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January 23, 1998

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VIA OVERNIGHT DELIVERY

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

Re: Application for Authority to Transfer Control of LDS Ventures, Inc.

Dear Ms. Bayo:

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

Please do not hesitate to call me if you have any questions regarding this filing.

Respectfully Submitted,

James J. Freeman

Enclosure

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ORIGINAL

Before the
STATE OF FLORIDA
PUBLIC SERVICE COMMISSION

Application of	)	
	)	
	)	
INTERMEDIA COMMUNICATIONS INC.	)	
and LDS VENTURES, INC.	)	Docket No.
	)	
	)	
For Approval of a Transfer of Control	)	

APPLICATION

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

ORIGINAL

I. The Applicants

LDS Ventures, Inc. is a privately-held Florida corporation. It maintains its principal office at 691 N.E. 29th Place, Boca Raton, FL 33431. LDS is authorized by the FCC to provide interstate resale services. LDS and its affiliated entities are authorized to provide intrastate telecommunications services in 5 states, including Florida. LDS received its certificate to provide interexchange services and AOS in Florida on October 8, 1992 in Docket No. 920788-TI, Order No. PSC-92-1155-FOF-TI, Certificate No. 3128. This certificate was amended to reflect the fictitious name "Long Distance Savers, Inc." on January 31, 1995 in Docket No. 941336-TI, Order No. PSC-95-0145-FOF-TI. The name on Certificate No. 3128 now reads LDS Ventures, Inc. d/b/a Long Distance Savers, Inc.

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

II. Designated Contacts

The designated contacts for purposes of this Application are:

James J. Freeman
Melissa M. Smith
KELLEY DRYE & WARREN LLP
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Copies of all correspondence, notices, inquiries and orders should also be sent to:

For ICI:	For LDS:
Patricia A. Kurlin	Christopher B. Chelette
General Counsel	Vice President
INTERMEDIA COMMUNICATIONS INC.	LDS COMMUNICATIONS, INC.
3625 Queen Palm Drive	P.O. Box 8160
Tampa, Florida 33619	Monroe, LA 71211-8160

III. Request for Approval to Transfer Control of LDS to ICI

On December 17, 1997, ICI and LDS entered into a definitive Acquisition Agreement ("Agreement") pursuant to which ICI will acquire LDS by purchasing all of the company's outstanding shares from the current LDS shareholders.[1] Essentially, the acquisition of LDS by ICI will result in a transfer of control of LDS to ICI. LDS will continue in existence after the transaction is consummated when it will be a wholly owned subsidiary of ICI. The boards of directors of ICI and LDS have approved the Agreement.

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[1] The Acquisition Agreement can be provided to the Commission on a confidential basis upon request. The Agreement also provides for the acquisition by ICI of other affiliates of LDS.

Under the terms of the Agreement, ICI will deliver cash in the amount of $2,244,119, subject to various specified adjustments at or subsequent to closing, in exchange for all of the issued and outstanding stock of LDS. The total acquisition cost of LDS and its other affiliated entities is estimated by ICI to be approximately $151,000,000, subject to adjustment. No more than $31,000,000 will be paid from ICI's existing cash reserves and the balance of the purchase price will be paid in ICI common stock. Consummation of this transaction will not in any way undermine the financial condition of ICI or its ability to continue to provide high quality telecommunications services to customers in Florida.

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

ICI possesses all financial, managerial and technical qualifications necessary to assume ultimate control of LDS. ICI is a rapidly growing telecommunications company that was founded in 1987. Between 1994 and 1996, ICI's revenues grew from $14 million to $103 million.[2] For the third quarter of calendar year 1997, ICI reported revenues of approximately $165 million.[3] Due to the fact that it is in the process of acquiring and constructing fiber optic networks nationwide, ICI has relied principally on the capital markets to fund its rapidly expanding operations. ICI is led by a highly qualified team of management personnel, all of whom have extensive backgrounds in the telecommunications

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

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

industry.[4] ICI's telecommunications expertise, and the public's satisfaction with its services, is demonstrated by the fact that the company has experienced such tremendous growth in revenues over the last three years.

IV. Public Interest Analysis

Approving the transfer of control of LDS from its current shareholders to ICI is in the public interest. The combination of LDS and ICI will enhance both LDS's and ICI's ability to compete in the market for telecommunications services in Florida. Both companies will benefit from increased economies of scale that will permit them to operate more efficiently and thus to compete more effectively. Over time, consumers in Florida will benefit from the availability of increased local and long distance telecommunications product and service options.

[4] Brief biographical statements concerning ICI's senior management personnel are appended hereto as Attachment C.

WHEREFORE, the Applicants respectfully request that the Commission authorize a transfer of control of LDS to ICI.

Respectfully submitted,

INTERMEDIA COMMUNICATIONS INC. and
LDS VENTURES, INC.

By: ______________________
James J. Freeman
*Melissa M. Smith
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036
(202) 955-9600

Their Attorneys

*Not yet admitted in the District of Columbia.

Dated: January 23, 1998

VERIFICATION

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

By: ______________________

Name: Chris Chelette

Title: Vice President

Date: 1/22/98

SUBSCRIBED AND SWORN to before
me this 22nd day of January, 1998

____
NOTARY PUBLIC in and for said County and State

DC01/SMITM/57186.41

VERIFICATION

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

By: ______________________

Name: PATRICIA A. KURLIN

Title: VP & GENERAL COUNSEL

Date: 1/22/98

SUBSCRIBED AND SWORN to before
me this 22ND day of January, 1998

____
NOTARY PUBLIC in and for said County and State

TAMMY PETTYS
MY COMMISSION # CC 441625
EXPIRES: April 1, 1999
Bonded Thru Notary Public Underwriters

DCO1/MACHMA/54791 41

ATTACHMENT A

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

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

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

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

INTERMEDIA COMMUNICATIONS INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

Documents Incorporated by Reference

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

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

INTERMEDIA COMMUNICATIONS INC.

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

Item 1. ***Description of Business***

The Company

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

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

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

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

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

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

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

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

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

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

Customer Strategy

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

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

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

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

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

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

Network Strategy

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

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

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

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

Growth Strategy

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

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

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

1996 Acquisitions

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

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

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

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

Services Provided and Markets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's local network services consist of local private line services, which the Company has been offering since 1987, and local exchange service, which the Company began offering in 1996. The Company provides customers local private line services either by building network facilities or leasing extended network facilities to the customer's premises. In the markets where the Company has digital, fiber optic networks, the addition of local exchange services allows the Company to increase its revenue generating product mix without having to acquire additional transport facilities and allows a more integrated service to be offered to the customer. The initial circuit used to reach the customer establishes a platform that can be utilized to offer additional services. Due to the significant bandwidth inherent in fiber optic cable, a single connection can support a large number of service types and a large number of customers.

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

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

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

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

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

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

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

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

Sales, Marketing and Service Delivery

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

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

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

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

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

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

Network

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

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

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

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

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

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

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

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

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

Competition

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

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

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

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

The Company also faces competition in most markets in which it operates from one or more CLECs or ICPs operating fiber optic networks. Other local service providers have operations or are initiating operations within one or more of the Company's service areas. ICI expects WorldCom, MCI, Teleport Communications Group, Inc. ("Teleport"), and certain cable television providers, many of which are substantially larger and have substantially greater financial resources than the Company, to enter some or all of the markets that the Company presently serves. At least two of these competitors, WorldCom and Teleport, have entered or announced plans to enter a number of ICI's service areas. ICI also understands that other entities have indicated their desire to enter the local exchange services market within specific metropolitan areas served or targeted by ICI.

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

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

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

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

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

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

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

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

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

Government Regulation

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

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

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

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

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

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

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

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

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

While the 1996 Act reduces regulation to which non-dominant local exchange carriers are subject, it also reduces the level of regulation that applies to the ILECs, and increases their ability to respond quickly to competition from the Company and others. For example, in accordance with the 1996 Act, the FCC has proposed to subject the ILECs to "streamlined" tariff regulation, which greatly accelerates the time in which tariffs that change service rates take effect, and eliminates the requirement that ILECs obtain FCC authorization before constructing new domestic facilities. These actions will allow ILECs to change service rates more quickly in response to competition. The FCC initiated a proceeding on December 24, 1996 that addresses these issues and is expected to issue an order on these issues in May 1997. Similarly, the FCC has initiated a proceeding to review its price cap rules that may permit significant new pricing flexibility to ILECs. To the extent that such increased pricing flexibility is provided, the Company's ability to compete with ILECs for certain services may be adversely affected.

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

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

State Regulation. To the extent that the Company provides intrastate service, it is subject to the jurisdiction of the relevant state public service commissions. The Company currently provides some intrastate services in 36 states and is subject to regulation by the public service commissions of those states. The Company is currently certificated (or certification is not required) in 41 states and the District of Columbia to provide toll services and is currently seeking certification in the nine remaining states. The Company is certified as a CLEC in 13 states and the District of Columbia and is currently seeking CLEC certification in 22 additional states. The Company is constantly evaluating the competitive environment and may seek to further expand its intrastate certifications into additional jurisdictions.

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

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

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

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

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

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

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

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

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

Agreements

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

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

Although none of the Network Agreements are exclusive, the Company believes that conduit space, fiber availability and other physical constraints make it unlikely that the lessors under the various Network Agreements could easily make similar arrangements available to others. The Company believes that its relationships with its lessors are satisfactory. Certain of the Network Agreements require ICI to make revenue sharing payments or, in some cases, to provide a fixed price alternative or dark fiber to the lessor without an additional charge. In addition, the Company has various other performance obligations under its Network Agreements, the breach of which could result in the termination of such agreements. Further, actions by governmental regulatory bodies could, in certain instances, also result in the termination of certain Network Agreements. The cancellation of any of the material Network Agreements could materially adversely affect the Company's business in the affected metropolitan area. See "Risk Factors — Risk of Cancellation or Non-Renewal of Network Agreements, Licenses and Permits."

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

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

Employees

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

Risk Factors

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

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

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

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

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

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

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

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

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

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

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

Risk of New Service Acceptance by Customers. The Company has recently introduced a number of services, primarily local exchange services, that the Company believes are important to its long-term growth. The success of these services will be dependent upon, among other things, the willingness of customers to accept the Company as the provider of such new telecommunications technology. No assurance can be given that such acceptance will occur; the lack of such acceptance could have a material adverse effect on the Company.

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

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

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

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

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

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

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

Forward Looking Statements. The statements contained in this report that are not historical facts are "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995), which can be identified by the use of forward-looking terminology such as "estimates," "projects," "anticipates," "expects," "intends," "believes," or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Management wishes to caution the reader that these forward-looking statements, such as the Company's plans to expand its existing networks or to build and acquire networks in new areas, the market opportunity presented by larger metropolitan areas, its anticipation of installation of switches or the provision of local exchange services and revenues from designated markets during 1997, and statements regarding development of the Company's businesses, the estimate of market sizes and addressable markets for the Company's services and products, the Company's anticipated capital expenditures, regulatory reform and other statements contained in this report regarding matters that are not historical facts, are only estimates or predictions. No assurance can be given that future results will be achieved; actual events or results may differ materially as a result of risks facing the Company or actual results differing from the assumptions underlying such statements. Such risks and assumptions include, but are not limited to, the Company's ability to successfully market its services to current and new customers, generate customer demand for its services in the particular markets where it plans to market services, access markets, identify, finance and complete suitable acquisitions, design and construct fiber optic networks, install cable and facilities, including switching electronics, and obtain rights-of way, building access rights and any required governmental authorizations, franchises and permits, all in a timely manner, at reasonable costs and on satisfactory terms and conditions, as well as regulatory, legislative and judicial developments that could cause actual results to vary materially from the future results indicated, expressed or implied, in such forward-looking statements.

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

Item 2. ***Description of Properties***

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

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

Equipment additions over the past five years include gross additions to telecommunications equipment having an estimated service life of one year or more. Additions, including capital leases and excluding equipment acquired and capital leases assumed in business acquisitions, since January 1, 1992 were as follows (in thousands):

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

Item 3. *Legal Proceedings*

Legal Proceedings

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

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

None.

PART II

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

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

	Bid Price	
Quarter	High	Low
1995		
First	15	11
Second	13	8½
Third	17½	10½
Fourth	17¼	11
1996		
First	19¾	13⅞
Second	38½	17¼
Third	34¾	22
Fourth	35	21

Holders of shares of Common Stock are entitled to dividends, when and if declared by the Board of Directors, out of funds legally available therefor. ICI has never declared or paid cash dividends on its Common Stock. ICI intends to retain its earnings, if any, to finance the development and expansion of its business, and therefore does not anticipate paying any dividends in the foreseeable future. In addition, the terms of (i) the Company's 13½% Series B Senior Notes due 2005 (the "Senior Notes"), (ii) the Company's 12½% Senior Discount Notes due 2006 (the "Discount Notes" and together with the Senior Notes, the "Existing Senior Notes") and (iii) the Company's Series A Preferred Stock restrict the payment of dividends. When such restrictions no longer exist, the decision whether to pay dividends will be made by the Board of Directors in light of conditions then existing, including the Company's results of operations, financial condition and capital requirements, business conditions and other factors. The payment of dividends on the Common Stock is also subject to the preference applicable to the outstanding shares of the Company's Series A Preferred Stock and to the preference that may be applicable to any additional outstanding shares of the Company's Preferred Stock.

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

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

On March 7, 1997, ICI consummated a private placement (the "Private Placement") of 30,000 shares of its 13½% Series A Redeemable Exchangeable Preferred Stock due 2009, liquidation preference $10,000 per share (the "Series A Preferred Stock"), to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Act")) (the "Purchasers") to generate gross proceeds to the Company of $300,000,000, including an aggregate of $11,125,000 of underwriting discounts and commissions. The shares of Series A Preferred Stock were issued to the Purchasers pursuant to an exemption from registration provided by Rule 144A under the Act. In connection with the Private Placement, the Purchasers and the Company entered into a Registration Rights Agreements, whereby the Company agreed to file a registration statement with respect to an offer to exchange the Series A Preferred Stock for a new issue of preferred stock of the Company registered under the Act, with terms substantially identical to those of the Series A Preferred Stock. Each of the Purchasers represented to the Company, among other things, that it is a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A, and that it is acquiring the Series A Preferred Stock for its own account or for the account of another qualified institutional buyer.

Item 6. *Selected Financial and Other Operating Data*

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

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

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

	Year Ended December 31,					Pro Forma(1) Year Ended December 31, 1996
	1992	1993	1994	1995	1996	
Selected Financial Data:						
Revenue	$ [illegible]	$ 8,292	$14,272	$ 38,631	$101,397	$152,071
Expenses						
Facilities administration and maintenance and line costs	1,[illegible]	2,843	5,396	22,989	81,105	121,803
Selling, general and administrative	[illegible]	[illegible]	6,412	14,993	36,610	40,663
Depreciation and amortization	[illegible]	[illegible]	5,132	10,196	19,836	23,022
	[illegible]	9,756	16,940	48,178	137,551	185,488
Operating income (loss)	[illegible]	(1,464)	(2,668)	(9,547)	(34,154)	(33,417)
Other income (expense)						
Interest expense	[illegible]	(844)	(1,238)	(13,767)	(35,213)	[illegible]
Interest and other income	[illegible]	234	819	4,060	12,168	[illegible]
Income tax benefit				97		
Loss before extraordinary item	[illegible]	[illegible]	[illegible]	(19,157)	(57,199)	(57,202)
Extraordinary loss on early extinguishment of debt				(1,592)		
Net loss	$ [illegible]	$ [illegible]	$ [illegible]	$(20,749)	$(57,199)	$(57,202)
Net loss per share (2)						
Loss before extraordinary item	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Extraordinary loss				[illegible]		
Net loss	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Weighted average number of shares outstanding	[illegible]	[illegible]	[illegible]	30,036	14,018	14,516

	Year Ended December 31,					Pro Forma(1) Year Ended December 31, 1996
	1992	1993	1994	1995	1996	
Other Data:						
Earnings before interest, income taxes, depreciation and amortization ("EBITDA")(3)	$2,663	$ [illegible]	$ 2,464	$ [illegible]	$ [illegible]	$ (10,395)
Capital expenditures, including acquisitions of businesses, net of cash acquired	$ [illegible]	$ [illegible]	$ [illegible]	$31,915	$ [illegible]	$ [illegible]

	December 31,				
	1992	1993	1994	1995	1996
Network Data:(4)					
Buildings connected	[illegible]	[illegible]	293	[illegible]	487
Route miles	[illegible]	[illegible]	[illegible]	504	655
Fiber miles	6,184	10,249	[illegible]	17,128	24,122
Number of city-based networks in service	[illegible]	[illegible]	6	[illegible]	9
Enhanced Data Services:(4)					
Nodes(5)		[illegible]	[illegible]	[illegible]	9,500
Cities(6)		[illegible]	[illegible]	[illegible]	2,200
Switches		4	12	31	89
Employees(4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	December 31,				
	1992	1993	1994	1995	1996
Balance Sheet Data:					
Cash and cash equivalents(7)	$ [illegible]	$27,954	$10,208	$ 50,997	$189,546
Working capital(8)	[illegible]	[illegible]	9,588	50,453	96,029
Total assets	[illegible]	61,219	74,086	216,018	512,940
Long-term obligations and redeemable preferred stock (including current maturities)	11,742	[illegible]	16,527	165,545	358,508
Total stockholders' equity	21,257	35,967	52,033	40,254	114,290

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

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

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

4. Amounts as reflected in the table are based upon information contained in the Company's operating records.
5. Amount represents an individual point of origin and termination of data served by the Company's enhanced network. In the opinion of management of the Company, all node numbers are appropriate.
6. Represents the number of discrete postal cities to which enhanced data services are provided by the Company.
7. Cash and cash equivalents excludes investments of $20,954 and $26,675 in 1995 and 1996, respectively, restricted under the terms of various notes and other agreements.
8. Working capital includes the restricted investments referred to in Note 7 above.

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

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

Overview

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

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

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

From 1992 through 1995, the Company had achieved positive EBITDA and increased its revenue base substantially. However, as a result of significant investments in resources necessary to launch local exchange services and expand enhanced data services, EBITDA decreased as a percentage of revenue and the Company's EBITDA was negative for 1996. This was due to the significant up front expenses related to the development of its networks and leased facilities, the revenue from which is expected to be realized in later periods. The development of the Company's business and the installation and expansion of its networks have resulted in substantial capital expenditures and net losses during this period of its operations. Procurement of rights-of-way, administration and maintenance of facilities, depreciation of network capital expenditures and sales, general and administrative costs will continue to represent a large portion of the Company's expenses during its rapid expansion. In addition, the Company is experiencing rapid growth in marketing and selling expenses consistent with the addition of new customers and an increased level of selling and marketing activity. All of the marketing and selling expenses associated with the acquisition of new customers are expensed as they are incurred even though these customers are expected to generate recurring revenue for the Company for several years. The continued expansion of the Company's networks in anticipation of new customers and the marketing of services to new and existing customers is therefore adversely impacting EBITDA of the Company in the near term. The Company anticipates, but there can be no assurance, that as its customer base grows, incremental revenues will be greater than incremental operating expenses.

Plan of Operation

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

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

Revenue and Customer Base Analysis

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

Revenue and Customer Base Analysis

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

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

(2) Excludes long distance customers for whom billings during December 1996 were less than $500.

Results of Operations

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

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

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

Year ended 1996 vs. Year ended 1995

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

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

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

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

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

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

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

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

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

Extraordinary loss of $1.6 million in 1995 reflects $1.3 million in prepayment penalties related to certain indebtedness which was repaid from the proceeds of the June 1995 issuance of $160 million principal amount of 13½% Senior Notes and the write-off of the unamortized deferred financing costs associated with the indebtedness repaid.

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

Year ended 1995 vs. Year ended 1994

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

The Company's operations have required substantial capital investment for the purchase of telecommunications equipment and the design, construction and development of the Company's networks. Capital expenditures for the Company were $13.7 million, $50.0 million and $131.2 million in 1994, 1995 and 1996, respectively, excluding capital leases and telecommunications equipment acquired in connection with business acquisitions. The Company expects that it will continue to have substantial capital requirements in connection with the (i) expansion and improvement of the Company's existing networks, (ii) design, construction and development of new networks, (iii) connection of additional buildings and customers to the Company's networks, (iv) purchase of switches necessary for local exchange services and expansion of interexchange services and (v) development of the Company's enhanced data services.

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

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

In response to the new pro-competitive telecommunications environment (See "Business—Government Regulation"), the Company has accelerated and expanded its capital deployment plan to allow for an increased level of demand-driven capital spending necessary to more rapidly exploit the market opportunity in the local exchange market. The Company expects to expend substantial amounts to upgrade its existing networks in order to switch traffic within the local service area in those states where it is currently permitted to provide such services. The Company is certified as a CLEC in 13 states and the District of Columbia, allowing the Company to provide local exchange services in those markets, and has CLEC certification applications pending in 22 states. In addition, the Company expects to expend capital toward the further development of the Company's enhanced data service and interchange service offerings.

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

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

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

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

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

Impact of Inflation

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

Item 8. ***Financial Statements and Supplementary Data***

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

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

None.

PART III

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

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

Item 11. ***Executive Compensation***

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

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

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

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

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

PART IV

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

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

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

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

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

(3) **Exhibits**

Number	Exhibit
2.1(a)	Acquisition agreement between the Company and Phone One International, Inc. dated November 9, 1994 (the "Acquisition Agreement"). Exhibit 2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994 filed with the Commission on November 15, 1994 is incorporated herein by reference.
2.1(b)	Amendment No. 1 to the Acquisition Agreement, dated as of December 2, 1994. Exhibit 2.1(b) to the Company's Current Report on Form 8-K filed with the Commission on December 14, 1994 (the "1994 Form 8-K") is incorporated herein by reference.
2.1(c)	Letter agreement dated December 16, 1994 between the Company and Phone One International, Inc. Exhibit 2.1(c) to the Company's Current Report on Form 8-K filed with the Commission on January 27, 1995 is incorporated herein by reference.
2.2	Agreement and Plan of Merger, dated as of February 15, 1995, among the Company, FAC Acquisition, Inc., CAC Acquisition, Inc., FiberNet USA, Inc., FiberNet Telecommunications Cincinnati, Inc., James F. Geiger, Mark A. Mast, Joseph A. Tortoretti, Petrocelli Industries, Inc. and Santo Petrocelli. Exhibit 2.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 is incorporated herein by reference.
2.3	Asset Purchase Agreement (the "EMI Asset Purchase Agreement") dated as of February 20, 1996 among EMI Communications Corp., Eastern Message, Inc., Eastern Message of New Jersey, Inc., Eastern Message of Pennsylvania, Inc., Eastern Message of Massachusetts, Inc., Eastern Message of Maryland, Inc., Newhouse Broadcasting Corporation and Intermedia Communications of Florida, Inc. Exhibit 2.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (the "1995 Form 10-K") is incorporated herein by reference.
2.3(a)	Amendment No. 1 to the EMI Asset Purchase Agreement. Exhibit 2.2 to the Company's Current Report on Form 8-K filed with the Commission on June 28, 1996 is incorporated herein by reference.
3.1	Restated Certificate of Incorporation of ICI, together with all amendments thereto.
3.2	By-laws of ICI, together with all amendments thereto. Exhibit 3.2 to the Company's Form S-1, filed with the Commission on November 8, 1993 (No. 33-69053) (the "Form S-1") is incorporated herein by reference.
4.1	Registration Rights Agreement between the Company and Phone One International, Inc., dated December 2, 1994. Exhibit 4.1 to the 1994 Form 8-K is incorporated herein by reference.
4.1(a)	Amended and Restated Stockholders Agreement, dated as of June 5, 199 , among ICI, Robert Benton, Richard Anthony, James Burt, Mary Couture, Robert Hardie, Sheryl Houff, Thomas Klump, Richard Kolsby, William Miller, Daniel Montague, Susan Rodriguez, Barbara Samson, Harvard Southall, Bruce Sutcliffe, Marion Samson Joseph, APA Excelsior II, National Westminster Jersey Trust Co. Ltd., Custodian for APA Excelsior Venture Capital Holdings (Jersey) Ltd, Morgan Holland Fund L.P., MBW Venture Partners Limited Partnership, Michigan Investment Fund L.P. and Philip E. McCarthy, Vista III L.P., Kronish, Lieb, Weiner & Hellman Profit Sharing Plan and Trust F/B/O Ralph J. Sutcliffe, New York Life Insurance Company, and Community Investment Partners, L.P. (the "Stockholders Agreement"). Exhibit 4.1(a) to the Form S-1 is incorporated herein by reference.
4.1(b)	Amendment to Stockholders Agreement dated as of February 21, 1992. Exhibit 4.1(b) to the Form S-1 is incorporated herein by reference.

Number	Exhibit
4.2	Indenture, dated as of June 2, 1995, between the Company and SunBank National Association, as trustee. Exhibit 4.1 to the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission on June 20, 1995 (No. 33-93622) (the "Form S-4") is incorporated herein by reference.
4.2(a)	Amended and Restated Indenture, dated as of April 26, 1996, governing the Company's 13½% Series B Senior Notes due 2005, between the Company and SunTrust Bank, Central Florida, National Association, as trustee. Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on April 29, 1996 is incorporated herein by reference.
4.3	Registration Rights Agreement, dated as of June 2, 1995 among the Company, Bear, Stearns, & Co., Inc. and Morgan Stanley & Co., as initial purchasers. Exhibit 4.3 to the Form S-4 is incorporated herein by reference.
4.4	Rights Agreement dated as of March 7, 1996, between Intermedia Communications of Florida, Inc., and Continental Stock Transfer and Trust Company. Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on March 12, 1996 is incorporated herein by reference.
4.4(a)	Amendment to Rights Agreement, dated as of February 20, 1997 between Intermedia Communications Inc. and Continental Stock Transfer & Trust Company.
4.5	Warrant Agreement, dated as of February 18, 19[illegible], between ICI and certain of its stockholders. Exhibit 10.16 to the Company's Form S-1 is incorporated herein by reference.
4.6	Warrant Agreement, dated as of June 5, 1991, between ICI and New York Life Insurance Company. Exhibit 10.17 to the Company's Form S-1 is incorporated herein by reference.
4.7	Form of Warrant Agreement, dated as of March 4, 1992, between ICI and certain of its stockholders. Exhibit 10.18 to the Company's Form S-1 is incorporated herein by reference.
4.8	Indenture, dated as of May 14, 1996, between the Company and SunTrust Bank, Central Florida, National Association, as trustee. Exhibit 4.1 to Amendment No. 1 to the Company's Registration Statement on Form S-3 (Commission File No. 33-34738) filed with the Commission on April 18, 1996 is incorporated herein by reference.
4.9	Certificate of Designation of the Company's 13½% Series A and Series B Redeemable Exchangeable Preferred Stock due 2006 is contained in the Company's Restated Certificate of Incorporation, as amended, filed as Exhibit 3.1 to this report.
4.10	Registration Rights Agreeement, dated as of March 7, 1997, by and among the Company and Bear, Stearns & Co. Inc., Morgan Stanley & Co. Incorporated and Salomon Brothers Inc. as the initial purchasers.
4.11	Certificate of Designation, as amended, of the Company's Series C Preferred Stock is contained in the Company's Restated Certificate of Incorporation, as amended, filed as Exhibit 3.1 to this report.
10.1(a)	1992 Stock Option Plan. Exhibit 10.1 to the Form S-1 is incorporated herein by reference.
10.1(b)	Amendment to 1992 Stock Option Plan dated May 20, 1993. Exhibit 10.1(b) to the Form S-1 is incorporated herein by reference.
10.1(c)	Long Term Incentive Plan. Exhibit 10.1(c) to the Company's 1995 Form 10-K is incorporated herein by reference.
10.2	David C. Ruberg Employment Agreement, dated May 1, 1993, between David C. Ruberg and ICI. Exhibit 10.2 to the Company's 1995 Form 10-K is incorporated herein by reference.

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SIGNATURES

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

INTERMEDIA COMMUNICATIONS INC. (Registrant)

COMPANY NAME

By /s/ DAVID C. RUBERG

David C. Ruberg
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Principal Executive Officer:

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

Principal Financial and Accounting Officers:

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

Other Directors:

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Intermedia Communications Inc

We have audited the accompanying consolidated balance sheets of Intermedia Communications Inc. as of December 31, 1995 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. Our audits also include the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intermedia Communications Inc. at December 31, 1995 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

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

INTERMEDIA COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS

	December 31	
	1995	1996
Assets		
Current assets:		
Cash and cash equivalents	$ 50,996,919	$189,545,939
Short-term investments	--	6,041,000
Restricted investments	20,954,015	26,674,831
Accounts receivable, less allowance for doubtful accounts of $869,000 in 1995 and $1,346,000 in 1996	7,954,194	13,271,769
Prepaid expenses and other current assets	1,532,186	5,230,149
Total current assets	81,437,314	240,763,688
Restricted investments	30,869,001	10,481,358
Telecommunications equipment, net	76,469,589	203,907,013
Intangible assets, net	26,986,915	48,397,317
Other assets	255,306	3,391,001
Total assets	$216,018,125	$512,940,377
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,810,175	$ 29,895,061
Accrued taxes	285,757	1,660,279
Accrued interest	1,800,000	1,800,000
Other accrued expenses	1,575,925	3,709,951
Advance billings	1,742,081	3,137,093
Current portion of long-term debt	107,787	55,015
Current portion of capital lease obligations	1,052,922	476,973
Total current liabilities	11,384,622	40,734,372
Long-term debt	159,199,226	353,449,031
Capital lease obligations	5,179,914	4,526,764
Stockholders' equity:		
Preferred stock, $1.00 par value; 500,000 and 460,000 shares authorized in 1995 and 1996, respectively, no shares issued		
Series C preferred stock, $1.00 par value; 40,000 shares authorized in 1996, none in 1995; no shares issued		
Common stock, $.01 par value; 20,000,000 and 50,000,000 shares authorized in 1995 and 1996, respectively; 10,359,771 and 16,285,340 shares issued and outstanding in 1995 and 1996, respectively	103,597	162,853
Additional paid-in capital	74,093,476	212,810,661
Accumulated deficit	(33,942,710)	(91,141,421)
Deferred compensation		(7,601,883)
Total stockholders' equity	40,254,363	114,230,210
Total liabilities and stockholders' equity	$216,018,125	$512,940,377

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31		
	1994	1995	1996
Revenues	$14,272,396	$ 38,630,574	$103,396,887
Expenses:			
Facilities administration and maintenance and line costs	5,395,932	22,989,195	81,105,107
Selling, general, and administrative	6,412,287	14,992,458	36,609,846
Depreciation and amortization	5,131,940	10,195,871	19,835,686
	16,940,159	48, 77,524	137,550,639
Loss from operations	(2,667,763)	(9,546,950)	(34,153,752)
Other income (expense):			
Interest expense	(1,218,876)	(13,766,639)	(35,213,179)
Interest and other income	819,260	4,060,040	12,168,220
Loss before income tax benefit and extraordinary item	(3,067,379)	(19,253,549)	(57,198,711)
Income tax benefit		96,952	—
Loss before extraordinary item	(3,067,379)	(19,156,597)	(57,198,711)
Extraordinary loss on early extinguishment of debt		(1,592,045)	—
Net loss	$(3,067,379)	$(20,748,642)	$(57,198,711)
Loss per share:			
Loss before extraordinary item	$ (0.34)	$ (1.91)	$ (4.08)
Extraordinary loss		(0.16)	—
Net loss per share	$ (0.34)	$ (2.07)	$ (4.08)
Weighted average number of shares outstanding	[illegible]	10,035,774	14,017,593

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Deferred Compensation	Total Stockholders' Equity
	Shares	Amount				
Balance at January 1, 1994	8,877,432	$ 88,774	$ 56,025,341	$(10,126,689)	$ —	$ 45,987,426
Issuance of shares of common stock for business combination	740,000	7,400	8,836,100		—	8,843,500
Exercise of stock options for 41,756 shares of common stock at prices ranging from $6.25 to $10.63 per share	41,756	418	[illegible]		—	269,816
Net loss	—	—		[illegible]		(3,067,379)
Balance at December 31, 1994	9,659,188	96,592	[illegible]	[illegible]		52,033,363
Issuance of shares of common stock for business combination	683,583	6,836	[illegible]			[illegible]
Return and cancellation of escrowed shares issued for 1994 business combination	(22,357)	(224)	[illegible]			[illegible]
Exercise of stock options and warrants for 39,357 shares of common stock at prices ranging from $4.20 to $12.20 per share	39,357	[illegible]	[illegible]			336,700
Issuance of detachable stock purchase warrants, net of issuance costs	—		[illegible]			1,051,200
Net loss				[illegible]		(20,748,642)
Balance at December 31, 1995	10,359,771	[illegible]	[illegible]	[illegible]		[illegible]
Sale of common stock	4,674,503	46,745	[illegible]			[illegible]
Issuance of shares of common stock for business combinations	968,880	9,689	[illegible]			[illegible]
Exercise of stock options and warrants for 82,186 shares of common stock at prices ranging from $4.20 to $27.06 per share	82,186	822	[illegible]			[illegible]
Issuance of stock options under long-term compensation plan	—		[illegible]		[illegible]	
Issuance of common stock under long-term compensation plan	200,000	2,000	[illegible]		[illegible]	
Amortization of deferred compensation					972,612	972,612
Net loss	—	—		[illegible]	—	(57,198,711)
Balance at December 31, 1996	16,285,340	$162,853	[illegible]	[illegible]	$(7,601,883)	$114,230,210

See accompanying notes.

INTERMEDIA COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	1994	1995	1996
Operating activities			
Net loss	$ [illegible]	$ (20,748,642)	$ (57,198,711)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	5,131,940	10,607,666	21,087,749
Amortization of deferred compensation			972,612
Accretion of interest on notes		-	14,304,460
Extraordinary loss		1,592,045	
Deferred tax benefit		(96,952)	-
Provision for doubtful accounts	[illegible]	856,055	2,284,502
Changes in operating assets and liabilities			
Accounts receivable	[illegible]	[illegible]	(13,150,097)
Prepaid expenses and other current assets	[illegible]	(204,824)	(1,702,353)
Other assets		159,751	(178,000)
Accounts payable	(552,512)	(591,955)	22,326,204
Other accrued expenses and taxes	[illegible]	1,483,878	2,107,548
Advance billings	[illegible]	[illegible]	1,390,012
Net cash used in operating activities	[illegible]	[illegible]	[illegible]
Investing activities			
Purchase of restricted investments		(60,952,496)	(5,250,000)
Maturities of restricted investment		9,179,480	19,916,827
Purchase of business, net of cash acquired		(1,952,268)	(12,401,086)
Purchases of short-term investments			(6,041,000)
Purchases of telecommunications equipment	[illegible]	(29,962,419)	(131,214,187)
Proceeds from sale of telecommunications equipment		-	624,110
Other investing activities	[illegible]		
Net cash used in investing activities	[illegible]	(83,687,703)	(134,365,336)
Financing activities			
Proceeds from sale of common stock, net of issuance costs			111,717,718
Exercise of stock warrants and options	[illegible]	336,700	707,044
Payments on long-term debt	[illegible]	(14,804,457)	(1,320,510)
Net proceeds from issuance of long-term debt and warrants		153,766,848	170,862,622
Payments on capital leases	(926,318)	(5,127,784)	(1,296,435)
Net cash (used in) provided by financing activities	[illegible]	134,171,307	280,670,439
Increase (decrease) in cash and cash equivalents	(17,745,661)	40,788,732	138,549,020
Cash and cash equivalents at beginning of year	27,953,848	10,208,187	50,996,919
Cash and cash equivalents at end of year	$ 10,208,187	$ 50,996,919	$ 189,545,939
Supplemental disclosures of cash flow information			
Interest paid	$ [illegible]	$ 12,318,014	$ 23,436,882

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996

1. Summary of Significant Accounting Policies

Business

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

Principles of Consolidation

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

Use of Estimates

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

Cash Equivalents

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

Short-Term Investments

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

Restricted Investments

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

Telecommunications Equipment

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

Telecommunications equipment	3 – 7 years
Fiber optic cable	20 years
Furniture and fixtures	5 – 7 years

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

Intangible Assets

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

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

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

Revenue Recognition

The Company recognizes revenue in the period the service is provided or the goods are shipped for equipment product sales. Unbilled revenues represent revenues earned for telecommunications services provided which will be billed in the succeeding month and totaled $636,257 and $2,403,584 and as of December 31, 1995 and 1996, respectively. Unbilled revenues are included as a component of accounts receivable in the accompanying consolidated balance sheets The Company invoices customers one month in advance for recurring services resulting in advance billings at December 31, 1995 and 1996 of $1,747,100 and $3,137,000 respectively

Income Taxes

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

Loss Per Share

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

Concentrations of Credit Risk

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

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

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

Stock-Based Compensation

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

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

Reclassifications

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

2. Business Acquisitions

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

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

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

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

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

	Year ended December 31	
	1995	1996
Revenue	$104,687,000	$152,071,000
Loss before extraordinary item	$(18,354,000)	$(57,202,000)
Net loss	$(19,946,000)	$(57,202,000)
Net loss per share	$ (1.79)	$ (3.94)

3. Telecommunications Equipment

Telecommunications equipment consisted of:

	December 31	
	1995	1996
Telecommunications equipment	$ 50,506,651	$128,995,630
Fiber optic cable	27,891,274	38,098,811
Furniture and fixtures	5,223,389	18,492,948
Leasehold improvements	985,876	4,500,441
Construction in progress	12,830,122	51,393,299
	97,437,312	241,481,129
Less accumulated depreciation	(21,267,729)	(37,574,116)
	$ 76,169,583	$203,907,013

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

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

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

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

4. Intangible Assets

Intangible assets consisted of:

	December 31	
	1995	1996
Goodwill	$13,210,045	$13,233,045
Customer lists	10,096,975	10,376,437
Preliminary intangible assets (Notes 1 and 2)		15,451,050
Debt issuance costs	6,233,152	15,288,931
	29,540,172	54,349,463
Less accumulated amortization	(3,553,257)	(5,952,146)
	$25,986,915	$48,397,317

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

5. Long-Term Debt and Capital Lease Obligations

Long-term debt consisted of:

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

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

The Company used a portion of the proceeds from the Senior Notes to retire certain other long term indebtedness. In connection with the repayment of certain indebtedness, the Company incurred a prepayment penalty of approximately $1,156,000. This amount, plus the write-off of related unamortized financing costs have been reported as an extraordinary loss in the accompanying 1995 consolidated statements of operations.

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

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

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

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

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

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

6. Fair Value of Financial Instruments

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

	1995		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$ 50,996,919	$ 50,996,919	$189,545,939	$189,545,939
Short-term investments			6,041,000	6,041,000
Restricted investments, current and noncurrent	51,823,016	52,064,050	37,156,189	36,920,392
Accounts receivable	7,954,194	7,954,194	19,271,769	19,271,769
Liabilities:				
Accounts payable	$ 4,810,175	$ 4,810,175	$ 29,895,061	$ 29,895,061
Long-term debt:				
13.5% Senior Notes	158,983,837	179,200,000	159,715,240	182,800,000
12.5% Senior Discount Notes			194,223,760	216,975,000
Other notes payable	323,143	323,143	165,046	165,046

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

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

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

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

Long-term and short-term debt: The estimated fair value of the Company's borrowing is based on negotiated trades for the securities as provided by the Company's investment banker or by using discounted cash flows at the Company's incremental borrowing rate.

7. Stockholders' Equity

Stock Options: The Company has a 1992 Stock Option Plan and a 1996 Long Term Incentive Plan (the Plans) under which options to acquire an aggregate of 1,336,000 shares and 1,500,000 shares, respectively, of common stock may be granted to employees, officers, directors and consultants of the Company. The Plans authorize the Board of Directors (the Board) to issue incentive stock options (ISOs), as defined in Section 422A(b) of the Internal Revenue Code, and stock options that do not conform to the requirements of that Code section (Non-ISOs). The Board has discretionary authority to determine the types of stock options to be granted, the persons among those eligible to whom options will be granted, the number of shares to be subject to such options, and the terms of the stock option agreements. Options may be exercised in the manner and at such times as fixed by the Board, but may not be exercised after the tenth anniversary of the grant of such options.

INTERMEDIA COMMUNICATIONS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the transactions for the three years ended December 31, 1996 relating to the Plans:

	Number of Shares	Per Share Option Price
Outstanding, January 1, 1994	627,739	\$ 6.06—\$12.13
Granted	233,248	\$10.25—\$12.25
Exercised	(41,756)	\$ 6.25—\$10.63
Canceled	(70,464)	\$ 6.06—\$12.13
Outstanding, December 31,1994	748,767	\$ 6.06—\$12.25
Granted	549,057	\$ 9.50—\$15.56
Exercised	(37,831)	\$ 6.38—\$12.25
Canceled	(121,019)	\$ 6.38—\$12.25
Outstanding, December 31, 1995	1,135,974	\$ 6.06—\$15.56
Granted	1,187,183	\$19.75—\$34.50
Exercised	(81,996)	\$ 6.38—\$27.06
Canceled	(67,490)	\$ 6.60—\$15.56
Outstanding, December 31, 1996	2,173,671	
Exercisable, December 31, 1996	526,528	

The Board of Directors has reserved 674,142 shares of common stock in connection with stock warrants, and 2,462,341 shares of common stock that may be issued to employees, officers, directors, and consultants of the Company pursuant to stock options as may be determined by the Board of Directors.

Pro forma information regarding net income and earnings per share is required by Statement 123, which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1995 and 1996: risk free interest rates of 6.2%, a dividend yield of zero, volatility factors of the expected market price of the Company's common stock based on historical trends, and a weighted-average expected life of the options of five years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option variation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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

	1995	1996
Pro forma net loss	\$(20,961,000)	\$(58,602,000)
Pro forma earnings (loss) per share	\$ (2.09)	\$ (4.18)

Stock Award Plans: During 1996, the Company entered into restricted share agreements with three executive officers that provide stock award incentives. Pursuant to the agreements, up to an aggregate of 255,000 restricted shares of common stock are awarded to the respective officers upon the attainment of certain stock price milestones ranging from $20 to $40. Shares awarded under these arrangements vest over a period of five years following the award. During 1996, 200,000 shares were awarded with a fair value of $4,999,995, which amount will be amortized over the vesting period.

Stock Warrants: At December 31, 1996, warrants to purchase the following shares of the Company's common stock were outstanding:

Shares	Price per share	Expiration date
6,282	$ 4.20	March 4, 1997
317,460	4.20	June 2, 1997
350,400	10.86	June 1, 2000

As further discussed in Note 5, the Company issued warrants expiring in 2000 to acquire 350,400 shares of common stock in connection with the issuance of the Senior Notes. The Company also has warrants outstanding that had been issued for consulting services.

Shareholder Rights Plan: On March 7, 1996, the Board of Directors adopted a Shareholder Rights Plan and declared a dividend of one common stock Purchase Right (a Right) for each outstanding share of common stock to shareholders of record on March 18, 1996. Such Rights only become exercisable, or transferable apart from the common stock, ten business days after a person or group (an Acquiring Person) acquires beneficial ownership of, or commences a tender or exchange offer for, 15% or more of the Company's common stock.

Each Right then may be exercised to acquire 1/1000th of a share of the Company's Series C preferred stock at an exercise price of $85. Thereafter, upon the occurrence of certain events, the Rights entitle holders other than the Acquiring Person to acquire the existing Company's preferred stock or common stock of the surviving company having a value of twice the exercise price of the Rights.

The Rights may be redeemed by the Company at a redemption price of $.01 per Right at any time until the 10th business day following public announcement that a 15% position has been acquired or ten business days after commencement of a tender or exchange offer.

Authorized Shares: On May 24, 1996, the Board of Directors approved an increase in the number of shares of authorized common stock from 20,000,000 to 50,000,000.

8. Income Taxes

At December 31, 1995 and 1996, the Company had temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts measured by tax laws. The Company also has net operating loss (NOL) carryforwards available to offset future taxable income. Significant components of the Company's deferred tax assets and liabilities as of December 31 are as follows:

	Deferred Tax Asset (Liability)	
Temporary Differences/Carryforwards	1995	1996
Tax over book depreciation	$ (3,410,117)	$ (5,751,022)
Intangibles	(3,324,225)	(2,849,139)
Total deferred tax liabilities	(6,734,342)	(8,600,161)
Net operating loss carryforwards	14,398,845	37,091,018
Other	100,746	1,037,985
Total deferred tax assets	14,499,591	38,129,003
Less valuation allowance	(7,765,249)	(29,528,842)
Net deferred tax assets	6,734,342	8,600,161
	$ —	$ —

The Company has net operating loss carryforwards of approximately $98,000,000 at December 31, 1996 that expire in various amounts from 2003 to 2011. Approximately $68,000,000 of these net operating loss carryforward is subject to the "ownership change" rules of Section 382 of the Internal Revenue Code of 1986 and can only be utilized at the rate of approximately $31,000,000 per year.

9. Restricted Investments

The terms of the Company's Senior Note agreement (see Note 5) required the Company to use a portion of the debt proceeds to purchase pledged securities (Restricted Investments) sufficient to provide for the payment of interest on the Senior Notes through June 1, 1998. The Company has purchased government securities whose maturity coincides with the interest repayment dates.

The Company's restricted investments at December 31, 1996 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Notes	$30,806,189	$	$82,070	$30,724,119
Certificates of deposit	6,350,000	—	—	6,350,000
	$37,156,189	$ —	$82,070	$37,074,119

The amortized cost and estimated fair value of the Company's restricted investments at December 31, 1996 by contractual maturity are summarized as follows:

Maturities	Amortized Cost	Estimated Fair Value
Due within one year	$26,674,831	$26,635,996
Due after one year through five years	10,481,358	10,438,123
	$37,156,189	$37,074,119

10. Employee Benefit Plan

The Company has established a 401(k) profit-sharing plan. Employees 21 years or older with one year of service are eligible to participate in the plan. Participants may elect to contribute, on a tax-deferred basis, up to 15% of their compensation, not to exceed $9,500 in 1996. The Company will match one-half of a participant's contribution, up to a maximum of 3% of the participant's compensation. The Company's matching contribution fully vests after five years of service. The Company's contributions to the plan were approximately $58,000, $85,000 and $77,000 in 1994, 1995 and 1996, respectively.

11. Operating Leases

The Company leases rights-of-way and cable conduit space, fiber optic cable, terminal facility space, and office space. The leases generally contain renewal options which range from one year to fifteen years, with certain rights-of-way and cable conduit space being renewable indefinitely after the minimum lease term subject to cancellation notice by either party to the lease. Lease payments in some cases may be adjusted for related revenues, increases in property taxes, operating costs of the lessor, and increases in the Consumer Price Index. Lease expense was $908,000, $1,466,000 and $4,705,000, and for 1994, 1995, and 1996, respectively.

Future minimum lease payments under noncancelable operating leases with original terms of more than one year as of December 31, 1996 are as follows:

	Rights-of-Way and Cable Conduit Space	Fiber Optic Cable	Terminal Facility Space	Office Space	Total
1997	$12,250	$ 532,300	$ 3,211,780	$ 3,128,806	$ 6,885,136
1998	—	529,344	2,768,667	3,072,439	6,370,450
1999	—	355,434	2,184,255	2,733,543	5,273,232
2000	—	321,280	1,351,807	2,117,851	3,790,938
2001	—	321,280	890,191	890,325	2,101,796
Thereafter	—	937,066	8,648,872	960,767	10,546,705
	$12,250	$2,996,704	$19,055,572	$12,903,731	$34,968,257

12. Contingencies

On May 3, 1995, the Company asserted a claim for indemnification against the former shareholder of Phone One, Inc. (the Former Shareholder) for approximately $1 million on account of various breaches of representations and warranties made by the Former Shareholder to the Company in the agreement for the acquisition of Phone One, Inc. (the Phone One Acquisition Agreement). The Former Shareholder has objected to the indemnification claim, which is subject to arbitration under the Phone One Acquisition Agreement. On May 24, 1995, the Former Shareholder advised the Company that it has filed a complaint against the Company in the Florida circuit court for Dade County seeking rescission of the Phone One, Inc. acquisition and damages for breach of contract in excess of $3 million. Pursuant to the mandatory arbitration requirements of the Phone One Acquisition Agreement, in July 1995, the Company filed a demand for arbitration, and the action was stayed in the circuit court. The parties negotiated a settlement proposal, and on August 27, 1996, the dispute was settled and mutual general releases exchanged by which the Company delivered 22,357 of the holdback shares, pursuant to the terms of the Phone One Acquisition Agreement. On September 3, 1996, the action in circuit court was dismissed with prejudice.

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

13. Subsequent Event

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

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

INTERMEDIA COMMUNICATIONS INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
For the year ended December 31, 1994					
Deducted from asset accounts:					
Allowance for doubtful accounts ...	$ 53,793	$ 80,222	$527,320(1)	$ 115,935(2)	$ 545,400
For the year ended December 31, 1995					
Deducted from asset accounts:					
Allowance for doubtful accounts	$545,400	$ 856,055		$ 532,455(2)	$ 869,000
For the year ended December 31, 1996					
Deducted from asset accounts:					
Allowance for doubtful accounts	$869,000	$2,284,502		$1,807,502(2)	$1,346,000

(1) Amount represents allowance for doubtful accounts acquired in connection with the December 2, 1994 acquisition of all the outstanding common stock of Phone One, Inc.

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

ATTACHMENT B

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 30, 1997

Commission File Number: 0-20135

INTERMEDIA COMMUNICATIONS INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	59-2913586 (I.R.S. Employer Identification Number)

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

Telephone Number (813) 829-0011

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

Yes X No __

As of November 6, 1997, there were 17,268,057 shares of the Registrant's Common Stock outstanding.

INTERMEDIA COMMUNICATIONS INC.

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTERMEDIA COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share data)

	Three Months Ended		Nine Months Ended	
	September 30, 1997	September 30, 1996	September 30, 1997	September 30, 1996
Revenues:				
Local network services	$11,814	$3,288	$25,457	$9,670
Enhanced data services	30,843	10,746	54,831	19,493
Interexchange services	27,637	19,249	80,877	31,806
Integration services	952	697	4,152	3,364
	71,246	33,980	165,317	64,333
Expenses:				
Network operations	49,032	25,003	116,295	41,554
Facilities administration and maintenance	9,985	2,413	21,409	4,316
Cost of goods sold	503	589	2,537	3,174
Selling, general and administrative	25,004	10,174	64,985	23,884
Depreciation and amortization	16,100	5,255	34,274	12,069
Charge for in-process R&D	60,000	-	60,000	-
	160,624	43,434	299,498	84,997
Loss from operations	(89,378)	(9,454)	(134,181)	(20,664)
Other income (expense):				
Interest expense	(17,689)	(10,774)	(39,895)	(24,179)
Other income	6,736	5,723	16,691	9,201
Loss before extraordinary items	(100,331)	(14,505)	(157,385)	(35,642)
Extraordinary loss on early extinguishment of debt	(43,834)	-	(43,834)	-
Net loss	(144,165)	(14,505)	(201,219)	(35,642)
Preferred stock dividends and accretions	(13,895)	-	(27,118)	-
Net loss attributable to common stockholders	$(158,060)	$(14,505)	$(228,337)	$(35,642)
Loss before extraordinary item, including preferred stock dividends and accretions	($6.82)	($0.90)	($11.21)	($2.69)
Extraordinary loss	(2.62)	0.00	(2.66)	0.00
Net loss per common share	($9.44)	($0.90)	($13.87)	($2.69)
Weighted average number of shares outstanding	16,739,730	16,126,448	16,462,731	13,242,546

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share information)

	September 30, 1997	December 31, 1996
Assets		
Current Assets:		
Cash and cash equivalents	$471,101	$189,546
Short-term investments	491	6,041
Restricted investments	6,351	26,675
Accounts receivable, less allowance for doubtful accounts of $3,873 in 1997 and $1,346 in 1996	46,855	19,272
Prepaid expenses and other current assets	4,316	5,230
Total current assets	529,114	246,764
Restricted investments	-	10,481
Telecommunications equipment	453,545	241,481
Less accumulated depreciation	(65,731)	(37,574)
Telecommunications equipment, net	387,814	203,907
Intangible assets, net	162,610	48,397
Other assets	6,647	3,391
Total assets	$1,086,185	$512,940
Liabilities, Preferred Stock and Stockholders' Equity		
Current liabilities:		
Accounts payable	$47,325	$29,895
Other accrued expenses	28,258	10,307
Current portion of long term debt and capital lease obligation	3,882	532
Total current liabilities	79,465	40,734
Long-term debt and capital lease obligations	615,380	357,975
Total liabilities	694,845	398,709
Series B redeemable exchangeable preferred stock and accrued dividends, $.10 par value; 600,000 shares authorized in 1997; 323,499 shares outstanding in 1997	312,002	-
Series D junior convertible preferred stock and accrued dividends, $1.00 par value; 69,000 shares authorized in 1997; 69,000 shares outstanding in 1997	170,109	-
Stockholders' equity (deficit):		
Common stock, $.01 par value; 50,000,000 shares authorized in both 1997 and 1996; 17,087,429 and 16,285,340 shares issued and outstanding in 1997 and 1996, respectively	171	163
Additional paid-in capital	237,334	212,611
Accumulated deficit	(319,478)	(91,141)
Deferred compensation	(8,798)	(7,602)
Total stockholders' equity (deficit)	(90,771)	114,231
Total liabilities, preferred stock and stockholders' equity (deficit)	$1,086,185	$512,940

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	Nine month period ended	
	September 30, 1997	September 30, 1996
Operating activities		
Net loss	($201,219)	($35,642)
Adjustments to reconcile net loss to net cash		
(used in) provided by operating activities;		
Extraordinary loss on early extinguishment of debt, noncash portion	5,869	-
Depreciation and amortization, including loan costs	35,514	12,178
Gain on sale of telecommunications equipment	(12)	-
Amortization of deferred compensation	1,095	501
Accretion of discount on notes	27,712	8,583
Provision for doubtful accounts	3,834	714
Charge for in-process R&D	60,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(25,648)	(14,879)
Prepaid expenses and other current assets	(1,483)	(2,258)
Accounts payable	8,777	11,932
Other accrued expenses	3,685	8,523
Net cash used in operating activities	(81,876)	(10,348)
Investing activities		
Purchase of short-term investments	-	(10,291)
Purchase of business, net of cash acquired	(150,085)	-
Maturities of short-term investments	5,550	-
Maturities of restricted investments	30,805	9,481
Proceeds from sale of telecommunications equipment	44	-
Purchase of telecommunications equipment	(178,776)	(80,810)
Net cash used in investing activities	(292,462)	(81,620)
Financing activities		
Proceeds from sale of preferred stock, net of issuance costs	454,992	-
Proceeds from issuance of senior discount notes	362,993	171,226
Proceeds from sale of common stock	-	112,086
Proceeds from exercise of stock warrants and options	2,861	-
Principal payments on long-term debt and capital lease obligation	(164,953)	(980)
Net cash provided by financing activities	655,893	282,332
Increase in cash and cash equivalents	281,555	190,364
Cash and cash equivalents at beginning of period	189,546	50,997
Cash and cash equivalents at end of period	$471,101	$241,361
Supplemental disclosures of cash flow information		
Interest paid	$11,759	$16,675

See accompanying notes

INTERMEDIA COMMUNICATIONS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the information set forth therein have been included. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

Operating results for the three and nine month periods ended September 30, 1997 are not necessarily an indication of the results that may be expected for the year ending December 31, 1997.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

Recent Pronouncements

Earnings per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("FASB 128"), which establishes standards for computing and presenting earnings per share. FASB 128 replaces the presentation of primary and fully diluted earnings per share with basic and diluted earnings per share, respectively. Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share are computed similarly to fully diluted earnings per share. The standard is effective for financial statements for periods ending after December 15, 1997, with earlier application not permitted. For the three and nine month periods ended September 30, 1997 and September 30, 1996, earnings per share, under FASB 128, would not have been impacted.

Segments

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FASB 131"), which supersedes Financial Accounting Standards No. 14. FASB 131 uses a management approach to report financial and descriptive information about a Company's operating segments. Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally for the Company's management. FASB 131 is effective for fiscal years beginning after December 15, 1997.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("FASB 130"). FASB 130 requires that total comprehensive income and comprehensive income per share be disclosed with equal prominence as net income and earnings per share. Comprehensive income is defined as all changes in stockholders' equity exclusive of transactions with owners such as capital contributions and dividends. FASB 130 is effective for fiscal years beginning after December 15, 1997.

Note 2 Debt

On July 9, 1997, concurrently with the sale of the 6,000,000 Series D Depositary Shares, (as defined in Note 3), the Company sold $606 million principal amount at maturity of 11 ¼ % Senior Discount Notes due 2007 (the "11 ¼ % Notes") in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the 11 ¼ % Notes was exercised and the Company sold an additional $43 million principal amount at maturity of 11 ¼ % Notes. The issue price of the 11 ¼ % Notes was $577.48 per $1,000 principal amount at maturity of the 11 ¼ % Notes. Net proceeds to the Company amounted to approximately $365 million. Cash interest will not accrue on the 11 ¼ % Notes prior to July 15, 2002. Commencing January 15, 2003, cash interest on the 11 ¼ % Notes will be payable semi-annually in arrears on July 15 and January 15 at a rate of 11 ¼ % per annum. The 11 ¼ % Notes will be redeemable, at the Company's option at any time on or after July 15, 2002, and are pari passu with all other senior indebtedness.

The Company used a portion of the proceeds of the 11 ¼ % Notes to retire or defease (the "Retirement") Intermedia's outstanding 13 ½ % Senior Notes due 2005 (the "13 ½ % Notes"). The Retirement resulted in an extraordinary loss, as shown in the accompanying consolidated statement of operations, of approximately $44 million in the third quarter of 1997.

Also see note 5, Subsequent Events, for information regarding an additional issuance of debt securities subsequent to September 30, 1997.

Note 3 Preferred Stock

On March 7, 1997, the Company sold 30,000 shares (aggregate liquidation preference $300 million) of its Series A Redeemable Exchangeable Preferred Stock, due 2009, (the "Series A Preferred Stock") in a private placement transaction. Net proceeds to the Company amounted to approximately $288 million. On June 6, 1997, the Company issued 300,000 shares (aggregate liquidation preference $300 million) of its 13 ½ % Series B Redeemable Exchangeable Preferred Stock due 2009 (the "Series B Preferred Stock"), which were registered under the Securities Act of 1933, as amended, in exchange for all outstanding shares of the Series A Preferred Stock pursuant to a registered exchange offer. Dividends on the Series B Preferred Stock accumulate at a rate of 13 ½ % of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of additional shares of Series B Preferred Stock having an aggregate liquidation preference equal to the amount of such dividends. The Series B Preferred Stock is subject to mandatory redemption at its liquidation preference of $1,000 per share, plus accumulated and unpaid dividends on March 31, 2009. The Series B Preferred Stock will be redeemable at the option of the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

The Company may, at its, option, exchange some or all shares of the Series B Preferred Stock for the Company's 13 ½ % Senior Subordinated Debentures, due 2009 (the "Exchange Debentures"). The Exchange Debentures mature on March 31, 2009. Interest on the Exchange Debentures is payable semi-annually, and may be paid in the form of additional Exchange Debentures at the Company's option. Exchange Debentures will be redeemable by the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

The Company is accreting the Series B Preferred Stock to its liquidation preference through the due date of the Series B Preferred Stock. The accretion for the three and nine month periods ended September 30, 1997 was $226 thousand and $512 thousand, respectively.

The Company elected to issue approximately 13,000 additional shares of Series B Preferred Stock, in lieu of cash, with an aggregate liquidation preference of $12.9 million in June 1997, in payment of the first quarterly dividend (accumulated from March 7, 1997 through June 30, 1997). In September 1997, the Company elected to issue approximately 11,000 additional shares of Series B Preferred Stock, in lieu of cash, with an aggregate liquidation preference of $10.6 million, in payment of the second quarterly dividend (accumulated from July 1, 1997 through September 30, 1997).

On July 9, 1997, the Company sold 6,000,000 Depositary Shares (the "Series D Depositary Shares") (aggregate liquidation preference $150,000,000) each representing a one-hundredth interest in a share of the Company's 7% Series D Junior Convertible Preferred Stock, (the "Series D Preferred Stock"), in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series D Depositary Shares was exercised and the Company sold an additional 900,000 Series D Depositary Shares (aggregate liquidation preference of $22,500,000). Net proceeds to the Company amounted to approximately $167 million. Dividends on the Series D Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series D Preferred Stock will be redeemable at the option of the Company at any time on or after July 19, 2000 at rates commencing with 104%, declining to 100% on July 19, 2004.

The Series D Preferred Stock is convertible, at the option of the holder, into Common Stock of the Company at a conversion price of $38.90 per share of Common Stock, subject to certain adjustments.

The Company is accreting the Series D Depositary Shares to its liquidation preference through the due date of the Series D Preferred Stock. The accretion for the three and nine month periods ended September 30, 1997 was $357 thousand.

Also see note 5, Subsequent Events, for information regarding an additional issuance of preferred stock subsequent to September 30, 1997.

Note 4 Acquisitions

During June 1996, the Company acquired the Telecommunications Division of EMI Communications Corporation ("EMI") in exchange for 937,500 shares of the Company's common stock, valued at approximately $16.9 million. The acquisition was accounted for by the purchase method of accounting, with the purchase price allocated to the fair values of assets acquired, principally telecommunications equipment. EMI's telecommunications division, headquartered in Syracuse, New York, is a provider of frame relay based network services and interexchange private line services primarily in the northeastern United States. EMI operates owned and leased microwave and fiber optic digital network capacity in New York, Massachusetts, Vermont, Rhode Island, Connecticut, New Jersey, Pennsylvania, Maryland and the District of Columbia and maintains POPs in most major cities in these states.

During December 1996, the Company acquired, in two separate transactions, certain assets and the related businesses of Universal Telcom, Inc. ("UTT") and NetSolve, Incorporated ("NetSolve"). The purchase price for UTT included 31,380 shares of the Company's common stock, valued at approximately $.9 million, and the assumption of approximately $2 million of UTT's liabilities. NetSolve was purchased for cash of $12.8 million. The acquisitions are accounted for by the purchase method of accounting, with the purchase price allocated to the fair value of assets acquired, principally goodwill. The goodwill, including an additional $.2 million for legal expenses, for these acquisitions has been adjusted during the first quarter of 1997 due to the finalization of the purchase price allocation.

On June 24, 1997, the Company purchased from Telco Communications Group, Inc. ("Telco") five long distance voice switches and ancillary network equipment located in Atlanta, Chicago, Dallas, Los Angeles and New York (the "Telco Acquisition"). Three of these switches will be upgraded to local/long distance voice switches, consistent with the Company's planned deployment of at least fifteen local/long distance voice switches by the end of 1997. As part of the Telco Acquisition, the Company also acquired certain network transport services for a three year period. The aggregate purchase price of the Telco Acquisition was approximately $38 million. The company believes that the Telco Acquisition will allow the Company to more rapidly deploy local/long distance voice switches in these markets and to do so at a lower overall cost. In addition, the transport services acquired as part of the Telco Acquisition will permit the Company to accelerate its deployment of ATM in its intercity and intracity networks. Implementation of ATM will facilitate additional enhanced data and voice services and network efficiencies.

During July 1997, Intermedia acquired DIGEX, Incorporated ("DIGEX"), a leading nationwide business Internet services provider. Aggregate cash consideration for the acquisition was approximately $155 million and was funded with the Company's existing cash reserves. The acquisition was accounted for by the purchase method of accounting, with the purchase price allocated to the fair value of assets acquired and liabilities assumed. For purpose of the financial statements as of September 30, 1997 and for the periods then ended, certain aspects of the purchase price allocation, related to duplicate network facilities and differing lease market rates, were accounted for on a preliminary basis pending the receipt by the Company of additional information and the performance of certain evaluations. Such information and evaluations are anticipated to be completed in the fourth quarter. In addition, the Company obtained an independent valuation related to fixed assets, developed and in-process technology, and other identifiable intangible assets. Based upon this valuation, the amount allocated to purchased research and development ($60 million) is recorded as a one-time charge to earnings in the accompanying consolidated statements of operations.

The following unaudited pro forma results of operations presents the consolidated results of operations as if the acquisition of UTT, NetSolve and EMI had occurred on January 1, 1996, and DIGEX on January 1, 1997. These proforma results do not purport to be indicative of the results that actually would have occurred if the companies had been acquired as of that date or of results which may occur in the future.

(In thousands)	Nine Months Ended September 30, 1997	1996
Revenue	$184,963	$90,215
Net loss	(223,355)	(36,873)
Net loss attributable to common stockholders	(250,473)	(36,873)
Net loss per common share	(15.21)	(2.78)

Note 5 Subsequent Events

On October 30, 1997, the Company sold 7,000,000 Depositary Shares (the "Series E Depositary Shares") (aggregate liquidation preference $175,000,000) each representing a one-hundredth interest in a share of the Company's 7% Series E Junior Convertible Preferred Stock, (the "Series E Preferred Stock"), in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series E Depositary Shares was exercised and the Company sold an additional 1,000,000 Series E Depositary Shares (aggregate liquidation preference of $25,000,0000). Net proceeds to the Company amounted to approximately $193.8 million. Dividends on the Series E Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series E Preferred Stock will be redeemable at the option of the Company at any time on or after October 18, 2000 at rates commencing with 104%, declining to 100% on October 18, 2004.

The Series E Depositary Shares will be convertible at any time after December 29, 1997, at the option of the holder into Common Stock of the Company at a conversion price of $60.47 per share of Common Stock, subject to certain adjustments.

Concurrently with the sale of the Series E Depositary Shares, the Company sold $250 million principal amount of 8 7/8% Senior Notes due 2007 (the "8 7/8% Notes") in a private placement transaction. Net proceeds to the Company amounted to approximately $243 million. Cash interest on the 8 7/8% Notes will be payable semi-annually in arrears on May 1 and November 1 at a rate of 8 7/8% per annum. The 8 7/8% Notes will be redeemable, at the Company's option at any time on or after November 1, 2002, and are pari passu with all other senior indebtedness.

The proceeds of the Series E Depositary Shares will be used to finance the continued expansion of the Company's telecommunications networks, including but not limited to, network electronics, such as local/long distance voice and data switches, and for general corporate purposes, including working capital. The net proceeds from the offering of the 8 7/8% Notes will be used to fund up to 80% of the cost of acquisition or construction by the Company of telecommunications-related assets.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included herewith, and with the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations and audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1996 filed with the Securities and Exchange Commission.

Overview

Intermedia Communications Inc. ("Intermedia" or the "Company"), formerly Intermedia Communications of Florida, Inc. through May 29, 1996, is a rapidly growing provider of integrated telecommunications solutions for business, government, and the telecommunications industry. Headquartered in Tampa, Florida, Intermedia is the third largest (based on annualized telecommunications revenues) among providers referred to as Competitive Local Exchange Carriers ("CLECs"). Intermedia offers a full suite of local, long-distance and enhanced data telecommunications services to business and government end user customers, long distance carriers, Internet service providers, resellers, and wireless communications companies serving customers from 43 sales offices located throughout the eastern United States. Intermedia also provides enhanced data/ATM and Internet services in approximately 3,787 cities nationwide, offering customers seamless end-to-end connectivity virtually anywhere in the world.

Since its inception in 1987, the Company has experienced substantial growth. Building from its original base in Florida, Intermedia is now a provider of integrated telecommunications services to customers that have a presence in the eastern United States. The Company currently has ten digital fiber optic networks and provides end-to-end connectivity throughout the United States and many international markets. As its networks and service offerings have expanded, the Company has experienced significant year to year growth in revenues and customers.

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

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

From 1992 through 1995, the Company had achieved positive EBITDA and increased its revenue base substantially. However, as a result of significant investments in resources necessary to launch local exchange services and expand enhanced data services, EBITDA decreased as a percentage of revenue and the Company's EBITDA was negative for 1996 and the first three quarters of 1997. This was due to the significant up front expenses related to the development of its networks and leased facilities, the revenue from which is expected to be realized in later periods. The development of the Company's business and the installation and expansion of its networks have resulted in substantial capital expenditures and net losses during this period of its operations. Procurement of rights-of-way, administration and maintenance of facilities, depreciation of network capital expenditures and sales, general and administrative costs will continue to represent a large portion of the Company's expenses during its rapid expansion. In addition, the Company is experiencing rapid growth in marketing and selling expenses consistent with the addition of new customers and an increased level of selling and marketing activity. All of the marketing and selling expenses associated with the acquisition of new customers are expensed as they are incurred even though these customers are expected to generate recurring revenue for the Company for several years. The continued expansion of the Company's networks in anticipation of new customers and the marketing of services to new and existing customers is therefore adversely impacting EBITDA of the Company in the near term. The Company anticipates, but there can be no assurance, that as its customer base grows, incremental revenues will be greater than incremental operating expenses.

On June 24, 1997, the Company purchased from Telco Communications Group, Inc. ("Telco") five long distance voice switches and ancillary network equipment located in Atlanta, Chicago, Dallas, Los Angeles and New York (the "Telco Acquisition"). Three of these switches will be upgraded to local/long distance voice switches, consistent with the Company's planned deployment of at least fifteen local/long distance voice switches by the end of 1997. As part of the Telco Acquisition, the Company also acquired certain network transport services for a three year period. The aggregate purchase price of the Telco Acquisition was approximately $38 million, which was substantially included in the Company's planned expenditures for 1997. The company believes that the Telco Acquisition will allow the Company to more rapidly deploy local/long distance voice switches in these markets and to do so at a lower overall cost. In addition, the transport services acquired as part of the Telco Acquisition will permit the Company to accelerate its deployment of ATM in its intercity and intracity networks. Implementation of ATM will facilitate additional enhanced data and voice services and network efficiencies.

On July 11, 1997, Intermedia's wholly owned subsidiary, Daylight Acquisition Corp., completed a merger (the "Merger") with DIGEX, Incorporated ("DIGEX"), a leading nationwide business Internet services provider. The aggregate cash consideration for the acquisition was approximately $155 million and was funded with the Company's existing cash reserves in July 1997.

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

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

Results of Operations

The following table presents, for the periods indicated, certain information derived from the Company's Condensed Consolidated Statements of Operations, expressed in percentages of revenue:

	Three Months Ended Sept. 30, 1997 (Unaudited)	Three Months Ended Sept. 30, 1996 (Unaudited)	Nine Months Ended Sept. 30, 1997 (Unaudited)	Nine Months Ended Sept. 30, 1996 (Unaudited)
Revenues:				
Local network services	16.6 %	9.7 %	15.4 %	15.0 %
Enhanced data services	43.3	31.6	33.2	30.3
Interexchange services	38.8	56.6	48.9	49.5
Integration services	1.3	2.1	2.5	5.2
	100.0	100.0	100.0	100.0
Expenses:				
Network operations	68.8	73.6	70.3	64.6
Facilities administration and maintenance	14.0	7.1	13.0	6.7
Cost of goods sold	.7	1.7	1.5	4.9
Selling, general and administrative	35.1	29.9	39.3	37.1
Depreciation and amortization	22.6	15.5	20.7	18.8
Charge for in-process R&D	84.2	-	36.3	-
Loss from operations	(125.4)	(27.8)	(81.2)	(32.1)
Other income (expense):				
Interest expense	(24.8)	(31.7)	(24.1)	(37.6)
Other income	9.5	16.8	10.1	14.3
Loss before extraordinary items	(140.7)	(42.7)	(95.2)	(55.4)
Extraordinary item	(61.5)	-	(26.5)	-
Net Loss	(202.2)	(42.7)	(121.7)	(55.4)
Preferred stock dividends and accretions	(19.5)	-	(16.4)	-
Net loss attributable to common stockholders	(221.7)%	(42.7)%	(138.1)%	(55.4)%

The following table sets forth other statistical data derived from the Company's operating records:

	Sept. 30, 1997	Sept. 30, 1996
Transport services:		
Buildings connected	2,703	429
Route miles	762	647
Fiber optic miles	33,801	23,763
Network cities in operation	10	9
Enhanced data services:		
Data switches installed	130	76
Frame relay cities	3,787	1,134
Nodes in service	17,286	8,462
NNI connections	366	219
Local and Long Distance Services:		
Voice switches in operation	13	4
Long distance billable minutes	111,049,341	61,549,894
Access line equivalents	50,740	-
Employees	1,820	724

Quarter Ended September 30, 1997 Compared to Quarter Ended September 30, 1996

Revenue

Total revenue increased 109.7% to $71.3 million for the third quarter of 1997 compared to $34.0 million for the same period in 1996. This increase primarily resulted from the acquisition of DIGEX, the introduction of new services and the increased focus of the Company's sales force on offering a full suite of telecommunications services to an expanding market. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Local network services revenue increased 259.3% to $11.8 million for the third quarter of 1997 compared to $3.2 million for the same period in 1996. This increase primarily resulted from the continued rollout of local exchange services into additional markets. The Company has received CLEC certification in 28 states plus the District of Columbia as of the end of the third quarter of 1997.

Enhanced data services revenue increased 187.0% to $30.8 million for the third quarter of 1997 compared to $10.7 million for the same period in 1996. This increase primarily resulted from the expansion of the Company's enhanced data network by 54 switches and 8,824 new frame relay nodes since July 1, 1996. In addition, the number of frame relay cities has increased by 2,653 during the same time period. Of the revenue increase, a significant portion was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Interexchange services revenue increased 43.6% to $27.6 million for the third quarter of 1997 compared to $19.2 million for the same period in 1996. This increase primarily resulted from strong growth in long distance switched revenue and steady growth in interLATA transport.

Integration services revenue increased 36.6% to $1.0 million for the third quarter of 1997 compared to $.7 million for the same period in 1996. This increase primarily resulted from the Company's increased focus on providing a total service package for the customer.

Operating Expenses

Total operating expenses increased 269.8% to $160.6 million for the third quarter of 1997 compared to $43.4 million for the same period in 1996. The increase primarily resulted from the costs associated with the significant expansion of the Company's owned and leased networks and the continued expansion in personnel to sustain end support the Company's growth. Of the increase, $60 million resulted from the charge for in-process research and development end the inclusion of DIGEX's operating results for the third quarter of 1997.

Network operations expenses increased 96.1% to $49.0 million for the third quarter of 1997 compared to $25.0 million for the same period in 1996. This increase primarily resulted from the increases in leased network capacity that is associated with the growth of local network service, enhanced data service and interexchange service revenues. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Facilities administration and maintenance expenses increased 313.8% to $10.0 million for the third quarter of 1997 compared to $2.4 million for the same period in 1996. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997. In addition, the increase resulted from the expansion of the Company's owned and leased network capacity, increases in maintenance expense due to the network expansion and increased payroll expenses related to hiring additional engineering and operations staff to support and service the expanding network.

Selling, general and administrative expenses increased 145.8% to $25.0 million for the third quarter of 1997 compared to $10.2 million for the same period in 1996. This increase primarily resulted from the Company's continued growth and represented a major increase in the sales, marketing, management information services and customer service personnel, one time expenditures for employee recruitment, relocation, training and increased commissions relating to the rise in revenues for these periods. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Depreciation and amortization expenses increased 206.4% to $16.1 million for the third quarter of 1997 compared to $5.3 million for the same period in 1996. This increase primarily resulted from additions to telecommunications equipment placed in service during 1996 and the first nine months of 1997, relating to ongoing network expansion. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Charge for in-process Research & Development of $60 million represents the amount of the purchased in-process research and development associated with the purchase of DIGEX. This cost is recorded as a one-time charge to earnings in the third quarter of 1997.

Interest Expense

Interest expense increased 64.2% to $17.7 million for the third quarter of 1997 compared to $10.8 million for the same period in 1996. This increase primarily resulted from interest expense on the May 1996 issuance of $330 million principal amount at maturity of the Company's 12 ½% Senior Discount Notes due 2006 (the "12 ½% Notes") and the July 1997 issuance of $649 million, including the over-allotment option, principal amount at maturity of the Company's 11 ¼% Notes.

Other Income

Other income increased 17.7% to $6.7 million for the third quarter of 1997 compared to $5.7 million for the same period in 1996. This increase was primarily the result of interest earned on the cash available from the excess proceeds relating to the May 1996 issuance of the 12 ½% Notes, the May 1996 issuance of 4,674,503 common shares, par value $.01 per share, at $26.00 per share, the March 1997 issuance of 30,000 shares of the Company's Series A Preferred Stock, which was subsequently exchanged for the Series B Preferred Stock, the July 1997 issuance of the 11 ¼% Notes and the July 1997 issuance of 6,900,000 Series D Depositary Shares.

Extraordinary Loss of $43.8 million for the third quarter of 1997 consisted of pre-payment penalties relating to certain indebtedness which was repaid from the proceed of the offering of the 11 ¼% Notes and the write-off of the unamortized deferred financing costs associated with the indebtedness repaid.

Net Loss

Net loss increased 893.8% to $144.2 million for the third quarter of 1997 compared to $14.5 million for the same period in 1996. This increase was due primarily to the increased operating expenses resulting from the expansion of the network, increased selling general and administrative costs, the charge for in-process research & development, increased interest costs and the extraordinary items.

Preferred Stock Dividends and Accretions

Preferred stock dividends and accretions of $13.9 million resulted from the March 1997 issuance of 30,000 shares of the Company's Series A Preferred Stock, which was subsequently exchanged for the Series B Preferred Stock, and the July 1997 issuance of 6,900,000 Series D Depositary Shares.

EBITDA

EBITDA decreased 216.2% to $(13.3) million for the third quarter of 1997 compared to $(4.2) million for the same period in 1996. This decline was the result of the acceleration in the deployment of Intermedia's capital expansion plan which significantly increased growth oriented expenses, such as network expenses, increases in sales, customer service and market development costs, prior to realizing revenues associated with these expenditures.

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

Revenue

Total revenue increased 156.9% to $165.3 million for the nine months ended September 30, 1997 compared to $64.3 million for the same period in 1996. This increase primarily resulted from the acquisitions of EMI and DIGEX, the introduction of new services and the increased focus of the Company's sales force on offering a full suite of telecommunications services to an expanding market. A portion of the increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997.

Local network services revenue increased 163.3% to $25.5 million for the nine months ended September 30, 1997 compared to $9.7 million for the same period in 1996. This increase primarily resulted from the continued rollout of local exchange services into additional markets. The Company has received CLEC certification in 28 states plus the District of Columbia as of the end of the third quarter of 1997.

Enhanced data services revenue increased 181.3% to $54.8 million for the nine months ended September 31, 1997 compared to $19.5 million for the same period in 1996. This increase primarily resulted from the expansion of the Company's enhanced data network by 54 switches and 8,824 new frame relay nodes since July 1, 1996. In addition, the number of frame relay cities has increased by 2,653 during the same time period. A portion of the revenue increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997.

Interexchange services revenue increased 154.3% to $80.9 million for the nine months ended September 30, 1997 compared to $31.8 million for the same period in 1996. This increase primarily resulted from strong growth in long distance switched revenue and steady growth in interLATA transport. A portion of the increase, was attributable to the inclusion of EMI's operating results for the nine months ended September 30, 1997.

Integration services revenue increased 23.4% to $4.2 million for the nine months ended September 30, 1997 compared to $3.4 million for the same period in 1996. This increase primarily resulted from the Company's increased focus on providing a total service package for the customer.

Operating Expenses

Total operating expenses increased 252.4% to $299.5 million for the nine months ended September 30, 1997 compared to $85 million for the same period in 1996. The increase primarily resulted from the costs associated with the significant expansion of the Company's owned and leased networks and the continued expansion in personnel to sustain and support the Company's growth. Of the increase, $60 million resulted from the charge for in-process research and development and the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997.

Network operations expenses increased 179.9% to $116.3 million for the nine months ended September 30, 1997 compared to $41.6 million for the same period in 1996. This increase primarily resulted from the increases in leased network capacity that is associated with the growth of local network service, enhanced data service and interexchange service revenues. A portion of the increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997.

Facilities administration and maintenance expenses increased 396.0% to $21.4 million for the nine months ended September 30, 1997 compared to $4.3 million for the same period in 1996. A portion of the increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997. In addition, the increase resulted from the expansion of the Company's owned and leased network capacity, increases in maintenance expense due to the network expansion and increased payroll expenses related to hiring additional engineering and operations staff to support and service the expanding network.

Selling, general and administrative expenses increased 172.1% to $65 million for the nine months ended September 30, 1997 compared to $23.9 million for the same period in 1996. This increase primarily resulted from the Company's continued growth and represented a major increase in the sales, marketing, management information services and customer service personnel, one time expenditures for employee recruitment, relocation, training and increased commissions relating to the rise in revenues for these periods. A portion of the increase, was attributable to the inclusion of EMI and DIGEX's operating results for the nine months ended September 30, 1997

Depreciation and amortization expenses increased 184.0% to $34.3 million for the nine months ended September 30, 1997 compared to $12.1 million for the same period in 1996. This increase primarily resulted from additions to telecommunications equipment placed in service during 1996 and the first nine months of 1997, relating to ongoing network expansion. A portion of the increase, was attributable to the inclusion of DIGEX's operating results for the third quarter of 1997.

Charge for in-process Research & Development of $60 million represents the amount of the purchased in process research and development associated with the purchase of DIGEX. This cost is recorded as a one-time charge to earnings in the third quarter of 1997

Interest Expense

Interest expense increased 65.0% to $39.9 million for the nine months ended September 30, 1997 compared to $24.2 million for the same period in 1996. This increase primarily resulted from interest expense on the May 1996 issuance of $330 million principal amount at maturity of the Company's 12 ½% Notes and the July 1997 issuance of $649 million, including the over-allotment option, principal amount at maturity of the Company's 11 ¼% Notes.

Other Income

Other income increased 81.4% to $16.7 million for the nine months ended September 30, 1997 compared to $9.2 million for the same period in 1996. This increase was primarily the result of interest earned on the cash available from the excess proceeds relating to the May 1996 issuance of the 12 ½% Notes, the May 1996 issuance of 4,674,503 common shares, par value $.01 per share, at $26.00 per share, the March 1997 issuance of 30,000 shares of the Company's Series A Preferred Stock, which was subsequently exchanged for the Series B Preferred Stock, the July 1997 issuance of the 11 ¼% Notes and the July 1997 issuance of 6,900,000 Series D Depositary Shares.

Extraordinary Loss of $43.8 million for the third quarter of 1997 consisted of pre payment penalties relating to certain indebtedness which was repaid from the proceeds of the offering of the 11 ¼% Notes and the write-off of the unamortized deferred financing costs associated with the indebtedness repaid

Net Loss

Net loss increased 464.6% to $201.2 million for the nine months ended September 30, 1997 compared to $35.6 million for the same period in 1996. This increase was due primarily to the increased operating expenses resulting from the expansion of the network, increased selling general and administrative costs, the charge for in process research & development, increased interest costs and the extraordinary items

Preferred Stock Dividends and Accretions

Preferred stock dividends and accretions of $27.1 million resulted from the March 1997 issuance of 30,000 shares of Series A Preferred Stock, which was subsequently exchanged for the Series B Preferred Stock, and the July 1997 issuance of 6,900,000 Series D Depositary Shares.

EBITDA

EBITDA decreased 364.3% to $(39.9) million for the nine months ended September 30, 1997 compared to $(8.6) million for the same period in 1996. This decline was the result of the acceleration in the deployment of Intermedia's capital expansion plan which significantly increased growth oriented expenses, such as network expenses, increases in sales, customer service and market development costs, prior to realizing revenues associated with these expenditures.

Liquidity and Capital Resources

The Company's operations have required substantial capital investment for the purchase of telecommunications equipment and the design, construction and development of the Company's networks. Capital expenditures for the Company were $179 million and $81 million for the nine months ended September 30, 1997 and 1996, respectively. The Company expects that it will continue to have substantial capital requirements in connection with the (i) expansion and improvement of the Company's existing networks, (ii) design, construction and development of new networks, (iii) connection of additional buildings and customers to the Company's networks, (iv) purchase of switches necessary for local exchange services and expansion of interexchange services and (v) development of the Company's enhanced data services. In addition, the Company utilized approximately $155 million of its available cash to complete the acquisition of DIGEX in July 1997.

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

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

In response to the new pro-competitive telecommunications environment, the Company has accelerated and expanded its capital deployment plan to allow for an increased level of demand driven spending necessary to more rapidly exploit the market opportunity in the local exchange market. The Company expects to expend substantial amounts to upgrade its existing networks in order to switch traffic within the local service area in those states where it is currently permitted to provide such services. The Company is certified as a CLEC in 28 states and the District of Columbia, allowing the Company to provide local exchange services in those markets. In addition, the Company expects to expend capital toward the further development of the Company's enhanced data service and interchange service offerings.

The Company currently estimates that it will require approximately $45 million to fund anticipated capital requirements during the remainder of 1997, which it expects to fund from its available cash. The Company does not believe that the acquisition of DIGEX will have a material impact on its capital expenditure requirements.

On March 7, 1997, the Company sold 30,000 shares (aggregate liquidation preference $300,000,000) of Series A Preferred Stock in a private placement transaction. Net proceeds to the Company amounted to approximately $288 million. On June 6, 1997, the company issued 300,000 shares (aggregate liquidation preference $300 million) of its Series B Preferred Stock, which were registered under the Securities Act of 1933, as amended, in exchange for all outstanding shares of the Series A Preferred Stock pursuant to a registered exchange offer. Dividends on the Series B Preferred Stock accumulate at a rate of 13 ½% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of additional shares of Series B Preferred Stock having an aggregate liquidation preference equal to the amount of such dividends. The Series B Preferred Stock is subject to mandatory redemption at its liquidation preference of $1,000 per share, plus accumulated and unpaid dividends on March 31, 2009. The Series B Preferred Stock will be redeemable at the option of the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

The Company may, at its, option, exchange some or all shares of the Series B Preferred Stock for the Company's Exchange Debentures. The Exchange Debentures mature on March 31, 2009. Interest on the Exchange Debentures is payable semi-annually, and may be paid in the form of additional Exchange Debentures at the

Company's option. Exchange Debentures will be redeemable by the Company at any time after March 31, 2002 at rates commencing with 106.75%, declining to 100% on March 31, 2007.

On July 11, 1997, Intermedia's wholly owned subsidiary, Daylight Acquisition Corp., completed a merger with DIGEX, a leading nationwide business Internet services provider. The aggregate cash consideration for the acquisition was approximately $155 million and was funded with the Company's existing cash reserves in July 1997.

On July 9, 1997, the Company sold 6,000,000 Series D Depositary Shares (aggregate liquidation preference $150,000,000) each representing a one hundredth interest in a share of the Company's Series D Preferred Stock, in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series D Depositary Shares was exercised and the Company sold an additional 900,000 Series D Depositary Shares (aggregate liquidation preference of $22,500,000). Net proceeds to the Company amounted to approximately $167 million. Dividends on the Series D Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series D Preferred Stock will be redeemable at the option of the Company at any time on or after July 19, 2000 at rates commencing with 104%, declining to 100% on July 19, 2004.

The Series D Preferred Stock is convertible, at the option of the holder, into Common Stock of the Company at a conversion price of $38.90 per share of Common Stock, subject to certain adjustments.

Concurrently with the sale of the Series D Depositary Shares, the Company sold $606 million principal amount at maturity of 11 ¼% Notes in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the 11 ¼% Notes was exercised and the Company sold an additional $43 million principal amount at maturity of 11 ¼% Notes. The issue price of the 11 ¼% Notes was $577.48 per $1,000 principal amount at maturity of the 11 ¼% Notes. Net proceeds to the Company amounted to approximately $365 million. Cash interest will not accrue on the 11 ¼% Notes prior to July 15, 2002. Commencing January 15, 2003, cash interest on the 11 ¼% Notes will be payable semi-annually in arrears on July 15 and January 15 at a rate of 11 ¼% per annum. The 11 ¼% Notes will be redeemable, at the Company's option at any time on or after July 15, 2002, and are pari passu with all other senior indebtedness.

The Company used a portion of the proceeds of the private offering of the 11 ¼% Notes to retire or defease Intermedia's outstanding 13 ½% Notes. The Retirement resulted in an extraordinary loss, as shown in the accompanying consolidated statement of operations, of approximately $44 million in the third quarter of 1997.

On October 30, 1997, the Company sold 7,000,000 Series E Depositary Shares (aggregate liquidation preference $175,000,000) each representing a one-hundredth interest in a share of the Company's Series E Preferred Stock, in a private placement transaction. Subsequent thereto, the over-allotment option with respect to the Series E Depositary Shares was exercised and the Company sold an additional 1,000,000 Series E Depositary Shares (aggregate liquidation preference of $25,000,0000). Net proceeds to the Company amounted to approximately $193.8 million. Dividends on the Series E Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series E Preferred Stock will be redeemable at the option of the Company at any time on or after October 18, 2000 at rates commencing with 104%, declining to 100% on October 18, 2004.

The Series E Preferred Stock will be convertible at any time after December 29, 1997, at the option of the holder into Common Stock of the Company at a conversion price of $60.47 per share of Common Stock, subject to certain adjustments.

Concurrently with the sale of the Series E Depositary Shares, the Company sold $250 million principal amount at maturity of 8 7/8% Notes due in a private placement transaction. Net proceeds to the Company amounted to approximately $243 million. Cash interest on the 8 7/8% Notes will be payable semi annually in arrears on May 1 and November 1 at a rate of 8 7/8% per annum. The 8 7/8% Notes will be redeemable, at the Company's option at any time on or after November 1, 2002, and are pari passu with all other senior indebtedness.

The proceeds from the Series E Depositary Shares will be used to finance the continued expansion of the Company's telecommunications networks, including but not limited to, network electronics, such as local/long distance voice and data switches, and for general corporate purposes, including working capital. The net proceeds from the offering of the 8 7/8% Notes will be used to fund up to 80% of the cost of acquisition or construction by the Company of telecommunications-related assets

The Company expects that its available cash, including proceeds from the concurrent offerings of the 8 7/8% Notes and Series E Depositary Shares, and credit availability will be sufficient to fund its current accelerated and expanded capital deployment plan. If the Company were to require additional financing, it would seek to obtain such financing through the sale of public or private debt and/or equity securities or through securing a bank credit facility. There can be no assurance as to the availability of the terms upon which such financing might be available Moreover, the 12 ½% Notes, the 11 ¾% Notes, the 8 7/8% Notes and the Series B Preferred Stock impose certain restrictions upon the Company's ability to incur additional indebtedness or issue additional preferred stock.

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

Impact of Inflation

Inflation has not had a significant impact on the Company's operations over the past 3 years

The information set forth above in "Management's Discussion and Analysis of Financial Conditions and Results of Operations" includes forward-looking statements that involve numerous risks and uncertainties. The Company's actual results could differ materially from those anticipated in such forward looking statements as a result of certain factors, including those set forth in the section entitled "Risk Factors" in the Company's Annual Report on Form 10 K for the year ended December 31, 1996.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On June 20, 1997, two purported class action complaints were filed in the Court of Chancery of the State of Delaware in and for New Castle County respectively by LAAM Associates, Inc. and David and Charle Steinberg (the "Complaints"), purported stockholders of DIGEX on behalf of all non affiliated common stockholders of DIGEX against Intermedia, DIGEX and the Directors of DIGEX (the "DIGEX Directors"). The Complaints allege that the DIGEX Directors violated their fiduciary duties to the public stockholders of DIGEX by agreeing to vote in favor of the Merger and that Intermedia knowingly aided and abetted such violation by offering to retain DIGEX management in their present positions and consenting to stock option grants to certain executive officers of DIGEX. The Complaints sought preliminary and permanent injunction enjoining the Merger but no applications were made for such injunctions prior to consummation of the Merger on July 11, 1997. In addition, the Complaints seek cash damages from the DIGEX Directors. In August 1997, a motion to dismiss the Complaints was filed on behalf of Intermedia, DIGEX and the DIGEX Directors.

These cases are in their very early stages and no assurance can be given as to their ultimate outcome. Intermedia, after consultation with its counsel, believes that there are meritorious factual and legal defenses to the claims in the Complaints. Intermedia intends to defend vigorously the claims in the Complaints.

Item 2. Changes in Securities

On July 9, 1997, the Company sold 6,000,000 Series D Depositary Shares (aggregate liquidation preference $150,000,000) each representing a one hundredth interest in a share of the Company's Series D Preferred Stock, in a private placement transaction. Subsequent thereto, the over allotment option with respect to the Series D Depositary Shares was exercised and the Company sold an additional 900,000 Series D Depositary Shares (aggregate liquidation preference of $22,500,000). Net proceeds to the Company amounted to approximately $167 million. Dividends on the Series D Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series D Preferred Stock will be redeemable at the option of the Company at any time on or after July 19, 2000 at rates commencing with 104%, declining to 100% on July 19, 2004.

The Series D Preferred Stock is convertible, at the option of the holder, into Common Stock of the Company at a conversion price of $38.90 per share of Common Stock, subject to certain adjustments.

The Series D Depositary Shares were issued and sold to the initial purchasers pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Act"). Each of the initial purchasers of the Series D Depositary Shares represented to the Company, among other things, that (i) it is a qualified institutional buyer ("QIB"), (ii) it is not acquiring the Series D Depositary Shares with a view to any distribution thereof that would violate the Act or the securities laws of any state of the United States or any other applicable jurisdiction, (iii) it will be re offering and reselling the Series D Depositary Shares only to QIBs in reliance on the exemption from the registration requirements of the Act provided by Rule 144A and to accredited investors in a private placement exempt from the registration requirements of the Act, and (iv) no form of general solicitation or general advertising has been or will be used by it or any of its representatives in connection with the offer and sale of any of the Depositary Shares.

On October 30, 1997, the Company sold 7,000,000 Series E Depositary Shares (aggregate liquidation preference $175,000,000) each representing a one-hundredth interest in a share of the Company's Series E Preferred Stock, in a private placement transaction. Subsequent thereto, the over allotment option with respect to the Series E Depositary Shares was exercised and the Company sold an additional 1,000,000 Series E Depositary Shares (aggregate liquidation preference of $25,000,0000). Net proceeds to the Company amounted to approximately $193.8 million. Dividends on the Series E Preferred Stock will accumulate at a rate of 7% of the aggregate liquidation preference thereof and are payable quarterly, in arrears. Dividends are payable in cash or, at the Company's option, by the issuance of shares of Common Stock of the Company. The Series E Preferred Stock will be redeemable at the option of the Company at any time on or after October 18, 2000 at rates commencing with 104%, declining to 100% on October 18, 2004.

The Series E Preferred Stock will be convertible at any time after December 29, 1997, at the option of the holder, into Common Stock of the Company at a conversion price of $60.47 per share of Common Stock, subject to certain adjustments.

The Series E Depositary Shares were issued and sold to the initial purchasers pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Act"). Each of the initial purchasers of the Series E Depositary Shares represented to the Company, among other things, that (i) it is a qualified institutional buyer ("QIB"), (ii) it is not acquiring the Series E Depositary Shares with a view to any distribution thereof that would violate the Act or the securities laws of any state of the United States or any other applicable jurisdiction, (iii) it will be re-offering and reselling the Series E Depositary Shares only to QIBs in reliance on the exemption from the registration requirements of the Act provided by Rule 144A, pursuant to offers and sales that occur outside the United States within the meaning of Regulation S and to accredited investors in a private placement exempt from the registration requirements of the Act, and (iv) no form of general solicitation or general advertising has been or will be used by it or any of its representatives in connection with the offer and sale of any of the Series E Depositary Shares

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders
None

Item 5. Other Information
None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Number	Exhibit
2.1	Agreement and Plan of Merger among the Company, Daylight Acquisition Corp and DIGEX, dated June 4, 1997. Exhibit 99 (c) (1) to the Company's Schedule 14D-1 filed with the Securities and Exchange Commission on June 11, 1997 is incorporated herein by reference
3.1	Restated Certificate of Incorporation of the Company, together with all amendments thereto
3.2	By-laws of the Company, together with all amendments thereto. Exhibit 3.2 to the Company's Form S-1, filed with the Commission on November 8, 1993, (No. 33-69053) is incorporated herein by reference
4.1	Indenture, dated as of October 30, 1997, by and between the Company and SunTrust Bank, Central Florida, National Association, as Trustee. Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Commission on November 6, 1997 (the "Form 8-K"), is incorporated herein by reference
4.2	Certificate of Designation of Voting Power, Designation Preferences and Relative, Participating, Optional and other Rights and Qualifications, Limitations and Restrictions of 7% Series E Junior Convertible Preferred Stock of the Company, filed with the Secretary of State of the State of Delaware on October 29, 1997. Exhibit 4.2 to the Form 8-K is incorporated herein by reference.
4.3	Deposit Agreement, dated as of October 30, 1997, by and among the Company, Continental Stock Transfer & trust Company and all the holders from time to

time of Depositary Receipts issued thereunder. Exhibit 4.2 to the Form 8-K is incorporated herein by reference

27.1	Financial Data Schedule (For SEC Use Only)

(b) Reports on Form 8-K

The following reports on Form 8-K were filed during the third quarter of 1997 and through November 6, 1997:

The Company filed a Current Report on Form 8-K, dated July 9, 1997, reporting under Item 2 the completion of the acquisition of DIGEX, Incorporated by Daylight Acquisition, Corp., a wholly owned subsidiary of Intermedia Communications Inc. The Company also reported under Item 5 the completion of the concurrent private placements of its Series D Depositary Shares and 11 ¼% Notes.

The Company filed a Current Report on Form 8-K/A, dated July 9, 1997, reporting under Item 7 the financial statements of businesses acquired and the proforma financial information as of March 31, 1997.

The Company filed a Current Report on Form 8-K, dated October 24, 1997, reporting under Item 5, the commencement of two concurrent private offerings of its securities.

The Company filed a Current Report on Form 8-K, dated November 6, 1997, reporting under Item 5, the completion of concurrent private placements of its Series E Depositary Shares and 8 7/8% Notes.

SIGNATURES

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

Dated: November 6, 1997

INTERMEDIA COMMUNICATIONS INC
(Registrant)

/s/ Robert M. Manning
Robert M. Manning
Senior Vice President and Chief Financial Officer

/s/ Jeanne M. Walters
Jeanne M. Walters
Controller and Chief Accounting Officer

ATTACHMENT C

DIRECTORS AND EXECUTIVE OFFICERS OF INTERMEDIA COMMUNICATIONS, INC.

The following information sets forth the name, age, citizenship, business address, present principal occupation or employment, and the material occupation, positions, offices or employment for the past five years of each director and executive office of ICI. Unless otherwise indicated below, the address of each director and executive officer is Intermedia Communications Inc., 3625 Queen Palm Drive, Tampa, Florida 33619 and each director and executive officer is a citizen of the United States of America.

David C. Ruberg, age 51, has been a director, President, and Chief Executive Officer of ICI since May 1993 and Chairman of the Board since March 1994. He was an independent consultant to the computer and telecommunications industries from September 1991 to May 1993. Mr. Ruberg was a Vice President and General Manager of Data General Corporation from 1989 until September 1991.

John C. Baker, age 47, has been a director of ICI since February 1988. Mr. Baker has been the principal of Baker Capital Corp., a private equity investment firm, since October 1995. He was a Senior Vice President of Patricof & Co. Ventures, Inc., a multi-national venture capital firm from 1988 until September 1995. Mr. Baker is currently a director of Xpedite Systems, Inc., FORE Systems, Inc. and Resource Bancshares Mortgage Group, Inc., all of which are publicly traded corporations.

George F. Knapp, age 65, has been a director of ICI since February 1988. He has been a principal of Communications Investment Group, an investment banking firm, since June 1990. From January 1988 until June 1990, Mr. Knapp was an associate at MBW Management, Inc., a venture capital firm. Prior to that time, he held various executive positions at ITT Corporation and its subsidiaries, most recently as Corporate Vice President of ITT Corporation. Mr. Knapp is currently a member of the Manhattan College Board of Trustees and Chairman of its Finance Committee.

Philip A. Campbell, age 60, has been a director of ICI since September 1996. Mr. Campbell retired from Bell Atlantic Inc. as director, Vice Chairman and Chief Financial Officer in 1991. Previously, he was President of New Jersey Bell, Indiana Bell, and Bell Atlantic Network Services. Mr. Campbell is currently a director of Xpedite Systems, Inc , a publicly traded corporation.

Robert A. Rouse, age 48, has served as Executive Vice President, Operations and Systems of ICI since October 1996. Prior to joining ICI, Mr. Rouse was Senior Vice President of Concert, a joint venture company of British Telecommunications and MCI Communications Company where he managed the engineering and operations of the Concert Global Networks from 1991 to 1996. Mr. Rouse held various executive management positions at MCI from 1986 to 1991, with responsibilities including product and network design, network and systems development, network planning, operations, provisioning, and customer services. From 1969 to 1986, he managed several subsidiaries of Rochester Telephone, now a part of Frontier Corporation. Mr. Rouse received his B.A. from the University of Rochester in 1971.

James F. Geiger, age 38, has served as Senior Vice President, Sales of ICI since August 1995. Mr. Geiger served as the Vice President of Alternate Channel Sales from March 1995 through August 1995 and as the President of each of FiberNet USA, Inc. and FiberNet Telecommunications Cincinnati, Inc. (collectively, "FiberNet") since their inception. Mr. Geiger was one of the founding principals of FiberNet, initially serving as Vice President of Sales & Marketing and subsequently serving as President. From April 1989 to April 1990, Mr. Geiger served as Director of Marketing for Associated Communications, a cellular telephone company. Mr. Geiger received his B.S. in accounting from Clarkson University.

Robert M. Manning, age 37, has served as Senior Vice President, Chief Financial Officer of ICI since September 1996. Mr. Manning joined ICI from DMX Inc., a Los Angeles-based cable programmer, where he was Executive Vice President, Senior Financial Executive and a director of DMX-Europe from October 1991 to September 1996. Prior to his tenure at DMX, Mr. Manning spent ten years in the investment banking field in corporate finance and mergers and acquisitions, most recently with Oppenheimer and Co., Inc. s Vice President, Corporate Finance, managing their Entertainment/Leisure Time Group from October 1988 to October 1991. Mr. Manning is a graduate of Williams College, Williamstown, Massachusetts.

Robert A. Ruh, age 52, has served as Senior Vice President, Human Resources of ICI since March 1, 1996. From January 1991 through February 1996, Dr. Ruh was an independent consultant, specializing in executive and organization development. From 1975 to 1990, Dr. Ruh held executive positions in human resources with Baxter Healthcare Corporation and American Hospital Supply Corporation. From 1973 to 1975, Dr. Ruh served as a consulting psychologist for Medina and Thompson, specializing in executive assessment, selection, and development. From 1970 to 1972, Dr. Ruh was on the corporate organization development staff at Corning Glass Works. Dr. Ruh served as Assistant Professor of psychology at Michigan State University from 1970 to 1972. Dr. Ruh received a B.A. in psychology from Valparaiso University in 1966. He received an M.A. (1967) and a Ph.D. (1970) in industrial/organization psychology from Michigan State University.

Barbara L. Samson, age 34, a co-founder of ICI, has served as a Vice President since June 1987, and as a Senior Vice President since October 1992. She served as President of ICI's predecessor from September 1986 to June 1987. Ms. Samson recently served two terms as Chairman of the Association of Local Telecommunications Services (ALTS), a national competitive access provider trade association. Ms. Samson received her B.S. in telecommunications from the University of Florida and her M.B.A. from the University of South Florida.[1]

Michael A. Viren, age 55, has served as Senior Vice President, Strategic Planning, Regulatory, and Industry Relations of ICI since October 1996. Prior to his present position, he was Senior Vice President, Engineering and Information Systems from January 1996 to October 1996 and served as Vice President, Product Development from December 1992 through January 1996. Dr. Viren joined ICI in February 1991 as Director of Product Development. Dr. Viren worked for GTE Corporation from August 1986 to February 1991 as a specialist in wide and local area networking. Prior to that he operated his own consulting firm concentrating in WAN and LAN design; was Senior Vice President of Criterion, Inc., an economic consulting firm in Dallas, Texas; and served as the Director of the Utility Division of the Missouri Public Service Commission. Dr. Viren taught economics for 10 years, most recently as an Associate Professor of Economics at the University of Missouri-Columbia and prior to that at the University of Kansas. Dr. Viren received a Ph.D. in economics from the University of California Santa Barbara and a B.S. in mechanical engineering from the California State University at Long Beach.

Patricia A. Kurlin, age 42, has served as Vice President, General Counsel of ICI since June 1996. From September 1995 until June 1996, Ms. Kurlin served as Corporate Counsel and served as Director of Governmental and Legal Affairs for ICI from September 1993 to September 1995. Prior to joining ICI, Ms. Kurlin served as Senior Telecommunications Attorney at the Florida Public Service Commission from May 1990 to September 1993. Ms. Kurlin received her J.D. from the Florida State University and a B.S. degree from the University of South Florida.

Jeanne M. Walters, age 34, has served as Controller and Chief Accounting Officer of ICI since May 1993. From November 1992 until May 1993 she served as Assistant Controller. From June 1988 to November 1992, Ms. Walters was an auditor at Ernst & Young LLP, a certified public accounting firm in Tampa, Florida. Ms. Walters received her B.S. in accounting and an M.B.A. from Wilkes University. She is licensed in the State of Florida as a certified public accountant.

[1]Commencing April 1, 1997, Ms. Samson has been on a sabbatical leave in order to chair the Florida NetDay 2000 program.