Expiration Date. Capitalized terms not defined herein are defined in the Prospectus.

DELIVERY TO: THE BANK OF NEW YORK, EXCHANGE AGENT

<TABLE>

<S>	<C>	<C>
By Mail:	Facsimile Transmission Number:	By Hand/Overnight Delivery:
Tender and Exchange Department	(212) 815-6213	Tender and Exchange Department
P.O. Box 11248		101 Barclay Street
Church Street Station		Receive and Deliver Window
	(For Eligible Institutions Only)	
New York, New York 10286-1248		New York, New York 10286
	Confirm by Telephone:	
	(800) 507-9357	
	For Information Call:	
	(800) 507-9357	

</TABLE>

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE, OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE, WILL NOT CONSTITUTE A VALID DELIVERY.

Ladies and Gentlemen:

Upon the terms and conditions set forth in the Prospectus and the accompanying Letter of Transmittal, the undersigned hereby tenders to the Company the number of shares of Old Preferred Stock set forth below, pursuant to the guaranteed delivery procedure described in "The Exchange Offer -- Guaranteed Delivery Procedures" section of the Prospectus.

<TABLE>
<S> <C>

Number of Shares of Old Preferred Stock:	If shares of Old Preferred Stock will be delivered by book-entry transfer to The Depository Trust Company, provide account number.
--	
Certificate Nos. (if available):	
--	
Total Number of Shares Represented by Old Preferred Stock Certificate(s):	Account Number
--..	-----------------------------------

</TABLE>

2

ALL AUTHORITY HEREIN CONFERRED OR AGREED TO BE CONFERRED SHALL SURVIVE THE DEATH OR INCAPACITY OF THE UNDERSIGNED AND EVERY OBLIGATION OF THE UNDERSIGNED HEREUNDER SHALL BE BINDING UPON THE HEIRS, PERSONAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS OF THE UNDERSIGNED.

PLEASE SIGN HERE

<TABLE>
<S> <C> <C>

X	---	---
X	---	---
	SIGNATURE(S) OF OWNER(S) OR AUTHORIZED SIGNATORY	DATE

</TABLE>

Area Code and Telephone Number:

Must be signed by the holder(s) of shares of Old Preferred Stock as the name(s) of such holder(s) appear(s) on the Old Preferred Stock certificate(s) or on a security position listing, or by person(s) authorized to become registered holder(s) by endorsement and documents transmitted with this Notice of Guaranteed Delivery. If any signature is by a trustee, executor, administrator, guardian, attorney-in-fact, officer or other person acting in a fiduciary or representative capacity, such person must set forth his or her full title below.

PLEASE PRINT NAME(S) AND ADDRESS(ES)

<TABLE>
<S> <C>

Name(s):	---

Capacity:

Address(es):

</TABLE>

GUARANTEE

The undersigned, a member of a registered national securities exchange, or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States, hereby guarantees that the certificates representing the number of shares of Old Preferred Stock tendered hereby in proper form for transfer, or timely confirmation of the book-entry transfer of such Old Preferred Stock into the Exchange Agent's account at The Depository Trust Company pursuant to the procedures set forth in "The Exchange Offer -- Guaranteed Delivery Procedures" section of the Prospectus, together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof) with any required signature guarantee and any other documents required by the Letter of Transmittal, will be received by the Exchange Agent at the address set forth above, no later than five New York Stock Exchange trading days after the date of execution hereof.

<TABLE>

<S>	<C>
NAME OF FIRM	AUTHORIZED SIGNATURE
ADDRESS	TITLE
	Name:
ZIP CODE	(PLEASE TYPE OR PRINT)
Area Code and Tel. No.:	Dated:

</TABLE>

NOTE: DO NOT SEND CERTIFICATES FOR SHARES OF OLD PREFERRED STOCK WITH THIS FORM. CERTIFICATES FOR SHARES OF OLD PREFERRED STOCK SHOULD ONLY BE SENT WITH YOUR LETTER OF TRANSMITTAL.

EXHIBIT 99.3

AMERICAN COMMUNICATIONS SERVICES, INC.

OFFER TO EXCHANGE ITS REGISTERED
12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009
FOR ANY AND ALL OUTSTANDING SHARES
OF ITS OUTSTANDING
12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009

To: Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees:

American Communications Services, Inc. (the "Company") is offering to exchange (the "Exchange Offer"), upon and subject to the terms and conditions set forth in the Prospectus, dated December --, 1997 (the "Prospectus"), and the enclosed Letter of Transmittal (the "Letter of Transmittal"), its registered 12 3/4% Junior Redeemable Preferred Stock due 2009 (the "New Preferred Stock") for any and all outstanding shares of its 12 3/4% Junior Redemable Preferred Stock due 2009 (the "Old Preferred Stock"). The Exchange Offer is being made in order to satisfy certain obligations of the Company contained in the Registration Rights Agreement dated as of October 16, 1997, between the Company and the Initial Purchaser.

We are requesting that you contact your clients for whom you hold shares of Old Preferred Stock regarding the Exchange Offer. For your information and for forwarding to your clients for whom you hold shares of Old Preferred Stock registered in your name or in the name of your nominee, or who hold shares of Old Preferred Stock registered in their own names, we are enclosing the following documents:

1. Prospectus dated December --, 1997;

2. The Letter of Transmittal for your use and for the information of your clients;

3. A Notice of Guaranteed Delivery to be used to accept the Exchange

Offer if certificates for shares of Old Preferred Stock are not immediately available or time will not permit all required documents to reach the Exchange Agent prior to the Expiration Date (as defined below) or if the procedure for book-entry transfer cannot be completed on a timely basis;

4. A form of letter which may be sent to your clients for whose account you hold shares of Old Preferred Stock registered in your name or the name of your nominee, with space provided for obtaining such clients' instructions with regard to the Exchange Offer;

5. Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9; and

6. Return envelopes addressed to The Bank of New York, the Exchange Agent for the Old Preferred Stock.

YOUR PROMPT ACTION IS REQUESTED. THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON -- , 1998 (THE "EXPIRATION DATE") (20 BUSINESS DAYS FOLLOWING THE COMMENCEMENT OF THE EXCHANGE OFFER), UNLESS EXTENDED BY THE COMPANY. THE SHARES OF OLD PREFERRED STOCK TENDERED PURSUANT TO THE EXCHANGE OFFER MAY BE WITHDRAWN AT ANY TIME BEFORE 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE.

To participate in the Exchange Offer, a duly executed and properly completed Letter of Transmittal (or facsimile thereof), with any required signature guarantees and any other required documents, should be sent to the Exchange Agent and certificates representing the shares of Old Preferred Stock should be delivered to the Exchange Agent, all in accordance with the instructions set forth in the Letter of Transmittal and the Prospectus.

If holders of shares of Old Preferred Stock wish to tender, but it is impracticable for them to forward their certificates for shares of Old Preferred Stock prior to the expiration of the Exchange Offer or to comply with the book-entry transfer procedures on a timely basis, a tender may be effected by following the guaranteed

delivery procedures described in the Prospectus under "The Exchange Offer -- Guaranteed Delivery Procedures."

The Company will, upon request, reimburse brokers, dealers, commercial banks and trust companies for reasonable and necessary costs and expenses incurred by them in forwarding the Prospectus and the related documents to the beneficial owners of Old Preferred Stock held by them as nominee or in a fiduciary capacity. The Company will pay or cause to be paid all stock transfer taxes applicable to the exchange of shares of Old Preferred Stock pursuant to the Exchange Offer, except as set forth in Instruction 6 of the Letter of Transmittal.

Any inquiries you may have with respect to the Exchange Offer, or requests for additional copies of the enclosed materials, should be directed to the Exchange Agent for the shares of Old Preferred Stock, at its address and telephone number set forth on the front of the Letter of Transmittal.

Very truly yours,

American Communications Services, Inc.

NOTHING HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY OTHER PERSON AS AN AGENT OF THE COMPANY OR THE EXCHANGE AGENT, OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENTS ON BEHALF OF EITHER OF THEM WITH RESPECT TO THE EXCHANGE OFFER, EXCEPT FOR STATEMENTS EXPRESSLY MADE IN THE PROSPECTUS OR THE LETTER OF TRANSMITTAL.

Enclosures

EXHIBIT 99.4

AMERICAN COMMUNICATIONS SERVICES, INC.

OFFER TO EXCHANGE ITS REGISTERED
12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009
FOR ANY AND ALL OUTSTANDING SHARES
OF ITS OUTSTANDING
12 3/4% JUNIOR REDEEMABLE PREFERRED STOCK DUE 2009

To Our Clients:

Enclosed for your consideration is a Prospectus, dated December , 1997 (the "Prospectus"), and the enclosed Letter of Transmittal (the "Letter of Transmittal"), relating to the offer (the "Exchange Offer") of American Communications Services, Inc. (the "Company") to exchange its registered 12 3/4% Junior Redeemable Preferred Stock due 2009 (the "New Preferred Stock") for any and all outstanding shares of its 12 3/4% Junior Redeemable Preferred Stock due 2009 (the "Old Preferred Stock"), upon the terms and subject to the conditions described in the Prospectus. The Exchange Offer is being made in order to satisfy certain obligations of the Company contained in the Registration Rights Agreement dated as of October 16, 1997, between the Company and the Initial Purchaser thereto.

This material is being forwarded to you as the beneficial owner of the shares of Old Preferred Stock carried by us in your account but not registered in your name. A TENDER OF SUCH SHARES OF OLD PREFERRED STOCK MAY ONLY BE MADE BY US AS THE HOLDER OF RECORD AND PURSUANT TO YOUR INSTRUCTIONS.

Accordingly, we request instructions as to whether you wish us to tender on your behalf the shares of Old Preferred Stock held by us for your account, pursuant to the terms and conditions set forth in the enclosed Prospectus and Letter of Transmittal.

Your instructions should be forwarded to us as promptly as possible in order to permit us to tender the shares of Old Preferred Stock on your behalf in accordance with the provisions of the Exchange Offer. The Exchange Offer will expire at 5:00 p.m., New York City time, on -- , 1998, (the "Expiration Date") (20 business days following the commencement of the Exchange Offer) unless extended by the Company. Any shares of Old Preferred Stock tendered pursuant to the Exchange Offer may be withdrawn at any time before 5:00 p.m., New York City time, on the Expiration Date.

Your attention is directed to the following:

1. The Exchange Offer is for any and all shares of Old Preferred Stock.

2. The Exchange Offer is subject to certain conditions set forth in the Prospectus in the section captioned "The Exchange Offer -- Conditions."

3. Any transfer taxes incident to the transfer of shares of Old Preferred Stock from the holder to the Company will be paid by the Company, except as otherwise provided in the Instructions in the Letter of Transmittal.

4. The Exchange Offer expires at 5:00 p.m., New York City time, on the Expiration Date, unless extended by the Company.

If you wish to have us tender your shares of Old Preferred Stock, please so instruct us by completing, executing and returning to us the instruction form on the back of this letter. THE LETTER OF TRANSMITTAL IS FURNISHED TO YOU FOR INFORMATION ONLY AND MAY NOT BE USED DIRECTLY BY YOU TO TENDER SHARES OF OLD PREFERRED STOCK.

INSTRUCTIONS WITH RESPECT TO
THE EXCHANGE OFFER

The undersigned acknowledge(s) receipt of your letter and the enclosed material referred to therein relating to the Exchange Offer made by American Communications Services, Inc. with respect to its shares of Old Preferred Stock.

This will instruct you to tender the shares of Old Preferred Stock held by you for the account of the undersigned, upon and subject to the terms and conditions set forth in the Prospectus and the related Letter of Transmittal.

Please tender the shares of Old Preferred Stock held by you for my account as indicated below:

<TABLE>
<CAPTION>

<S>	<C> TOTAL SHARES OF OLD PREFERRED STOCK
12 3/4% Junior Redeemable Preferred Stock due 2009..	

[ ] Please do not tender any shares of Old Preferred Stock held by you for my account.

Dated:, 1998

SIGNATURE(S)

PLEASE PRINT NAME(S) HERE

ADDRESS(ES)

AREA CODE(S) AND TELEPHONE NUMBER(S)

TAX IDENTIFICATION OR SOCIAL SECURITY NO(S).

</TABLE>

None of the shares of Old Preferred Stock held by us for your account will be tendered unless we receive written instructions from you to do so. Unless a specific contrary instruction is given in the space provided, your signature(s) hereon shall constitute an instruction to us to tender all the shares of Old Preferred Stock held by us for your account.

EXHIBIT 99.5

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION

NUMBER ON SUBSTITUTE FORM W-9

GUIDELINES FOR DETERMINING THE PROPER IDENTIFICATION NUMBER TO GIVE THE PAYER.--Social Security numbers have nine digits separated by two hyphens: i.e. 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen: i.e. 00-0000000. The table below will help determine the number to give the payer.

<TABLE>
<C> <S> <C>

FOR THIS TYPE OF ACCOUNT:	GIVE THE SOCIAL SECURITY NUMBER OF--
FOR THIS TYPE OF ACCOUNT:	GIVE THE EMPLOYER IDENTIFICATION NUMBER OF--
1. An individual's account	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, any one of the individuals(1)
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor(1)
6. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person(3)
7. a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee(1)
b. So-called trust account that	The actual owner(1)

is not a legal or valid trust under State law	
8. Sole proprietorship account	The owner(4)
9. A valid trust, estate, or pension trust	The legal entity (do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.)(5)
10. Corporate account	The corporation
11. Religious, charitable, educational or other tax-exempt organization account	The organization
12. Partnership account held in the name of the business	The partnership
13. Association, club, or other tax-exempt organization	The organization
14. A broker or registered nominee	The broker or nominee
15. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

</TABLE>

(1) List first and circle the name of the person whose number you furnish. If only one person on a joint account has a Social Security number, that person's number must be furnished.
(2) Circle the minor's name and furnish the minor's social security number.
(3) Circle the ward's, minor's or incompetent person's name and furnish such person's social security number.
(4) You must show your individual name, but you may also enter your business or "doing business as" name. You may use either your Social Security number or employer identification number (if you have one).
(5) List first and circle the name of the legal trust, estate, or pension trust.

NOTE: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION

OBTAINING A NUMBER

If you don't have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number (for businesses and all other entities), at the local office of the Social Security Administration or the Internal Revenue Service (the "IRS") and apply for a number.

PAYEES EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempted from backup withholding on ALL payments include the following:

- A corporation.
- A financial institution.
- An organization exempt from tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), or an individual retirement plan, or a custodial account under Section 403(b)(7), if the account satisfies the requirements of Section 401(f)(7).
- The United States or any of its agencies or instrumentalities.
- A State, the District of Columbia, a possession of the United States, or any political subdivision or instrumentality thereof.
- A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.
- An international organization or any agency, or instrumentality thereof.
- A registered dealer in securities or commodities registered in the U.S., the District of Columbia or a possession of the U.S.
- A real estate investment trust.
- A common trust fund operated by a bank under Section 584(a) of the Code.
- An exempt charitable remainder trust, or a non-exempt trust described in Section 4947(a)(1) of the Code.
- An entity registered at all times under the Investment Company Act of 1940.
- A foreign central bank of issue.
- A middleman known in the investment community as a nominee or who is listed in the most recent publication of the American Society of Corporate Secretaries, Inc., Nominee List.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under Section 1441 of the Code.
- Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident partner.
- Payments of patronage dividends where the amount received is not paid in money.
- Payments made by certain foreign organizations.
- Payments made to a nominee.
- Section 404(k) payments made by an ESOP.

Payments of interest not generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. NOTE: You may be

subject to backup withholding if this interest is $600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.
- Payments of tax-exempt interest (including exempt-interest dividends under Section 852 of the Code).
- Payments described in Section 6049(b)(5) of the Code to nonresident aliens.
- Payments on tax-free covenant bonds under Section 1451 of the Code.
- Payments made by certain foreign organizations.
- Payments made to a nominee.
- Mortgage interest paid by you.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER. FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, SIGN AND DATE THE FORM AND RETURN IT TO THE PAYER. IF YOU ARE A NONRESIDENT ALIEN OR A FOREIGN ENTITY NOT SUBJECT TO BACKUP WITHHOLDING, FILE WITH PAYER A COMPLETED INTERNAL REVENUE FORM W-8 (CERTIFICATE OF FOREIGN STATUS).

Certain payments other than interest, dividends, and patronage dividends that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under Sections 6041, 6041A(a), 6045, and 6050A of the Code and the regulations promulgated thereunder.

PRIVACY ACT NOTICE.--Section 6109 requires most recipients of dividends, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to the IRS. The IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Payers must generally withhold 31% of taxable interest, dividends, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

PENALTIES

(1) PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER.--If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of $50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING.--If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of $500.

(3) CRIMINAL PENALTY FOR FALSIFYING INFORMATION.--Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX
CONSULTANT OR THE INTERNAL REVENUE SERVICE