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CH/RS

DOCKET NO. TC00-009

In the Matter of IN THE MATTER OF THE APPLICATION OF ADELPHIA BUSINESS SOLUTIONS OPERATIONS, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
2/9/00	Filed and Docketed;
2/10/00	Freeky Filing;
5/15/00	Surety Bond;
6/30/00	Corrected Surety Bond;
7/20/00	Order Granting COA;
7/20/00	Docket Closed

TC00-009

Adelphia
BUSINESS SOLUTIONS

VIA OVERNIGHT MAIL

RECEIVED
FEB 09 2000
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

February 8, 2000

South Dakota Utilities Commission
500 East Capitol Avenue
Capitol Building, 1ST Floor
Pierre, SD 57501-5070

ATTN: Deputy Director – Fixed Utilities Division

Re: Application and Request for Authority of Adelphia Business Solutions Operations, Inc. to Provide Interexchange Telecommunications Services

Dear Madam or Sir:

Adelphia Business Solutions Operations, Inc. hereby submits the enclosed Application and Request for Authority to Provide Interexchange Telecommunications Services as a reseller and facilities-based provider of interexchange services within the State of South Dakota. An original and ten (10) copies are provided in this packet. Furthermore, I have enclosed a check made payable to the South Dakota Utilities Commission in the amount of $250.00 for the fee attached with this request. Kindly date stamp the copy of this transmittal letter and return it in the self-addressed stamped envelope which have been provided for your convenience.

Should you have any questions or additional information is required, please do not hesitate to contact the undersigned at (412) 220-5717. Thank you for your courtesies and cooperation in this matter.

Sincerely,

Joelle Blaho-Sinclair

Joelle Blaho-Sinclair, Esquire

Enclosures (11)

CC: John B. Glicksman, Esquire (w/o enc.)

DDI Plaza Two
500 Thomas Street, Suite 400
Phone 412-221-1888
Fax 412-221-6560

TC00-009

Filed

SOUTH DAKOTA PUBLIC UTILITIES COMM.

BEFORE THE
SOUTH DAKOTA UTILITIES COMMISSION

IN RE:)
) Docket No. _____
Adelphia Business Solutions Operations, Inc.)
Application for Authority to Provide Resold and)
Facilities-Based Interexchange Telecommunication)
Services in the State of South Dakota)

APPLICATION AND REQUEST FOR AUTHORITY OF ADELPHIA BUSINESS SOLUTIONS OPERATIONS, INC. TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICES

Adelphia Business Solutions Operations, Inc. (hereinafter referred to as "Applicant"), pursuant to the rules, regulations and orders of the South Dakota Utilities Commission, hereby files this Application and Request for Authority to provide interexchange telecommunication services to business and residential customers in the State of South Dakota. By this application, Applicant seeks authority to provide resold and facilities-based interexchange telecommunication services.

In support of its application Applicant submits the following information, as required by the South Dakota Utilities Commission:

1. **Corporate Name and Address:**

Adelphia Business Solutions Operations, Inc.
Main at Water Street
Coudersport, PA 16915
Phone No. (814) 274-9830
Fax No. (814) 274-9863
Federal Tax Identification No. 25-1841903

2. **Organizational Structure:**

Applicant is a Delaware corporation, having been incorporated on July 29, 1999. Applicant has attached copies of the Certificate of Incorporation and Certificate of Foreign Qualification to do Business in the State of South Dakota as Exhibits.

3. **Other jurisdictions in which Applicant is certified:**

Applicant is certified to provide interexchange telecommunication services in Colorado and Montana. Furthermore, Applicant's parent company, Adelphia Business Solutions, Inc., through its affiliates, is certified to provide telecommunication services in Alabama, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia and West Virginia. Applicant is in good standing in all aforementioned jurisdictions. In addition, there have been no formal complaints filed in any of the aforementioned jurisdictions against Applicant for charging customers for services not ordered or slamming.

4. **Major Stockholders holding a 20% or greater ownership interest:**

Adelphia Business Solutions, Inc. owns one hundred (100%) percent of the stock of Applicant.

5. **Registered Agent:**

Corporation Service Company
503 South Pierre Street
Pierre, SD 57501

6. **Geographic areas of service:**

Applicant intends to provide interexchange telecommunication services to business and residential customers statewide in South Dakota, exclusive of areas in which rural independent telecommunication companies operate.

7. **Corporate Officers:**

John J. Rigas	Chairman
Michael J. Rigas	Executive Vice President
James P. Rigas	Executive Vice President
Timothy J. Rigas	Executive Vice President/Treasurer
Edward E. Babcock, Jr.	Vice President/Assistant Secretary
John B. Glicksman	Vice President/Assistant Secretary
Tom Cady	Vice President
John D. Lasater	Vice President

Mark A. Erickson	Vice President
Jeffry J. Miller	Vice President

Applicant's management team is well qualified to execute its business plan, having extensive managerial, financial and technical experience in the telecommunications industry. A description of the telecommunications and managerial experience of Applicant's key personnel is attached as an Exhibit.

8. **Documentation of Applicant's financial position:**

Applicant is a wholly owned subsidiary of Adelphia Business Solutions, Inc ("ABS"). As a newly formed company, Applicant will rely upon the substantial financial resources of its parent company, ABS, to provide the initial capital investment and to fund operating costs. The long distance services Applicant proposes to provide in South Dakota will complement the growing family of cities and states in which ABS, through its affiliates (collectively referred to as "Company"), provides telecommunication services. A review of the attached financial documents show the Company's solid financial standing as a business. The Company continues to increase yearly revenues, while at the same time expand into new markets. The financial statements and other documentation of the Company is attached as an Exhibit.

9. **General Description of Applicant's Proposed Operations:**

Applicant seeks authority to provide resold and facilities-based interexchange telecommunication services, including both inbound and outbound intraLATA services, to business and residential customers throughout the State of South Dakota, as aforementioned, for the direct transmission and reception of voice, data and other types of telecommunication services. Applicant plans to provide these services through a combination of its own facilities and through the resell of the facilities of other certified carriers. Initially, the services will be provided by purchasing capacity from a facilities-based provider. Service will be available on a full-time basis, twenty-four hours a day, seven days a week. In addition to interstate and intrastate 1+ direct dial long distance service, Applicant will offer travel card (calling card) services, international calling services, "1-800/888" services, prepaid calling card services (on a promotional basis only). Operator services, including 911, will be provided by a third party.

10. **General Description of how Applicant intends to provide proposed services:**

Applicant will utilize an underlying carrier, Broadwing, Inc., formerly known as IXC Communications, Inc., to provide its proposed services until such time as it has constructed its own facilities. Broadwing, Inc., based out of Austin, Texas, is one of the largest wholesale providers of long distance service in the United States. Broadwing, Inc. has the fifth largest digital fiber transmission network with 5 major switching centers and over 100 points of presence. It maintains a national Network Control Center that operates 24 hours a day, 7 days a week. The customers' calls flow through the local exchange carrier's (LEC) switch and is terminated at Broadwing's point of presence. The call is

then transported over Broadwing's network and is terminated at the terminating LEC's switch. The LEC's network then carries the call to the individual being called.

11. **Marketing of Services:**

Applicant's services will be marketed through television spot campaigns, which will be aired on the cable television system, and through the use of radio advertisements and occasional print advertisements. In addition, Applicant intends to employ a sales staff within the State of South Dakota for the purpose of selling its products and services to prospective customers via a person-to-person approach.

12. **Regulatory and Tariff Contacts:**

Janet S. Livengood, Esquire
DDI Plaza Two
500 Thomas Street, Suite 400
Bridgeville, PA 15017-2838
Phone No. (412) 221-1888 and (888) 472-6222
Fax No. (412) 220-5162
jlivengood@hyperion.net

13. **Customer Service Contact and Complaint Procedures**

Tom Burke
712 North Main Street
Coudersport, PA 16915
Phone No. (814) 274-9830 and (888) 257-4115
Fax No. (814) 274-2269
tburke@hyperion.net

Applicant has a toll-free customer service center (888/257-4115) that operates 24 hours a day, seven days a week. Furthermore, every office of the Applicant can accept payments and answer basic questions about the services provided.

14. **Tariff:**

Applicant has attached a Proposed Tariff and marked as an Exhibit.
All tariff inquiries are to be directed to the Regulatory Contact listed above.

15. **Billing and Collection Information:**

Rates will be determined based on market price and the underlying service provider's rates. The calls will be branded Adelphia Business Solutions Operations, Inc. Applicant will establish the prices to be charged to the end-user. Billing invoices are sent on a monthly cycle. Applicant maintains an in-house billings and collections department. Eric Dahlberg is the manager, and may be contacted at Indian Church Road, West Seneca, New

York, 14224. He may be reached by telephone at (716) 558-8160 and (888) 741-7638, and by facsimile at (716) 827-8058. His e-mail address is edahlberg@adelphia.net.

PUBLIC INTEREST STATEMENT

The entry of Applicant into the telecommunications business in South Dakota will serve the public interest by creating greater competition in the interexchange marketplace and permitting customers to achieve increased efficiencies and cost savings. Applicant's proposed long distance services will meet the needs of residential and business users in the State of South Dakota for competitively priced and superior quality interexchange telecommunications services. Accordingly, Commission approval of the instant Application will foster competition in the interexchange telecommunication markets and generate significant benefits to South Dakota users, including, low-priced, high-quality services, innovative telecommunications services and increased consumer choice, and efficient use of existing telecommunications resources, as well as increased diversification and reliability of the supply of telecommunications services. Applicant's proposed telecommunication services will meet the needs of its users in the State of South Dakota for competitively priced and superior quality interexchange telecommunication services.

Respectfully submitted,

Joelle Blaho-Sinclair, Esquire

Dated: 2/8/00

LIST OF EXHIBITS

EXHIBIT A	Certificate of Incorporation and Certificate of Foreign Qualification To Do Business in the State of South Dakota
EXHIBIT B	Managerial and Technical Qualifications
EXHIBIT C	Financial Qualifications
EXHIBIT D	Proposed Tariff

Verification

EXHIBIT A

Certificate of Incorporation

And

Certificate of Foreign Qualification To Do Business in the State of South Dakota

Secretary of State

State Capitol, Ste 204
500 East Capitol Avenue
Pierre, South Dakota
57501-5070
sdsos@state.sd.us

JOYCE HAZELTINE
Secretary of State

TOM LECRONE
Deputy

To: CSC
MICHELLE DISBROW
830 BEAR TAVERN ROAD
WEST TRENTON NJ 8628

From: Secretary of State Joyce Hazeltine
Corporations Division

Date: December 9, 1999

Re: ADELPHIA BUSINESS SOLUTIONS OPERATIONS, INC. (DE)
Foreign Certificate of Authority

The application for certificate of authority has been received and filed for the **ADELPHIA BUSINESS SOLUTIONS OPERATIONS, INC. (DE)**.

Enclosed is the Certificate attached to the duplicate application along with a receipt for the filing fee of $90 + $10 Expedited for 1,000 at $.01.

SDCL: 47-9-3 requires the filing of a corporate annual report with our office between the anniversary date of qualification and prior to the first day of the second month following. The report is due the year following qualification. An annual report form will be mailed to the corporate address listed in number five on the application for timely filing. Please contact our offices if the corporate address changes or if the form is not received.

Thank you.

State of South Dakota

OFFICE OF THE SECRETARY OF STATE

Certificate of Authority

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of **ADELPHIA BUSINESS SOLUTIONS OPERATIONS, INC. (DE)** to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this December 9, 1999.

Joyce Hazeltine
Secretary of State

Secretary of State
State Capitol
500 E. Capitol Ave.
Pierre SD 57501
Phone 605-773-3845
Fax 605-773-4550

FILE NO. _____

RECEIPT NO. _____

Application for Certificate of Authority

Pursuant to the provisions of SDCL 47-3-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is Adelphia Business Solutions Operations, Inc.
(exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is

(3) State where incorporated Delaware Federal Taxpayer ID# 25-1841903

(4) The date of its incorporation is July 29, 1999 and the period of its duration, which may be perpetual, is Perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is 1013 Centre Road Wilmington, DE Zip Code 19805
mailing address if different from above is:

Zip Code

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is 503 South Pierre Street Pierre SD Zip Code 57501
and the name of its proposed registered agent in the State of South Dakota at that address is Corporation Service Company

(7) The purposes which it proposes to pursue in the transaction of business in this State of South Dakota are: (state specific purposes)

To provide telecommunication services.

(8) The names and respective addresses of its directors and officers are:

Name	Office Title	Street Address	City	State	Zip
See Attached					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
1,000	Common		$0.01

10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and [illegible] within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
1,000	common		[illegible]

(11) The amount of its stated capital is $ 10.00 Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the Secretary of State or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated 10/16 1999

[signature]
(Signature)

Vice President
(Title)

STATE OF Pennsylvania
COUNTY OF Potter

I, [illegible], a notary public, do hereby certify that on this [illegible] day of [illegible] 1999 personally appeared before me [illegible] who, being by me first duly sworn, declared that he is the [illegible] of [illegible], that he is the signed the foregoing document as officer of the corporation, and the statements therein contained are true.

[signature]
(Notary Public)

My Commission Expires

Notarial Seal
[illegible]

Notarial Seal

The Consent of Appointment below must be signed by the registered agent listed in number six.

Consent of Appointment by the Registered Agent

I, Tabatha Fiorelli, hereby give my consent to serve as the registered agent for Corporation Service Company (corporate name).

Dated 10/21 1999 Tabatha Fiorelli, Asst. Sec.
(signature of registered agent)

The proper filing fee must accompany the application. Make checks payable to the Secretary of State.

FEE SCHEDULE

Authorized capital stock of	$25,000	or less	$ 90
Over $25,000 and not exceeding	$100,000		$110
Over $100,000 and not exceeding	$500,000		$130
Over $500,000 and not exceeding	$1,000,000		$150
Over $1,000,000 and not exceeding	$1,500,000		$200
Over $1,500,000 and not exceeding	$2,000,000		$250
Over $2,000,000 and not exceeding	$2,500,000		$300
Over $2,500,000 and not exceeding	$3,000,000		$350
Over $3,000,000 and not exceeding	$3,500,000		$400
Over $3,500,000 and not exceeding	$4,000,000		$450
Over $4,000,000 and not exceeding	$4,500,000		$500
Over $4,500,000 and not exceeding	$5,000,000		$550

For each additional $500,000, $40 in addition to $550.

For purposes only of computing fees under this section, the dollar value of each authorized share having a par value shall be equal to par value and the value of each authorized share having no par value shall be equal to one hundred dollars per share. The maximum amount charged under this subdivision may not exceed sixteen thousand dollars.

FILING INSTRUCTIONS:

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or its president, or any other officer. **One original and one photocopy of the application must be submitted.**

The application must be accompanied by an original, currently dated, CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING from the Secretary of State in the state where incorporated. A photocopy of a certificate is not acceptable. It should be dated within ninety (90) days of submitting it to our office.

South Dakota law requires every corporation to continuously maintain a resident of this state as its registered agent (number one on the application). The registered agent's address is considered the registered office address of the corporation in South Dakota. A complete street address must be listed for service of process.

The Consent of Registered Agent portion must be signed by the South Dakota registered agent.

Mail the application, certificate, and filing fee to the Secretary of State, Corporate Division, 500 E. Capitol Avenue, Pierre, SD 57501-5070. The duplicate and a Certificate of Authority will be returned for your records.

OfficersOfficers

John J. Rigas	Chairman	1 North Main Street	Coudersport, PA 16915	
Michael J. Rigas	Secretary	1 North Main Street	Coudersport, PA 16915	
James P. Rigas	Executive Vice President	1 North Main Street	Coudersport, PA 16915	
Timothy J. Rigas	Executive Vice President, Treasurer	1 North Main Street	Coudersport, PA 16915	
Edward C. Babcock, Jr.	Vice President, Assistant Secretary	1 North Main Street	Coudersport, PA 16915	
Thomas W. Cosby	Vice President	1301 Plaza Two, 500 Thomas Street, Ste. 500	Bridgeville, PA 15017	
John D. Lanter	Vice President	1301 Plaza Two, 500 Thomas Street, Ste. 500	Bridgeville, PA 15017	
Theodore A. Hall	Vice President	1301 Plaza Two, 500 Thomas Street, Ste. 500	Bridgeville, PA 15017	
Mark A. Parkinson	Vice President	1301 Plaza Two, 500 Thomas Street, Ste. 500	Bridgeville, PA 15017	
John D. Glickman	Vice President, Assistant Secretary	1 North Main Street	Coudersport, PA 16915	

DIRECTORS

John J. Rigas	Chairman
Michael J. Rigas	Vice Chairman
James P. Rigas	Vice Chairman
Timothy J. Rigas	Vice Chairman

EXPIRATION OF TERM:
Until the next annual meeting of the Board of Directors and until their respective successors shall have been duly elected and qualified.

NEXT

DOCUMENT (S)

BEST IMAGE

POSSIBLE

State of Delaware

Office of the Secretary of State

RECEIVED
NOV 16 93
S.D. SEC. OF STATE

[illegible]

[illegible] DO HEREBY [illegible]

OPERATIONS, INC., [illegible]

STATE OF DELAWARE AND IS IN [illegible]

CORPORATE EXISTENCE [illegible]

[illegible] OF THE TWENTY-FIRST [illegible]

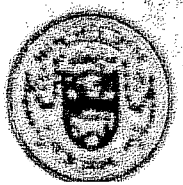
AND I DO HEREBY [illegible]

HAVE NOT BEEN ASSESSED [illegible]

AND I DO HEREBY [illegible]

[illegible] SOLUTIONS OPERATIONS, INC. [illegible]

[illegible] DAY OF JUL[illegible]



Edward J. Freel, Secretary of State

State of Delaware

Office of the Secretary of State PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "ADELPHIA BUSINESS SOLUTIONS OPERATIONS, INC." FILED IN THIS OFFICE ON THE TWENTY-NINTH DAY OF JULY, A.D. 1999, AT 4:30 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FURNISHED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

Edward J. Freel, Secretary of State

3076715 8100

991314878

AUTHENTICATION: 9895421

DATE:

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 07/28/1999
991314878 - 2976713

CERTIFICATE OF INCORPORATION

OF

ADELPHIA BUSINESS SOLUTIONS OPERATIONS, INC.

1. The name of the corporation is:

   Adelphia Business Solutions Operations, Inc.

2. The address of its registered office in the State of Delaware is 1013 Centre Road, Wilmington, Delaware 19805-1297, County of New Castle. The name of its registered agent at such address is the Corporation Service Company.

3. The nature of the business or purpose to be conducted or promoted is:

   To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

4. The total number of shares of stock which the corporation shall have authority to issue is 1,000 shares of Common Stock, and the par value of each of such shares is One Cent ($0.01), amounting in the aggregate to Ten Dollars.

5. The name and mailing address of the Sole Incorporator is as follows:

   Mary V. Rhodes
   Adelphia Business Solutions
   DDI Plaza Two
   500 Thomas Street, Suite 400
   Pittsburgh, PA 15017

6. The corporation is to have perpetual existence.

7. A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director for any act or omission; provided, however, that the foregoing shall not eliminate or limit the liability of a director (a) for any breach of the director's duty or loyalty to the corporation or its stockholders, (b) for any act or omission not in good faith or which involves intentional misconduct or a knowing violation of law, (c) under Section 174 of the General Corporation Law of the State of Delaware, or (d) for any transaction from which the director derived an

improper personal benefit. Any repeal or modification of this article by the stockholders of the corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the corporation existing at the time of such repeal or modification.

8. In furtherance and not in limitation of the powers conferred by the General Corporation Law of the State of Delaware, the Board of Directors of the corporation is expressly authorized to make, alter, or repeal the By-laws of the corporation.

9. Elections of directors need not be by written ballot except and to the extent provided in the By-laws of the corporation.

I, Mary V. Rhodes, being the Sole Incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, do make this certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 29th day of July, 1999.

Mary V. Rhodes, Sole Incorporator

EXHIBIT B

Managerial and Technical Qualifications

EXECUTIVE OFFICERS

John J. Rigas is the Chairman of the Board of the Company. He also is the founder, Chairman, Chief Executive Officer and President of Adelphia. Mr. Rigas has owned and operated cable television systems since 1952. Among his business and community service activities, Mr. Rigas is Chairman of the Board of Directors of Citizens Bank Corp., Inc., Coudersport, Pennsylvania and a member of the Board of Directors of the Charles Cole Memorial Hospital. He is a director of the National Cable Television Association and a member of its Pioneer Association and a past president of the Pennsylvania Cable Television Association. He is also a member of the Board of Directors of C-SPAN and the Cable Advertising Bureau, and is a Trustee of St. Bonaventure University. He graduated from Rensselaer Polytechnic Institute with a B.S. in Management Engineering in 1950.

John J. Rigas is the father of Michael J. Rigas, Timothy J. Rigas and James P. Rigas, each of whom currently serves as a director and executive officer of the Company.

James P. Rigas is Vice Chairman, Chief Executive Officer and a Director of the Company, Executive Vice President, Strategic Planning and a Director of Adelphia and a Vice President and Director of Adelphia's other subsidiaries. Mr. Rigas currently spend substantially all of his time on concerns of the Company. He has been with Adelphia since 1986. Mr. Rigas graduated from Harvard University (magna cum laude) in 1980 and received a Juris Doctor degree and an M.A. degree in Economics from Stanford University in 1984. From June 1984 to February 1986, he was a consultant with Bain & Co., a management consulting firm.

Michael J. Rigas is Vice Chairman and a Director of the Company, Executive Vice President, Operations and a Director of Adelphia and a Vice President and Director of Adelphia's other subsidiaries. He has been with Adelphia since 1981. From 1979 to 1981, he worked for Webster, Chamberlain & Bean, a Washington, D.C. law firm. Mr. Rigas graduated from Harvard University (magna cum laude) in 1976 and received his Juris Doctor degree from Harvard Law School in 1979.

Timothy J. Rigas is Vice Chairman, Chief Financial Officer, Treasurer and a Director of the Company, Executive Vice President, Chief Accounting Officer, Treasurer and a Director of Adelphia, and a Vice President and Director of Adelphia's other subsidiaries. He has been with Adelphia since 1979. Mr. Rigas graduated from the University of Pennsylvania, Wharton School, with a B.S. degree in Economics (cum laude) in 1978.

OTHER OFFICERS

Edward E. Babcock, Jr., CPA, is Vice President, Finance of Hyperion. Mr. Babcock joined Adelphia in May 1995 and previously held the position of Director of Financial Administration and Chief Accounting Officer of Adelphia. Prior to joining Adelphia, Mr. Babcock was the Vice President of Finance and Administration of Pure Industries. Before joining Pure Industries, Mr. Babcock spent eight years with the Pittsburgh office of Deloitte & Touche LLP. Mr. Babcock received his B.S. degree in Accounting from The Pennsylvania State University in 1984.

Thomas W. Cady, Vice President of Sales and Marketing, joined Hyperion in March 1998. His responsibilities include the development of marketing and sales programs for all of Hyperion's end user products and services. Prior to joining Hyperion, Mr. Cady spent seven years with Xerox, five years with IBM ROLM and two years with Sprint/Telenet in a variety of sales, marketing and management positions. Most recently, Mr. Cady held the position of Senior Vice President of Marketing and Business Development for Cabletron Communications. Mr. Cady graduated from Virginia Tech with a B.S. in Business Administration in 1977, and received an MBA from the University of Richmond in 1984.

Mark Erickson, Vice President of Operations, joined Hyperion in June 1998. Prior to joining Hyperion, Mr. Erickson spent 25 years with Bell of PA and Bell Atlantic in a variety of technical and management positions. Mr. Erickson graduated from the Pennsylvania Technical College in 1973.

John B. Glicksman is Vice President, General Counsel and Assistant Secretary. Mr. Glicksman joined Adelphia in February 1992 and previously held the position of Deputy General Counsel for Operations. Prior to joining Adelphia, Mr. Glicksman was in private practice with Washington, D.C. law firms of Leventhal, Senter & Lerman; Fleischman and Walsh; and Howrey & Simon. Mr. Glicksman received his J.D. degree, with honors, from the National Law Center, George Washington University, Washington, D.C. and his B.A. degree, with high honors, from Trinity College, Hartford, Connecticut.

John D. Lasater, Vice President of National Accounts, joined Hyperion in January 1998 and is responsible for national account marketing and sales. Mr. Lasater joined MCI in 1991 as Manager of Major Accounts for Nashville, Tennessee. In 1993 he was appointed Executive Manager, National Accounts for MCI, managing the national account sales and marketing organization for Tennessee and Kentucky. Prior to joining MCI, Mr. Lasater held sales and marketing positions with South Central Bell and AT&T Information Systems. Mr. Lasater is a 1975 summa cum laude graduate of Belmont University.

Jeffrey J. Miller, Vice President of Business Development, joined Hyperion in April 1998 and is responsible for leading business development efforts and contract negotiations. Mr. Miller joined Adelphia in December 1990 and held the positions of Director of Wireless Operations and Regional Controller. Prior to joining Adelphia, Mr. Miller spent seven years with the Stamford, Connecticut office of Arthur Young and Company. Mr. Miller graduated magna cum laude from Lehigh University in 1984 with a B.S. in Accounting.

EXHIBIT C

Financial Qualifications

Adelphia Business Solutions Corp 1 Centers (Corporate and Operating)
Balance Sheet

	January 1999	February 1999	March 1999	April 1999	May 1999	June 1999	July 1999	August 1999	Sept 1999	October 1999	Nov 1999	Dec. 1999
ASSETS												
Cash	6,291,540	(7,472,460)	142,986,000	122,116,811	149,912,464	201,456,046	207,644,116	196,286,073	125,467,470	(25,782,284)	538,156,037	2,355,662
Restricted Cash	58,516,994	48,902,000	48,521,942	48,521,942	63,521,942	68,176,020	68,176,020	64,967,241	29,456,699	25,456,699	25,456,699	20,898,696
Account Receivable Trade	16,657,169	20,191,790	20,244,206	24,182,804	27,706,095	30,176,851	40,545,102	46,601,903	56,775,209	66,580,413	65,281,275	71,775,861
Account Receivable Other	116,194	191,805	171,850	(279,510)	52,115	686,104	764,706	1,065,229	1,908,029	1,708,319	5,052,378	1,823,844
Affiliate Receivables	212,900,102	202,209,772	200,104,462	240,776,088	221,042,468	2,090,917	105,458,114	80,947,901	(9,482,489)	541,056,527	(17,967,389)	598,341,463
Internal Receivable Affiliates	0	0	0	0	0	0	0	0	0	0	0	0
Prepaid Expenses	14,296,957	14,971,909	15,247,917	13,949,219	2,575,047	3,405,021	3,943,492	1,067,752	54,135,067	52,120,095	41,057,144	50,998,801
TOTAL CURRENT ASSETS	306,889,707	278,741,196	427,675,297	449,268,227	464,862,109	367,870,921	410,536,571	325,805,499	261,045,275	295,205,975	677,126,115	577,130,090
Capital Leases	89,882,729	89,882,729	89,834,801	91,221,679	89,795,576	85,148,715	85,148,715	85,148,085	85,501,894	85,501,894	85,459,862	87,578,948
PP&E	194,726,466	201,104,841	205,700,912	206,712,286	206,217,047	420,206,040	424,736,631	450,990,348	466,767,126	467,522,919	447,395,479	354,057,293
Construction in Progress	195,707,317	209,200,991	138,097,290	103,990,928	104,792,272	230,794,981	257,899,078	277,447,957	288,766,178	361,695,758	396,728,240	460,911,060
Accumulated Depreciation	(40,947,509)	(48,156,894)	(50,086,060)	(53,707,206)	(57,168,116)	(61,850,902)	(66,478,078)	(73,175,887)	(79,750,588)	(84,923,158)	(92,474,804)	(97,513,811)
Net PP&E	889,249,197	396,779,068	523,741,943	538,217,088	543,636,779	594,298,127	701,306,347	705,706,494	740,870,136	829,296,413	836,153,972	845,416,490
Investments in Joint Ventures	140,574,088	140,477,294	130,524,114	212,960,086	212,960,086	106,212,546	106,212,546	106,212,546	84,529,226	85,290,396	84,741,942	81,199,936
Investment in Subsidiaries	(1,600,000)	2,013,266	0	0	0	0	0	0	0	0	0	0
Cumulative Equity in	(27,593,468)	(28,167,973)	(25,265,772)	(26,899,193)	(27,550,924)	(16,836,809)	(16,841,201)	(17,447,388)	(16,915,915)	(16,965,841)	(17,030,894)	(17,159,816)
Other Deferred Charges	22,519,036	22,594,905	28,807,286	28,956,905	28,950,364	28,183,220	29,958,750	30,539,770	75,122,125	75,886,522	75,957,570	76,121,263
Accumulated Amortization	(7,960,925)	(8,174,286)	(9,295,303)	(9,375,370)	(9,445,648)	(11,005,759)	(11,080,941)	(11,174,713)	(11,936,285)	(12,045,916)	(12,963,052)	(13,044,258)
Total Other Assets	125,435,031	128,713,207	130,830,209	205,043,029	204,921,078	107,753,754	108,344,253	107,530,244	110,579,256	111,946,541	106,254,576	126,783,208
Total Assets	**822,223,936**	**805,233,501**	**1,112,247,392**	**1,185,822,284**	**1,196,166,563**	**1,109,720,802**	**1,242,971,598**	**##########**	**1,112,491,767**	**1,196,143,863**	**1,412,432,135**	**1,624,523,398**
LIABILITIES & EQUITY												
Accounts Payable	(12,199,064)	(19,557,841)	(15,903,334)	(102,156,870)	(108,225,978)	(27,232,318)	(169,784,249)	(75,000,000)	(64,151,975)	(160,337,470)	(150,000,001)	(211,603,662)
Accrued Expenses	(8,463,813)	(8,567,846)	(9,523,637)	(7,963,929)	(8,599,896)	(6,012,365)	(7,000,837)	(7,156,169)	(5,314,378)	(5,486,499)	(6,908,574)	(8,720,525)
Accrued Interest	(9,520,956)	3,089,084	(2,087,987)	(8,009,441)	(8,059,862)	(12,861,164)	(12,974,707)	(13,117,376)	(14,172,013)	(14,292,400)	3,614,953	(13,164,337)
TOTAL CURRENT LIABILITIES	(37,183,833)	(25,036,603)	(27,514,958)	(118,132,240)	(124,885,736)	(46,105,847)	(189,759,793)	(95,273,565)	(83,638,366)	(180,116,368)	(153,293,622)	(233,488,724)
Capital Lease Obligations	(23,331,287)	(23,282,882)	(39,692,675)	(40,243,771)	(44,647,511)	(44,096,844)	(43,884,866)	(45,249,313)	(44,056,165)	(44,064,390)	(43,831,257)	(43,837,588)
PARENT DEBT	(473,368,175)	(475,948,558)	(778,530,941)	(781,268,896)	(784,006,851)	(786,744,807)	(786,744,807)	(786,744,807)	(795,052,016)	(795,052,016)	(795,052,016)	(803,459,683)
N/P--Affiliates	1,551,292	(2,066,126)	(53,344)	2,491,069	2,484,448	2,451,854	2,451,840	2,451,854	(0)	(0)	(0)	(0)
N/P--Other	0	0	0	0	0	0	0	0	0	0	0	0
Total Long Term Debt	(495,146,170)	(501,297,566)	(818,276,960)	(819,021,598)	(826,169,915)	(828,389,797)	(828,177,833)	(829,542,267)	(839,108,182)	(839,116,406)	(838,883,274)	(847,697,271)
Deferred Income	(292,165)	(288,270)	(284,374)	(280,479)	(276,583)	(272,687)	(268,792)	(264,896)	(261,001)	(257,105)	(253,210)	(249,314)
Total Liabilities	**(532,622,168)**	**(526,622,439)**	**(846,076,292)**	**(937,434,317)**	**(951,332,234)**	**(874,768,332)**	**(1,018,206,418)**	**(925,080,728)**	**(923,007,552)**	**(1,019,488,880)**	**(992,420,106)**	**(1,081,435,310)**
Common Stock	(546,128)	(546,128)	(546,158)	(546,158)	(546,158)	(546,158)	(546,158)	(546,158)	(550,158)	(550,158)	(637,658)	(693,589)
Preferred Stock	(230,801,202)	(233,340,876)	(235,880,550)	(238,453,962)	(241,027,375)	(243,740,314)	(243,740,314)	(243,740,314)	(251,848,575)	(251,848,575)	(251,848,575)	(260,434,781)
PAID-IN CAPITAL	(288,725,462)	(286,185,788)	(283,646,084)	(281,072,671)	(278,499,258)	(275,786,320)	(275,786,320)	(275,786,319)	(267,948,226)	(267,948,226)	(521,168,826)	(662,483,753)
RETAINED EARNINGS	217,781,356	217,781,356	217,781,356	217,781,356	217,781,356	217,781,356	217,781,356	217,781,356	217,781,356	217,781,356	217,781,356	217,781,356
(Profit)Loss	11,689,668	23,680,373	36,120,336	54,103,468	57,457,106	67,338,967	77,526,257	84,165,974	113,081,387	125,910,820	135,871,674	162,742,681
TOTAL EQUITY	(290,601,768)	(278,611,062)	(266,171,100)	(248,187,968)	(244,834,328)	(234,952,470)	(224,765,160)	(218,125,452)	(189,484,216)	(176,654,783)	(420,002,029)	(543,088,087)
Total Liabilities & Equity	**(823,223,936)**	**(805,233,501)**	**(1,112,247,392)**	**(1,185,822,285)**	**(1,196,166,563)**	**(1,109,720,802)**	**(1,242,971,598)**	**##########**	**(1,112,491,767)**	**(1,196,143,863)**	**(1,412,432,135)**	**(1,624,523,398)**

Adaptive Business Solutions Corp. - Canada (Corporate and Operating)
Income Statement January 1996 | February 1996 | March 1996 | April 1996 | May 1996 | June 1996 | July 1996 | August 1996 | Sept 1996 | October 1996 | Nov 1996 | Dec 1996 | Dec YTD 1996

Revenues

Switched Access	1,154,497	1,201,575	1,129,096	1,275,016	1,354,499	1,126,702	1,212,913	1,301,082	1,170,412	1,222,207	1,148,717	1,192,157	14,288,866
Late Revenue	0	0	0	0	14,208	286,016	16,528	27,316	291,894	57,807	50,765	103,538	847,072
Long Distance Revenue	11,048	10,097	24,096	16,776	21,179	39,162	41,115	39,884	242,697	656,102	627,847	232,594	1,961,495
Special Access	1,056,927	1,047,274	1,014,459	2,790,209	2,907,316	3,194,755	3,445,119	3,291,309	3,927,886	3,307,678	3,920,474	3,778,705	33,481,811
Calculation Revenue	42,834	110,415	110,594	212,678	221,902	276,957	216,270	216,051	229,670	221,894	218,284	217,741	2,293,290
Other Revenue	91,108	226,489	1,899,996	256,017	256,795	177,841	267,099	132,144	3,164,947	378,315	11,868,536	(67,394)	19,361,896
Total Operating Revenue	**2,356,414**	**2,575,849**	**3,978,939**	**4,524,062**	**11,797,905**	**19,099,536**	**11,797,862**	**11,170,980**	**16,948,218**	**14,136,364**	**16,156,807**	**21,441,525**	**182,177,779**

Expense

Wages and Fringes Technical	1,040,148	1,054,415	1,490,882	1,917,901	1,961,401	2,004,063	2,144,205	2,436,346	2,752,156	3,597,854	2,771,616	2,795,857	25,013,465
Telecommunications Technical	1,270,954	2,577,770	1,992,788	2,742,423	2,979,276	2,186,481	3,236,884	3,762,917	3,586,670	4,094,153	3,955,771	4,248,436	37,136,527
Facility Expense Technical	84,783	88,202	(17,947)	81,546	22,967	14,094	66,210	90,725	99,016	120,746	28,867	230,196	729,252
Other Expenses Technical	210,915	316,807	280,892	778,134	480,490	525,106	775,809	1,515,975	896,416	1,063,764	487,875	826,249	8,416,936
Capitalized Wages Technical	(805,058)	(468,707)	(1,086,578)	(801,041)	(745,403)	(2,196,856)	(1,141,946)	(1,110,346)	(1,978,452)	(881,614)	(1,707,096)	(1,264,741)	(12,756,272)
Pre-op Deferral Technical	995	16,179	(17,200)	0	0	0	0	0	0	0	0	0	974
Total Technical Expenses	**2,806,749**	**3,584,679**	**3,622,920**	**4,040,905**	**4,231,891**	**5,196,850**	**5,903,572**	**6,695,491**	**4,294,806**	**7,994,799**	**6,535,240**	**6,853,992**	**59,525,884**
Advertising Marketing	41,950	72,807	96,120	215,881	248,282	417,634	441,765	434,063	566,781	622,452	623,235	1,022,789	5,383,964
Other Expenses Marketing	360,077	347,713	385,007	668,895	532,078	596,966	563,107	450,277	636,716	744,337	588,617	829,976	6,543,663
Total Marketing Expenses	**402,027**	**419,521**	**481,127**	**879,296**	**780,360**	**1,014,601**	**1,004,872**	**884,339**	**1,203,852**	**1,366,789**	**1,321,252**	**2,232,765**	**11,927,706**
Wages and Fringes Sales	1,120,226	1,267,565	1,450,836	2,613,504	2,726,881	2,597,036	2,291,404	2,920,347	4,491,450	3,250,540	3,301,929	3,143,741	31,435,549
Other Expenses Sales	101,126	280,305	403,872	629,809	(535,101)	822,310	806,256	445,389	657,317	610,022	610,508	778,965	6,961,083
Total Sales Expenses	**1,221,352**	**1,547,930**	**1,854,707**	**3,743,312**	**2,291,994**	**3,419,346**	**3,127,783**	**3,365,737**	**5,138,767**	**3,860,561**	**3,912,437**	**3,922,706**	**38,396,633**
Wages and Fringes G&A	1,562,697	1,567,197	2,050,745	2,488,765	2,454,585	2,388,033	2,574,810	2,675,189	4,014,878	2,714,051	3,426,792	4,179,546	32,097,296
Rent and Utilities G&A	654,817	670,225	680,739	813,540	926,985	1,453,938	1,082,466	1,214,648	1,228,512	1,649,282	1,579,328	1,963,663	13,917,942
Billing G&A	104,702	236,648	205,277	241,053	139,296	551,934	282,430	575,609	387,201	669,320	487,640	787,147	4,669,256
Management Fees G&A	2,848	1,415	32,546	60,670	6,404	(60,805)	(35,807)	125,497	(4,607)	399	494	250	129,003
Other Expenses G&A	1,775,451	1,826,341	3,728,323	2,385,949	1,951,101	3,706,958	3,128,793	2,846,397	5,150,159	3,436,810	3,907,090	5,701,260	39,554,632
Pre-op Deferral G&A	0	(17,200)	17,200	0	0	0	0	0	0	0	0	0	0
Total G&A Expenses	4,100,314	4,284,625	6,714,830	5,989,877	5,488,372	8,040,058	7,033,692	7,437,337	10,775,943	8,469,871	9,401,344	12,631,867	90,368,129
Total Operating Expenses	**8,633,472**	**10,206,855**	**10,673,592**	**14,652,779**	**13,982,569**	**15,672,888**	**16,990,299**	**17,300,734**	**21,543,512**	**21,205,982**	**23,238,272**	**25,420,553**	**199,521,307**
OPERATING CASH FLOW **	**(2,447,917)**	**(3,927,711)**	**(1,698,057)**	**(5,128,728)**	**(2,184,906)**	**(2,779,352)**	**(5,262,436)**	**(2,129,884)**	**(5,095,494)**	**(5,680,678)**	**(3,529,245)**	**(3,479,128)**	**(44,343,535)**
Other (Income) and Expenses	9,241,751	8,062,995	10,741,905	12,854,405	1,168,732	7,102,508	4,924,854	4,509,834	23,619,920	6,148,755	6,431,609	23,391,879	118,399,146
NET INCOME (LOSS)	**(11,689,668)**	**(11,990,706)**	**(12,439,962)**	**(17,983,133)**	**(3,353,639)**	**(9,881,860)**	**(10,187,290)**	**(6,639,717)**	**(28,915,414)**	**(12,629,432)**	**(9,960,854)**	**(26,871,007)**	**(162,742,681)**

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

X Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 1999

___ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 000-21605

ADELPHIA BUSINESS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	***25-1689484***
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One North Main Street	
Coudersport, PA	***16915-1141***
(Address of principal executive offices)	(Zip code)

814-274-9830
(Registrant's telephone number including area code)

Hyperion Telecommunications, Inc.
(Former name, if changed since last report)

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

Yes X No ___

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

At November 9, 1999, 23,965,385 shares of Class A Common Stock, par value $0.01 per share, and 31,538,977 shares of Class B Common Stock, par value $0.01 per share, of the registrant were outstanding.

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES

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Item 1. Financial Statements

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands, except per share amounts)

	December 31, 1998	September 30, 1999
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 242,570	$ 125,988
Accounts receivable and other current assets	15,583	63,695
Due from parent – net	4,950	---
Due from affiliates – net	1,078	4,905
Total current assets	264,181	194,588
U.S. government securities – pledged	58,054	29,451
Investments	112,328	47,409
Property, plant and equipment – net	374,702	740,870
Other assets – net	27,077	66,567
Total	$ 836,342	$ 1,078,885
LIABILITIES, PREFERRED STOCK, COMMON STOCK AND OTHER STOCKHOLDERS' EQUITY (DEFICIENCY):		
Current liabilities:		
Accounts payable	$ 20,386	$ 17,009
Due to parent – net	---	8,388
Accrued interest and other current liabilities	19,142	24,483
Total current liabilities	39,528	49,880
13% Senior Discount Notes due 2003	220,784	245,052
12 1/4% Senior Secured Notes due 2004	250,000	250,000
12% Senior Subordinated Notes due 2007	---	300,000
Other debt	21,325	44,056
Total liabilities	531,637	888,988
12 7/8% Senior exchangeable redeemable preferred stock	228,674	252,261
Commitments and contingencies (Note 3)		
Common stock and other stockholders' equity (deficiency):		
Class A common stock, $0.01 par value, 300,000,000 shares authorized, 22,376,071 and 23,912,785 shares outstanding, respectively	224	239
Class B common stock, $0.01 par value, 150,000,000 shares authorized, 32,314,761 and 31,181,077 shares outstanding, respectively	323	312
Additional paid in capital	286,782	269,608
Class B common stock warrants	4,483	4,467
Unearned stock compensation	---	(6,126)
Accumulated deficit	(217,781)	(330,864)
Total common stock and other stockholders' equity (deficiency)	74,031	(62,364)
Total	$ 836,342	$ 1,078,885

See notes to condensed consolidated financial statements.

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(Amounts in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1999	1998	[illegible]
Revenues	$ 12,098	$ 43,347	$ [illegible]	$ [illegible]
Operating expenses:				
Network operations	7,056	15,862	[illegible]	[illegible]
Selling, general and administrative	10,391	39,972	[illegible]	[illegible]
Depreciation and amortization	9,843	18,168	[illegible]	[illegible]
Total	27,290	74,002	[illegible]	[illegible]
Operating loss	(15,192)	(30,655)	[illegible]	[illegible]
Other income (expense):				
Interest income	4,169	2,867	[illegible]	[illegible]
Interest income-affiliate	2,995	1,316	[illegible]	[illegible]
Interest expense	(12,535)	(19,043)	[illegible]	[illegible]
Other income	113	---	[illegible]	[illegible]
Loss before income taxes and equity in net loss of joint ventures	(20,450)	(45,497)	[illegible]	[illegible]
Income tax expense	---	---	---	---
Loss before equity in net loss of joint ventures	(20,450)	(45,497)	[illegible]	[illegible]
Equity in net loss of joint ventures	(2,614)	(246)	[illegible]	[illegible]
Loss before extraordinary gain	(23,064)	(45,743)	[illegible]	[illegible]
Extraordinary gain on repurchase of debt	237	---	237	[illegible]
Net loss	(22,827)	(45,743)	[illegible]	[illegible]
Dividend requirements applicable to preferred stock	(7,026)	(7,969)	[illegible]	[illegible]
Net loss applicable to common stockholders	$ (29,853)	$ (53,712)	$ [illegible]	$ [illegible]
Basic and diluted net loss per weighted average share of common stock	$ (0.54)	$ (0.97)	$ [illegible]	$ [illegible]
Weighted average shares of common stock outstanding	55,497	55,497	[illegible]	[illegible]

See notes to condensed consolidated financial statements.

ADELPHIA BUSINESS SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	1998	1999
Cash flows from operating activities:		
Net loss	$ (63,684)	$ (113,083)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	17,872	41,963
Amortization	2,541	4,226
Noncash interest expense	25,555	24,268
Equity in net loss of joint ventures	9,487	7,340
Non-cash stock compensation	761	274
Extraordinary gain on repurchase of debt	(237)	—
Change in operating assets and liabilities net of effects of acquisitions:		
Other assets – net	(10,943)	(46,244)
Accounts payable	13,005	(5,445)
Accrued interest and other liabilities	(5,937)	7,959
Net cash used in operating activities	(11,580)	(79,642)
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(145,490)	(232,418)
Investments in joint ventures	(32,150)	(27,421)
Net cash used for acquisitions	(58,330)	(129,118)
Sale of U.S. government securities – pledged	30,965	30,626
Repayment of senior secured note	—	20,000
Net cash used in investing activities	(205,005)	(338,331)
Cash flows from financing activities:		
Repayments of debt	(21,389)	(2,465)
Advances (to) from related parties	(211,607)	9,607
Proceeds from debt	—	300,000
Costs associated with financing	(379)	(5,751)
Proceeds from issuance of Class A Common Stock	255,462	—
Costs associated with issuance of Class A Common Stock	(14,688)	—
Repayment of loans to stockholders	1,000	—
Net cash provided by financing activities	10,399	301,391
Decrease in cash and cash equivalents	(206,276)	(116,582)
Cash and cash equivalents, beginning of period	332,863	242,570
Cash and cash equivalents, end of period	$ 126,587	$ 125,988

See notes to condensed consolidated financial statements.

Adelphia Business Solutions, Inc. is a majority owned subsidiary of Adelphia Communications Corporation ("Adelphia"). The accompanying unaudited condensed consolidated financial statements of Adelphia Business Solutions, Inc. and its majority owned subsidiaries ("Adelphia Business Solutions" or the "Company") have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. On October 25, 1999, the shareholders of the Company elected to change the name of the Company from Hyperion Telecommunications, Inc. to Adelphia Business Solutions, Inc.

On March 30, 1999, Adelphia Business Solutions elected to change its fiscal year from March 31 to December 31. The decision was made to conform to general industry practice and for administrative purposes. The change became effective for the nine months ended December 31, 1998. These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended March 31, 1998 and its Transition Report on Form 10-K for the nine months ended December 31, 1998.

In the opinion of management, all adjustments, consisting of only normal recurring adjustments necessary for a fair presentation of the financial position of Adelphia Business Solutions at September 30, 1999, and the unaudited results of operations for the three and nine months ended September 30, 1998 and 1999, have been included. The results of operations for the three and nine months ended September 30, 1999 are not necessarily indicative of the results to be expected for the year ending December 31, 1999.

1. Significant Events Subsequent to December 31, 1998:

On March 2, 1999, Adelphia Business Solutions issued $300,000 of 12% Senior Subordinated Notes due 2007 ("Subordinated Notes"). An entity controlled by members of the Rigas family, controlling stockholders of Adelphia, purchased $100,000 of the Subordinated Notes directly from Adelphia Business Solutions at a price equal to the aggregate principal amount less the discount to the initial purchasers. The net proceeds of approximately $295,000 were or will be used to fund Adelphia Business Solutions' acquisition of interests held by local partners in certain of its markets and will be used to fund capital expenditures and investments in its networks and for general corporate and working capital purposes.

During March 1999, Adelphia Business Solutions consummated purchase agreements with subsidiaries of Multimedia Inc. and MediaOne of Colorado Inc. to acquire their respective interests in certain owned networks located in the Wichita, KS, Jacksonville, FL and Richmond, VA markets for an aggregate of $89,750. The agreements increased the Company's ownership interest in each of these networks to 100%. The acquisitions were accounted for under the purchase method of accounting. Accordingly, the financial results of the acquired networks are included in the consolidated results of Adelphia Business Solutions effective from the date acquired.

On April 15, 1999, the Company acquired an indefeasible right of use ("IRU") from e.spire Communications, Inc. ("e.spire") for approximately 576 miles of network fiber and construction services which allows the Company access to 14 new markets. In exchange, the Company granted e.spire an IRU to a 432-strand fiber optic cable in South Florida that is currently under construction.

On May 25, 1999, the Company entered into an IRU agreement with CapRock Communications Corp. for approximately $16,260 which grants the Company a long-term license to approximately 1,650 route miles of long haul fiber. The IRU gives the Company a presence in the southwestern United States.

During May 1999, the Company received $32,329 from Telergy, Inc. ("Telergy") for the repayment of a senior secured note held by the Company. The payment represented $20,000 in principal and $12,329 of interest due to the Company resulting from a February 1997 transaction in which the Company loaned Telergy $20,000 in exchange for a $20,000 senior secured note and a fully prepaid lease of dark fiber in New York state.

During June 1999, the Company consummated a purchase agreement with Entergy Corporation ("Entergy"), the parent of its local partner in the Baton Rouge, LA, Little Rock, AR, and Jackson, MS markets, whereby Entergy received approximately $16,518 for its ownership interests in these markets. The agreements increased the Company's ownership interest in each of these networks to 100%. The acquisitions were accounted for under the purchase method of accounting. Accordingly, the financial results of the acquired networks are included in the consolidated results of Adelphia Business Solutions effective from the date acquired.

During August 1999, the Company granted under the 1996 Long-Term Incentive Compensation Plan to each of John J. Rigas, Michael J. Rigas, Timothy J. Rigas, and James P. Rigas (i) stock options covering 100,000 shares of Class A common stock, which options will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant (vesting conditioned on continued services as an employee or director) and which shall be exercisable at $16.00 per share and (ii) stock awards covering 100,000 shares of Class A common stock, which stock awards will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant (vesting conditioned on continued services as an employee or director).

On August 31, 1999, the Company entered into a binding agreement with Digital Teleport, Inc. ("DTI") for the purchase of dark fiber IRUs covering over 4,000 route miles of long-haul and local fiber in the central portion of the United States. Although no payments have been made as of September 30, 1999, the cost of the IRUs is estimated to be between $27,000 and $42,000 depending upon the exercise by the Company of a number of options for additional routes and or fiber strands.

On September 21, 1999, the Company announced its decision to extend its fiber optic network into the western half of the United States. Management believes this national expansion will enable the Company to offer its services in approximately 200 markets throughout the country.

On October 13, 1999, the Company filed a shelf registration statement with the Securities and Exchange Commission to sell up to $1,500,000 in debt securities, preferred and common stock, depository shares, and other equity securities. This registration became effective on October 22, 1999. Proceeds of any sales under this registration statement are expected to be used for general corporate purposes, including capital spending, acquisitions, debt repayment, investments and other purposes, and to facilitate the national expansion.

On October 25, 1999, shareholders of the Company elected to change the legal name of the Company from Hyperion Telecommunications, Inc. to Adelphia Business Solutions, Inc. With this decision

management believes the strengths of Adelphia and the Company are further aligned to develop a unique brand in the communications marketplace.

During the nine months ended September 30, 1999, the Company made demand advances to Adelphia which, as of September 30, 1999, had been repaid. The Company received interest on the advances at a rate of 5.15%.

2. Investments:

The equity method of accounting is used to account for investments in joint ventures in which the Company holds less than a majority interest. Under this method, the Company's initial investments are recorded at cost and subsequently adjusted for the amount of its equity in the net income or losses of the joint ventures. Dividends or other distributions are recorded as a reduction of the Company's investment. Investments in joint ventures accounted for using the equity method reflect the Company's equity in their underlying net assets.

The Company's non-consolidated investments are as follows:

	Ownership Percentage		December 31, 1998	September 30, 1999
MediaOne Fiber Technologies (Jacksonville)	100.0%	(1)	$ [illegible]	$ [illegible]
Multimedia Hyperion Telecommunications (Wichita)	100.0	(1)	[illegible]	[illegible]
MediaOne of Virginia (Richmond)	100.0	(1)	[illegible]	[illegible]
Entergy Hyperion Telecommunications of Louisiana	100.0	(2)	[illegible]	[illegible]
Entergy Hyperion Telecommunications of Mississippi	100.0	(2)	[illegible]	[illegible]
Entergy Hyperion Telecommunications of Arkansas	100.0	(2)	[illegible]	[illegible]
PECO-Hyperion (Philadelphia)	50.0		[illegible]	[illegible]
PECO-Hyperion (Allentown, Bethlehem, Easton, Reading)	50.0		[illegible]	[illegible]
Hyperion of York	50.0		[illegible]	[illegible]
Allegheny Hyperion Telecommunications	50.0		[illegible]	[illegible]
Baker Creek Communications	49.9	(3)	[illegible]	[illegible]
Other	Various		[illegible]	[illegible]
			[illegible]	[illegible]
Cumulative equity in net losses			[illegible]	[illegible]
Total			$ [illegible]	$ [illegible]

(1) As discussed in Note 1, the Company has consummated agreements which increased its ownership to 100% in these ventures during May 1999.

(2) As discussed in Note 1, the Company has consummated an agreement which increased its ownership to 100% in these ventures during June 1999.

(3) On March 24, 1998, the Federal Communications Commission ("FCC") completed the auction of licenses for Local Multipoint Distribution Service. The Company, through Baker Creek Communications, was the successful bidder for 195 licenses, which cover approximately 30% of the nation's population – in excess of 83 million people in the eastern half of the United States. In connection with the FCC's acceptance of all bids and the granting of final licenses it was concluded that the Company, through Baker Creek Communications, would acquire the entire interest in the 195 licenses for a total cost of approximately $44,605, all of which was paid as of October 26, 1998. On September 30, 1999, the FCC granted the Company's request to transfer, and the Company transferred the licenses from Baker Creek Communications to a wholly owned subsidiary of the Company. The licenses are included in Other assets – net on the condensed consolidated balance sheet as of September 30, 1999.

Summarized combined unaudited financial information for the Company's investments being accounted for using the equity method of accounting, excluding Jacksonville, Richmond, Wichita, the Entergy partnerships and Baker Creek Communications, follows:

	December 31, 1998	September 30, 1999
Current assets	$ 4,656	$ 17,800
Property, plant and equipment – net	93,929	111,829
Other non-current assets	650	51
Current liabilities	5,258	5,182
Non current liabilities	32,127	34,833

	Nine Months Ended September 30, 1998	1999
Revenues	$ 4,405	$ 25,852
Net loss	(10,732)	(6,472)

3. Commitments and Contingencies:

Reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of material commitments and contingencies.

4. Net Loss Per Weighted Average Share of Common Stock:

Net loss per weighted average share of common stock is computed based on the weighted average number of common shares outstanding after giving effect to dividend requirements on the Company's preferred stock. Diluted net loss per common share is equal to basic net loss per common share because additional warrants outstanding had an anti-dilutive effect for the periods presented; however, these warrants could have a dilutive effect on earnings per share in the future.

5. Supplemental Financial Information:

For the nine months ended September 30, 1998 and 1999, the Company paid interest of $30,963 and $36,525, respectively.

Accumulated depreciation of property, plant and equipment amounted to $14,086 and $79,151 at December 31, 1998 and September 30, 1999, respectively.

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

The following discussion and analysis should be read in conjunction with the Company's unaudited Condensed Consolidated Financial Statements and the Notes thereto appearing elsewhere in this Form 10-Q and the Company's audited Consolidated Financial Statements and Notes thereto included in its Transition Report on Form 10-K for the nine months ended December 31, 1998.

Overview

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information or statements included in this Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations is forward-looking, such as information relating to future growth, expansion of operations or the effect of future regulation or competition. These "forward-looking statements" include statements regarding the intent, belief and current expectations of Adelphia Business Solutions and its directors and officers, and can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "intends" or "anticipates" or the negative thereof or other variations thereon or comparable terminology or by discussions of strategy that involve risks and uncertainties. Any such forward-looking information involves important risks and uncertainties that could significantly affect expected results in the future from those expressed in any forward-looking statements made by, or on behalf of, the Company.

These risks and uncertainties include, but are not limited to, uncertainties relating to our ability to successfully market our services to current and new customers, access markets on a nondiscriminatory basis, identify, design and construct fiber optic networks, install cable and facilities (including switching electronics) and obtain rights of way, access rights to buildings 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 risks and uncertainties relating to general economic conditions, the availability and cost of capital, acquisitions and divestitures, government and regulatory policies, the pricing and availability of equipment, materials, inventories and programming technological developments, the costs and other effects of rapid growth, year 2000 issues and changes in the competitive environment in which the Company operates. Readers of this Form 10-Q are cautioned that such statements are only predictions, that no assurance can be given that any particular future results will be achieved, and that actual events or results may differ materially. In evaluating such statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from those indicated by such forward-looking statements. Unless otherwise stated, the information contained in this Form 10-Q is as of and for the three and nine months ended September 30, 1998 and 1999. Additional information of factors that may affect the business and financial results of Adelphia Business Solutions can be found in the Company's filings with the Securities and Exchange Commission, including the prospectus under Registration Statement [illegible] under the caption "Risk Factors."

The "Company" or "Adelphia Business Solutions" means Adelphia Business Solutions, Inc. together with its majority-owned subsidiaries, except where the context otherwise requires. Unless the context otherwise requires, references herein to the networks mean (i) the 22 telecommunications networks in operation or under construction (the "Original Markets") in operation or under construction as of May 1, 1998, the date of the Company's initial public offering, which are wholly and majority owned subsidiaries of

are joint venture partnerships and corporations managed by the Company and in which the Company holds less than a majority equity interest with one or more other partners, and (iv) the additional networks operational or under development subsequent to May 8, 1998 (the "New Markets").

Adelphia Business Solutions is a leading national provider of facilities-based integrated communications services to customers that include businesses, governmental and educational end users and other communications services providers throughout the United States. The Company currently offers a full range of communications services in 50 markets and expects by the end of the year 2000 to be offering services in approximately 115 markets nationwide, including substantially all of the top 40 metropolitan statistical areas in the United States. To serve the Company's customers' broad and expanding communications needs, the Company has assembled a diverse collection of high-bandwidth, local and national network assets. The Company intends to integrate these assets with advanced communications technologies and services in order to provide comprehensive end-to-end communications services over its national network. The Company provides customers with communications services such as local switch dial tone (also known as local phone service), long distance service, high-speed data transmission, and Internet connectivity. The customers have a choice of receiving these services separately or as bundled packages which are typically priced at discount when compared to the price of the separate services.

In order to take advantage of the improved economic returns and better customer service from providing services "on-net," or over the Company's own network, the Company is in the process of further expanding the reach of its network system nationwide. The Company's Original Markets are principally located in the eastern half of the United States; however, due to the Company's success in operating and expanding these markets the Company is pursuing an aggressive nationwide growth plan. The Company intends to serve 200 total markets nationwide by the end of the year 2001, leveraging the Company's existing and planned switching platforms and inter-city fiber networks. The Company believes that this nationwide footprint will position it to address approximately 85% of the 60 million business access lines nationwide, which currently represent approximately $75 billion in annual revenues. This network system expansion includes the purchase, lease or construction of local fiber optic network facilities and the interconnection of all of the Company's existing and new markets with its own fiber optic facilities. The Company will also implement various technologies including Dense Wave Division Multiplexing to provide greater bandwidth capacity on its local and long-haul network system. Once fully installed, the 30,000 route mile fiber optic backbone will connect each of the Company's local markets. This fully redundant network system will support the Company's full line of communications service offerings.

The Company has experienced success in the sale of business access lines with approximately 272,635 access lines sold as of September 30, 1999, of which approximately 251,801 lines were installed at such date. This represents an addition of 60,444 access lines sold and 59,520 access lines installed during the quarter ended September 30, 1999. As of September 30, 1999, approximately 97% of these access lines are provisioned on Company owned switches.

Recent Developments

On March 2, 1999, Adelphia Business Solutions issued $100,000 of 12% Senior Subordinated Notes due 2007 ("Subordinated Notes"). An entity controlled by members of the Rigas family, controlling stockholders of Adelphia, purchased $100,000 of the Subordinated Notes directly from Adelphia Business Solutions at a price equal to the aggregate principal amount less the discount to the initial purchasers. The net proceeds of approximately $295,000 were or will be used to fund Adelphia Business Solutions' acquisition of interests held by local partners in certain of its markets and will be used to fund capital expenditures and investments in its networks and for general corporate and working capital purposes.

During March 1999, Adelphia Business Solutions consummated purchase agreements with subsidiaries of Multimedia Inc. and MediaOne of Colorado Inc. to acquire their respective interests in joint-owned networks located in the Wichita, KS, Jacksonville, FL and Richmond, VA markets for an aggregate of $89,750. The agreements increased the Company's ownership interest in each of these networks to 100%. The acquisitions were accounted for under the purchase method of accounting. Accordingly, the financial results of the acquired networks are included in the consolidated results of Adelphia Business Solutions effective from the date acquired.

On April 15, 1999, the Company acquired an indefeasible right of use ("IRU") from e.spire Communications, Inc. ("e.spire") for approximately 576 miles of network fiber and construction services which allows the Company access to 14 new markets. In exchange, the Company granted e.spire an IRU to a 432-strand fiber optic cable in South Florida that is currently under construction.

On May 25, 1999, the Company entered into an IRU agreement with CapRock Communications Corp. for approximately $16,260 which grants the Company a long-term license to approximately 1,800 route miles of long haul fiber. The IRU gives the Company a presence in the southwestern United States.

During May 1999, the Company received $32,329 from Telergy, Inc. ("Telergy") for the repayment of a senior secured note held by the Company. The payment represented $20,000 in principal and $12,329 of interest due to the Company resulting from a February 1997 transaction in which the Company loaned Telergy $20,000 in exchange for a $20,000 senior secured note and a fully prepaid lease of dark fiber in the New York state.

During June 1999, the Company consummated a purchase agreement with Entergy Corporation ("Entergy"), the parent of its local partner in the Baton Rouge, LA, Little Rock, AR, and Jackson, MS markets, whereby Entergy received approximately $36,518 for its ownership interests in these markets. The agreements increased the Company's ownership interest in each of these networks to 100%. The acquisitions were accounted for under the purchase method of accounting. Accordingly, the financial results of the acquired networks are included in the consolidated results of Adelphia Business Solutions effective from the date acquired.

During August 1999, the Company granted under the 1996 Long-Term Incentive Compensation Plan to each of John J. Rigas, Michael J. Rigas, Timothy J. Rigas, and James P. Rigas (i) stock options covering 100,000 shares of Class A common stock, which options will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant (vesting conditioned on continued services as an employee or director) and which shall be exercisable at $16.00 per share and (ii) stock awards covering 100,000 shares of Class A common stock, which stock awards will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant (vesting conditioned on continued services as an employee or director).

On August 31, 1999, the Company entered into a binding agreement with Digital Teleport, Inc. ("DTI") for the purchase of dark fiber IRUs covering over 4,000 route miles of long-haul and local fiber in the central portion of the United States. Although no payments have been made as of September 30, 1999, the cost of the IRUs is estimated to be between $27,000 and $42,000 depending upon the exercise by the Company of a number of options for additional routes and/or fiber strands.

On September 21, 1999, the Company announced its decision to extend its fiber optic network into the western half of the United States. Management believes this expansion will enable the Company to offer its services in approximately 200 markets throughout the country, which represents approximately 85% of the addressable business telecommunications market in the United States.

On October 13, 1999, the Company filed a shelf registration statement with the Securities and Exchange Commission to sell up to $1,500,000 in debt securities, preferred and common stock, depository shares, and other equity securities. This registration statement became effective on October 22,1999. Proceeds of any sales under this registration statement are expected to be used for general corporate purposes, including capital spending, acquisitions, debt repayment, investments and other purposes, and to facilitate the national expansion.

On October 25, 1999, shareholders of the Company elected to change the legal name of the Company from Hyperion Telecommunications, Inc. to Adelphia Business Solutions, Inc. With this decision, management believes the strengths of Adelphia and the Company are further aligned to develop a single brand in the communications marketplace.

During the nine months ended September 30, 1999, the Company made demand advances to Adelphia which, as of September 30, 1999, had been repaid. The Company received interest on the advances at a rate of 5.15%.

Results of Operations

Three Months Ended September 30, 1999 in Comparison with Three Months Ended September 30, 1998

Revenues increased 258% to $43,347 for the three months ended September 30, 1999, from $12,098 for the same quarter in the prior year. Growth in revenues of $31,249 resulted from an increase in revenues from majority and wholly-owned networks of approximately $30,951 as compared to the same period in the prior year due to the continued expansion of the Company's customer base, success in the roll out of switched services, and the consolidation of the Jacksonville, Richmond, Wichita, Baton Rouge, Jackson and Little Rock markets. The increase was also partially due to increased management fees from the non-consolidated subsidiaries of $298 from the same period in the prior year.

Network operations expense increased 125% to $15,862 for the three months ended September 30, 1999 from $7,056 for the same quarter in the prior year. The increase was attributable to higher costs associated with an increase in off-net resale costs, the expansion of operations at the Network Operating Control Center ("NOCC"), the increased number and size of the operations of the networks which resulted in increased employee related costs, equipment maintenance costs, costs related to planned expansion into new markets, and the consolidation of the Jacksonville, Richmond, Wichita, Baton Rouge, Jackson and Little Rock markets.

Selling, general and administrative expense increased 285% to $19,972 for the three months ended September 30, 1999 from $10,391 for the same quarter in the prior year. The increase was due primarily to increased expenses associated with the network expansion plan, an increase in the network sales force, an increase in corporate overhead costs to accommodate the growth in the number, size and operations of the networks as a result of the expansion, and the consolidation of the Jacksonville, Richmond, Wichita, Baton Rouge, Jackson and Little Rock markets.

Depreciation and amortization expense increased 85% to $18,168 during the three months ended September 30, 1999 from $9,843 for the same quarter in the prior year primarily as a result of increased depreciation resulting from the higher depreciable asset base at the NOCC and the networks, amortization of deferred financing costs and the consolidation of the Jacksonville, Richmond, Wichita, Baton Rouge, Jackson and Little Rock markets.

Interest income for the three months ended September 30, 1999 decreased [illegible] to $4,169 for the same quarter in the prior year as a result of decreases in interest income [illegible] cash and cash equivalents and U.S. Government securities.

Interest income-affiliate for the three months ended September 30, 1999 decreased [illegible] from $2,995 as a result of a decrease in the amount of demand advances made to Adelphia during the period.

Interest expense increased 52% to $19,045 during the three months ended September 30, 1999 from $12,535 for the same period in the prior year. The increase was primarily attributable to higher interest expense associated with interest on the 12% senior subordinated notes.

Equity in net loss of joint ventures decreased by 91% to $246 during the three months ended September 30, 1999 from $2,614 for the same quarter in the prior year. The net losses of the joint ventures for the three months ended September 30, 1998 and 1999 were primarily the result of increased customer base, partially offsetting startup and other costs and expenses associated with design, construction, operation and management of the networks of the joint ventures. The decrease was due to the consolidation of several joint ventures resulting from the purchase of the partners' interests, and to the maturing of the remaining joint venture networks.

The number of joint ventures paying management fees to the Company decreased from eight at September 30, 1998 to four at September 30, 1999 due to the Company's increased ownership in several joint ventures as a result of the previously mentioned acquisitions. These non-consolidated joint ventures and networks under construction paid management and monitoring fees to the Company, which are included in revenues, aggregating approximately $1,215 for the three months ended September 30, 1999, as compared with $3,701 for the same quarter in the prior fiscal year. The nonconsolidated joint ventures and [illegible] including networks under construction, for the three months ended September 30, 1998 and 1999, aggregated approximately $3,315 and $1,720, respectively.

Preferred stock dividends increased by 13% to $7,969 for the three months ended September 30, 1999 from $7,026 for the same period in the prior year. The increase was due to a higher outstanding preferred stock base resulting from the payments of dividends in additional shares of preferred stock.

Nine Months Ended September 30, 1999 in Comparison with Nine Months Ended September 30, 1998

Revenues increased 303% to $99,000 for the nine months ended September 30, 1999, from $24,711 for the same period in the prior year. Growth in revenues of $74,447 resulted from an increase in revenues from majority and wholly-owned networks of approximately $73,258 as compared to the same period in the prior year due to the continued expansion of the Company's customer base, success in the roll out of new [illegible] services and the consolidation of the Jacksonville, Richmond, Wichita, Baton Rouge, Jackson and Little Rock markets. The increase was also partially due to increased management fees from the non-consolidated subsidiaries of $1,189 from the same period in the prior year.

Network operations expense increased 147% to $36,037 for the nine months ended September 30, 1999 from $14,586 for the same period in the prior year. The increase was attributable to the expansion of operations at the NOCC, the increased number and size of the operations of the networks which required increased employee related costs, equipment maintenance costs and costs related to planned expansion into new markets, and the consolidation of the Jacksonville, Richmond, Wichita, Baton Rouge, Jackson and Little Rock markets.

Selling, general and administrative expense increased 290% to $93,618 for the nine months ended September 30, 1999 from $24,038 for the same period in the prior year. The increase was due primarily to

higher costs associated with an increase in off-net resale costs, increased expenses associated with the network expansion plan, an increase in the network sales force, an increase in corporate overhead costs to accommodate the growth in the number, size and operations of the networks managed and monitored by the Company, and the consolidation of the Jacksonville, Richmond, Wichita, Baton Rouge, Jackson and Little Rock markets.

Depreciation and amortization expense increased 122% to $45,289 during the nine months ended September 30, 1999 from $20,413 for the same period in the prior year primarily as a result of increased depreciation resulting from the higher depreciable asset base at the NOCC and the majority and wholly owned networks, amortization of deferred financing costs and the consolidation of the Jacksonville, Richmond and Wichita, Baton Rouge, Jackson and Little Rock markets.

Interest income for the nine months ended September 30, 1999 increased 46% to $19,685 from $13,506 for the same period in the prior year as a result of the payment of interest due to the Company from Telergy as discussed previously, offset by decreases in interest income resulting from lower amounts of cash and cash equivalents and U.S. Government securities.

Interest income-affiliate for the nine months ended September 30, 1999 increased to $6,943 from $5,070 as a result of demand advances made to Adelphia during the period.

Interest expense increased 42% to $56,383 during the nine months ended September 30, 1999 from $39,639 for the same period in the prior year. The increase was primarily attributable to higher interest expense associated with the 12% senior subordinated notes.

Equity in net loss of joint ventures decreased by 23% to $7,140 during the nine months ended September 30, 1999 from $9,487 for the same period in the prior year. The net losses of the joint ventures for the nine months ended September 30, 1999 and 1998 were primarily the result of increased revenues only partially offsetting startup and other costs and expenses associated with design, construction, operation and management of the networks. The decrease was due to the consolidation of several joint ventures resulting from the purchase of the partners' interests, and to the maturing of the remaining joint venture networks.

The number of nonconsolidated joint ventures paying management fees to the Company decreased from eight at September 30, 1998 to four at September 30, 1999 due to the Company's increased ownership in several joint ventures as a result of the previously mentioned acquisitions. These nonconsolidated joint ventures and networks under construction paid management and monitoring fees to the Company, which are included in revenues, aggregating approximately $3,824 for the nine months ended September 30, 1999, as compared with $2,636 for the same period in the prior fiscal year. The nonconsolidated joint ventures' net losses, including networks under construction, for the nine months ended September 30, 1998 and 1999, aggregated approximately $10,732 and $6,472, respectively.

Preferred stock dividends increased by 13% to $23,164 for the nine months ended September 30, 1999 from $20,448 for the same period in the prior year. The increase was due to a higher outstanding preferred stock base resulting from the payment of dividends in additional shares of preferred stock.

Supplementary Network Financial Analysis

The Company believes that historically, working with Local Partners to develop markets has enabled the Company to build larger networks in a rapid and more cost effective manner than it could have on its own. The Company currently has joint ventures covering four networks with Local Partners where the Company owns 50% of each joint venture. As a result of the Company's historic ownership position in these and other joint ventures, a substantial portion of the networks' historic results have been reported by the

Company on the equity method of accounting for investments which only reflects the Company's [illegible] share of net income or loss of the networks. Because of the recently completed partner roll-ups, management of the Company believes this historical presentation of the assets, liabilities and results of operations of the Company does not represent a complete measure of the financial position, growth or operations of the Company.

In order to provide an additional measure of the financial position, growth and performance of the Company and its networks, management of the Company analyzes financial information of the consolidated networks and the nonconsolidated joint venture networks on a combined basis. This combined financial presentation in the table below reflects Adelphia Business Solutions' consolidated financial position and results of operations adjusted for the inclusion of certain networks (Richmond, Jacksonville and Wichita) which were purchased in March 1999 (the "Adjusted Operating Results") combined with the non-consolidated joint ventures' results of operations. All combined results of operations in the table below are presented as if Adelphia Business Solutions consolidated all networks which were involved in the partnership roll-ups during the entire period presented. This financial information, however, is not indicative of the Company's overall historical financial position or results of operations.

	Quarter ended September 30, 1999 (dollars in thousands)			Quarter ended September 30, 1998 (dollars in thousands)		
	Consolidated Operating Results	Joint Venture Operating Results	Combined Operating Results	Adjusted Consolidated Operating Results	Adjusted Joint Venture Operating Results	Combined Operating Results
Revenues	$ 43,347	$ 9,501	$ 52,848	$ 16,672	$ [illegible]	$ [illegible]
Direct Operating Expenses	15,862	2,526	18,388	8,410	[illegible]	[illegible]
Gross Margin	27,485	6,975	34,460	8,262	[illegible]	[illegible]
Gross Margin Percentage	63.4%	73.4%	65.2%	49.6%	[illegible]	[illegible]
Selling, General and Administrative Expenses	39,972	4,194	44,166	11,813	[illegible]	[illegible]
EBITDA (a)	(12,487)	2,781	(9,706)	(3,551)	[illegible]	[illegible]
EBITDA Percentage of Revenues	(28.8%)	29.3%	(18.4%)	(21.3%)	[illegible]	[illegible]

% Change Comparison	September 1999 Quarter vs. September 1998 Quarter		
	Consolidated Operating Results	Joint Venture Operating Results	Combined Operating Results
Revenues	160.0%	195.9%	165.8%
Direct Operating Expenses	88.6%	32.8%	78.3%
Gross Margin	232.7%	432.8%	260.0%
Selling, General and Administrative Expenses	238.4%	37.7%	197.2%
EBITDA (a)	NM(b)	NM(b)	83.5%

(a) Earnings before interest, income taxes, depreciation and amortization and other income/expense ("EBITDA") and similar measures of cash flow are commonly used in the telecommunications industry to analyze and compare telecommunications companies on the basis of operating performance, leverage, and liquidity. While EBITDA is not an alternative indicator of operating performance or an alternative to cash flows from operating activities as a measure of liquidity as defined by generally accepted accounting principles, such as EBITDA may not be comparable to other similarly titled measures of other companies, management of Adelphia Business Solutions believes that EBITDA is a meaningful measure of performance.

(b) Not meaningful

Liquidity and Capital Resources

The development of the Company's business and the installation and expansion of the networks, as well as the development of new markets, combined with the construction and expansion of the Company's NOCC, have resulted in substantial capital expenditures and investments during the past several years. Capital expenditures by the Company were $145,490 and $232,418 for the nine months ended September 30, 1998 and 1999, respectively. Further, investments made by the Company in non-consolidated joint ventures were $32,150 and $27,421 for the nine months ended September 30, 1998 and 1999, respectively. The increase in capital expenditures for the nine months ended September 30, 1999 as compared with the same period in the prior fiscal year is largely attributable to the capital expenditures necessary to develop the original markets and the new markets as well as the fiber purchases to interconnect the networks. The Company expects that it will continue to incur substantial capital expenditures in the development effort. The Company also expects to continue to fund operating losses as the Company develops and grows its business. For information regarding recent transactions affecting the Company's liquidity and capital resources, see "Recent Developments."

The Company has experienced negative operating cash flow since its inception. A combination of operating losses, substantial capital investments required to build the Company's networks and its state-of-the-art NOCC, and incremental investments in the joint ventures has resulted in substantial negative cash flow.

Expansion of the Company's Original Markets and services and the development of New Markets and services will require significant capital expenditures. The Company's operations have required and will continue to require substantial capital investment for (i) the installation of electronics for switched services in the Company's networks, (ii) the expansion and improvement of the Company's NOCC and Original Markets, (iii) the design, construction and development of the New Markets and (iv) the acquisition of additional ownership interests in the Original Markets. The Company has made substantial capital investments and investments in joint ventures in connection with the installation of switches or remote switching modules in all of its Original Markets and plans to install regional super switches in certain New Markets when such New Markets are operational. To date, the Company has installed switches in all of its Original Markets and plans to provide such services in all of its new markets on a standard switching platform based on Lucent 5 switch technology. In addition, the Company intends to continue to increase spending on marketing and sales significantly in connection with the expansion of its sales force and marketing efforts generally. The Company also plans to continue to purchase its partners' interests in the joint ventures when it can do so on attractive economic terms. The Company estimates that, in addition to the cash and cash equivalents on hand and the U.S. government securities pledged as of September 30, 1999, a total of approximately $550,000 will be required to fund the Company's capital expenditures, working capital requirements, operating losses and pro rata investments in the joint ventures from October 1, 1999 through the quarter ending December 31, 2000.

There can be no assurance (i) that the Company's future cash requirements will not vary significantly from those presently planned due to a variety of factors including acquisition of additional networks, continued acquisition of increased ownership in its networks, material variance from expected capital expenditure requirements for the Original Markets and the New Markets and development of the LMDS spectrum or (ii) that anticipated financings, Local Partner investments and other sources of capital will become available to the Company on economically attractive terms or at all. In addition, it is possible that expansion of the Company's networks may include the geographic expansion of the Company's existing clusters and the development or acquisition of other new networks not currently planned.

The Company will need substantial additional funds to fully fund its business plan. The Company expects to fund its capital requirements through existing resources, credit facilities and vendor financings at the Company and joint ventures levels, internally generated funds, equity invested by Local Partners in the joint ventures and additional debt or equity financings, as appropriate, and expects to fund any potential additional purchase of partnership interests of Local Partners through existing resources, internally generated funds and additional debt or equity financings, as appropriate. There can be no assurances, however, that the Company will be successful in generating sufficient cash flow or in raising sufficient debt or equity capital on terms that it will consider acceptable, or at all.

The Company currently expects that its existing cash balance, internally generated funds and future financing sources will be sufficient to fund the Company's capital expenditures, acquisitions, operating losses and pro rata investments in the joint ventures through December 2001. There can be no assurance, however, as to the availability of funds from internal cash flow, Local Partner investments or from the private or public equity or debt markets. Also, the indentures relating to the 13% Senior Discount Notes, the 12 1/4% Senior Secured Notes and the 12% Subordinated Notes and the Certificate of Designation for the 12 7/8% Senior Exchangeable Redeemable Preferred Stock provide certain restrictions upon the Company's ability to incur additional indebtedness. The Company's inability to fund its capital expenditures, acquisitions, operating losses or pro rata investment in the joint ventures could have a material effect upon the Company and/or the joint ventures.

Year 2000 Issue

The year 2000 issue refers to the inability of computerized systems and technologies to recognize and process dates beyond December 31, 1999. The Company has evaluated the impact of the year 2000 issue on its business applications and its products and services. This could present risks to the operation of the Company's business in several ways. The evaluation included a review of the Company's information technology systems, telephony equipment and other embedded technologies. A significant portion of the Company's computerized systems and technologies have been developed, installed or upgraded in recent years and are generally more likely to be year 2000 ready. The Company's evaluation also included evaluating the potential impact as a result of its reliance on third-party systems that may have the year 2000 issue.

Computerized business applications that could be adversely affected by the year 2000 issue include:

- information processing and financial reporting systems;
- customer billing systems;
- customer service systems;
- telecommunication transmission and reception systems; and
- facility systems.

System failure or miscalculation could result in an inability to process transactions, send invoices, accept customer orders or provide customers with products and services. Customers could also experience a temporary inability to receive or use the Company's products and services.

The Company has developed a program to assess and address the year 2000 issue. This program consists of the following phases:

- inventorying and assessing the impact on affected technology and systems;
- developing solutions for affected technology and systems;
- modifying or replacing affected technology and systems;
- testing and verifying solutions;
- implementing solutions; and
- developing contingency plans.

The Company has substantially completed its inventory and assessment of affected computerized systems and technologies. The Company is in the final stages of its year 2000 compliance program with respect to the remediation of the affected systems and technologies.

The Company has engaged a consulting firm familiar with its financial reporting systems. This firm has developed and tested year 2000 solutions that the Company has implemented. The Company has certified all eight of its financial systems as year 2000 compliant.

A third-party billing vendor currently facilitates customer billing. This third-party vendor certified that it implemented and successfully tested its own year 2000 solution in April 1999.

Telecommunication plant rebuilds and upgrades in recent years have minimized the potential impact of the year 2000 issue on the Company's facilities, customer service, telecommunication transmission and reception systems. The Company has substantially completed a comprehensive internal inventory and assessment of all hardware components and component controlling software throughout its telecommunication networks and has implemented substantially all modifications, upgrades or replacements resulting from this internal review.

Costs incurred to date directly related to addressing the year 2000 issue have been approximately $750. The Company has also redeployed internal resources to meet the goals of its year 2000 program. The Company currently estimates the total cost of its year 2000 remediation program to be approximately $1,000. Although the Company will continue to incur substantial capital expenditures in the ordinary course of meeting its telecommunications system upgrade goals through the year 2000, it will not specifically accelerate its expenditures to facilitate year 2000 readiness, and accordingly such expenditures are not included in the above estimate.

The Company is continuing to communicate with others with whom it does significant business to determine their year 2000 readiness and to determine the extent to which the Company is vulnerable to the year 2000 issue related to those third parties. The Company purchases much of its technology from third parties. There can be no assurance that the systems of other companies on which the Company's systems rely will be year 2000 ready or timely converted into systems compatible with the Company's systems. The Company's failure or a third-party's failure to become year 2000 ready or the Company's inability to become compatible with third parties with which the Company has a material relationship, including companies that the Company acquires, may have a material adverse effect on the Company, including significant service

interruption or outages; however, the Company cannot currently estimate the extent of any such adverse effects.

The Company is in the process of identifying secondary sources to supply its systems or services in the event it becomes probable that any of its systems will not be year 2000 ready prior to the end of 1999. The Company is also in the process of identifying secondary vendors and service providers to replace those vendors and service providers whose failure to be year 2000 ready could lead to a significant delay in the Company's ability to provide its service to its customers.

Competition

The Company faces competition from many competitors with significantly greater financial resources, well-established brand names and large, existing installed customer bases. Moreover, we expect the level of competition to intensify in the future.

In each of the markets served by the Company's networks, the services offered by the Company compete principally with the services offered by the Incumbent Local Exchange Carrier ("ILEC") serving that area. ILECs have long-standing relationships with their customers, have the potential to subsidize competitive services from monopoly service revenues, and benefit from favorable state and federal regulations. In light of the passage of the Telecommunications Act of 1996 (the "Telecommunications Act"), federal and state regulatory initiatives provide increased business opportunities to competitive local exchange carriers ("CLECs") such as the Company, but regulators are likely to provide ILECs with increased pricing flexibility for their services as competition increases. Further, if a Regional Bell Operating Company ("RBOC") is authorized to provide long distance service originating in region in one or more states by fulfilling the market opening provisions of the Telecommunications Act, the RBOC may be able to offer "one stop shopping" that would be competitive with the Company's offerings. To date, each request for such authority has been denied by the FCC, although the FCC is currently considering Bell Atlantic's petition for the State of New York. An approval could result in decreased market share for the major IXCs, which are among the Operating Companies' significant customers. Any of these results could have an adverse effect on the Company.

There has been significant merger activity among the RBOCs in anticipation of entry into the long distance market, including the completed merger of Bell Atlantic and NYNEX, whose combined territory covers a substantial portion of the Company's markets. Other combinations have occurred in the industry, which may have an effect on the Company, such as the combination of AT&T Corp. and MediaOne and the proposed mergers between SBC and Ameritech, Bell Atlantic and GTE, Qwest and US West, and MCIWorldCom and Sprint. The effects of these combinations are unknown at this time. The Company believes that combinations of RBOCs and others will pose a greater competitive threat to the Company's strategy of originating and terminating a significant proportion of its customers' communications traffic over its own networks, rather than relying on the network of the ILEC.

The Company also faces, and will continue to face, competition from other current and potential market entrants, including other CLECs, ILECs which are not subject to RBOC restrictions on long distance, AT&T, MCIWorldCom, Sprint and other IXCs, cable television companies, electric utilities, microwave carriers, wireless telecommunications providers and private networks built by large end users. In addition, new carriers, such as Global Crossing, Williams, Qwest and Level 3 are building and managing nationwide networks which, in some cases, are designed to provide local services. Further, AT&T's acquisition of various cable companies will exploit ubiquitous local cable infrastructure for telecommunications and other services provided by the operating companies. Finally, although the Company has generally good

relationships with the other existing IXCs, there are no assurances that any of these IXC's will not build their own facilities, purchase other carriers or their facilities, or resell the services of other carriers rather than use the Company's services when entering the market for local exchange services.

Regulation

Government Overview

A significant portion of the services provided by the Company and its networks is subject to regulation by federal, state and local government agencies. Future federal or state regulations and legislation may be less favorable to us than current regulation and legislation and therefore may have a material and adverse impact on our business and financial prospects. In addition, we may expend financial and managerial resources to participate in proceedings setting rules at either the federal or state level, without achieving a favorable result.

Federal Legislation and Regulation

The Telecommunications Act enacted on February 21, 1996 establishes local exchange competition as a national policy. This act removes state regulatory barriers to competition, and imposes numerous requirements to facilitate the provision of local telecommunications services by multiple providers. For instance, carriers must provide to each other services for resale, number portability, dialing parity, access to rights of way, and compensation for traffic they exchange. ILECs must also provide competitors with network interconnection, access to unbundled network elements, and collocation at ILEC premises, among other things. Finally, the FCC is responsible for implementing and presiding over rules relating to these requirements as well as universal service subsidies, charges for access to long distance carriers, access to buildings, customer privacy, and services for the disabled.

The Telecommunications Act prohibits state and local governments from enforcing any law, rule or legal requirement that prohibits or has the effect of prohibiting any entity from providing interstate or intrastate telecommunications services. States retain jurisdiction under the Telecommunications Act to adopt laws necessary to preserve universal service, protect public safety and welfare, ensure the continued quality of telecommunications services and safeguard the rights of consumers. The Company has successfully challenged states' attempts to limit competition in certain rural areas. One state has requested a stay of the favorable FCC order. Depending on the result, the Company's expansion plans may be adversely affected.

The FCC is charged with the broad responsibility of implementing the local competition provisions of the Telecommunications Act. It has done so by promulgating rules which encourage increased local competition. In 1997, a federal appeals court for the Eighth Circuit vacated some of these rules. In January 1999, the United States Supreme Court reversed the majority of the Eighth Circuit's ruling, finding that the FCC has broad authority to interpret the Telecommunications Act and issue rules for its implementation. Specifically, the Court stated that the FCC has authority to set pricing guidelines for unbundled network elements, to prevent ILECs from dismantling existing combinations of network elements, and to establish rules allowing competitors to "pick and choose" among provisions of existing interconnection agreements. However, the Court vacated the FCC's rules that identified the unbundled network elements that ILEC's must provide to CLECs. The FCC will soon issue an order explaining which unbundled network elements ILEC's must provide. In addition, because the Eighth Circuit had only ruled on the FCC's jurisdiction to set a pricing methodology, the ILECs have renewed their opposition to the actual methodology.

Many new carriers have experienced difficulties in working with the ILECs with respect to provisioning, interconnection, rights-of-way, collocation and implementing the systems used by these new carriers to order and receive unbundled network elements and wholesale services from the ILECs. Coordination with ILECs is necessary for new carriers such as the Company to provide local services to customers on a timely and competitive basis. The Telecommunications Act created incentives for RBOCs to cooperate with new carriers, allowing the RBOCs to offer long distance services originating in their regions if the RBOC satisfies statutory conditions designed to open their local markets to competition. The RBOCs in the Company's proposed markets are not yet permitted by the FCC to offer long distance services, although the FCC may soon grant Bell Atlantic's bid in New York. The Company cannot be assured that RBOCs will be accommodating to the Company's networks once they are permitted to offer long distance service. If the Company's networks are unable to obtain the cooperation of an RBOC in a region, whether or not such RBOC has been authorized to offer long distance service, the Company's networks' ability to offer local services in such region on a timely and cost effective basis would be adversely affected.

The FCC recently adopted new rules designed to make it easier and less expensive for CLECs to obtain collocation at ILEC central offices by, among other things, restricting the ILECs' ability to prevent certain types of equipment from being collocated and requiring ILECs to offer alternative collocation arrangements to CLECs. The FCC also initiated a new proceeding to address line sharing which, if implemented, would allow CLECs to offer data services over the same line that a consumer uses for voice services without the CLEC having to provide the voice service. While the Company expects that the FCC's new collocation rules will be beneficial to the Company's networks, ILECs continue to resist the rules and it remains uncertain that these new rules will be implemented in a favorable manner.

A number of ILECs around the country have been contesting whether the obligation to pay reciprocal compensation to CLECs should apply to local telephone calls terminating to Internet service providers ("ISPs"). The ILECs claim that this traffic is interstate in nature and therefore should be exempt from compensation arrangements applicable to local, intrastate calls. Most states have required ILECs to pay ISPs reciprocal compensation. However, on February 25, 1999, the FCC adopted an order in which it determined that calls to ISPs are interstate in nature and proposed rules to govern compensation to carriers for transmitting these calls. It stated, however, that its action was not intended to disturb previous state decisions interpreting interconnection agreements between ILECs and CLECs to require reciprocal compensation between two local carriers jointly delivering dial-up traffic to ISPs. Although the FCC does not intend to require ISPs to pay access charges or contribute to universal service funds, the FCC's order and subsequent state rulings could affect the costs incurred by ISPs and the demand for their offerings. An unfavorable outcome could materially affect the Company's potential future revenues.

Several ILECs have filed petitions at the FCC and have initiated legislative efforts to affect a waiver of certain obligations imposed on ILECs in the Telecommunications Act with respect to ILECs' provisioning of high-speed data services, including, among other things, the obligation to unbundle and offer for resale such services. In addition, the ILECs are seeking to provide high-speed data services on an interLATA basis without complying with the market opening provisions of the competitive checklist set forth in the Telecommunications Act, which would be otherwise required of them. The FCC has subsequently approved that such services are subject to interstate jurisdiction and to the resale and unbundling obligations of the Telecommunications Act. However, the FCC has initiated a proceeding to determine whether ILECs may create separate affiliates for their high-speed data services that would be free from these obligations. In addition, there are numerous bills being considered by Congress which would deregulate advanced services. These outcomes could have a material adverse effect on the Company.

Any of the regulatory changes discussed above could require renegotiation of relevant portions of existing interconnection agreements, or subject them to additional court and regulatory proceedings. It remains to be seen whether the networks can continue to obtain and maintain interconnection agreements on terms acceptable to them in every state, though most states have already adopted pricing rules, if not interim prices, which are for the most part consistent with the FCC's related pricing provisions.

The FCC also manages universal service subsidies for rural, high-cost, and low-income markets and currently assesses the Company's networks for such payments on the basis of certain revenue for the previous year. Within the past year, the FCC established new subsidies for telecommunications and information services provided to qualifying schools and libraries and for services provided to rural health care providers. The FCC also expanded the federal subsidies for local exchange telephone service provided to low-income consumers. Various states also implement their own universal service programs to which the Company is subject.

To the extent that the Company's networks provide interexchange telecommunications service, access charges are required to be paid to ILECs when the facilities of those companies are used to originate or terminate interexchange calls. Also, as CLECs, the Company's networks provide access service to other interexchange service providers. The interstate access charges of ILECs are subject to extensive regulation by the FCC, while those of CLECs are subject to a lesser degree of FCC regulation but remain subject to the requirement that all charges be just, reasonable, and not unreasonably discriminatory. Some of the interexchange providers to whom the Company's networks provide access services, including AT&T and Sprint, have announced plans to resist paying access charges that exceed the access charges of the ILEC in any given geographic area. While the Company's networks have not experienced any such challenges to their rights to collect access charges, they could experience them in the future. The FCC has initiated a proceeding to investigate whether CLEC access charges should be subjected to more stringent regulation. The manner in which the FCC regulates or lowers access charge levels could have a material effect on the ability of the Company's networks to compete in providing interstate access services and terminating and originating long distance traffic.

In an exercise of its "forbearance authority," the FCC has ruled that following a transition period non-dominant IXCs will no longer be able to file tariffs with the FCC concerning their interexchange long distance services (the "IXC Detariffing Order"). Tariffs set forth the terms and conditions under which the operating companies provide services. This would deprive the Company of the advantages of being able to rely on terms and conditions contained in a filed tariff, requiring instead reliance on individual contracts. The IXC Detariffing Order has been stayed pending review in the U.S. Court of Appeals for the District of Columbia.

The Telecommunications Act prohibits state and local governments from enforcing any law, rule or legal requirement that prohibits or has the effect of prohibiting any entity from providing interstate or intrastate telecommunications services. States retain jurisdiction under the Telecommunications Act to adopt laws necessary to preserve universal service, protect public safety and welfare, ensure the continued quality of telecommunications services and safeguard the rights of consumers. The Company has successfully challenged states' attempts to limit competition in certain rural areas. However, inability to implement the related FCC order could adversely effect the Company's expansion plans.

The FCC also presides over ongoing proceedings addressing a variety of other matters, including number portability, Internet, telephony, slamming, rights of way, building access, pole attachments, customer privacy, and services to the disabled. The outcome of any such proceedings may adversely effect the Company and its ability to offer service in competition with LECs.

State Regulation

Most State Public Utility Commissions ("PUCs") require companies that wish to provide intrastate common carrier services to be certified to provide such services. These certifications generally require a showing that the carrier has adequate financial, managerial and technical resources to offer the proposed services in a manner consistent with the public interest. In addition, Company networks have been certificated or are otherwise authorized to provide telecommunications services in Alabama, Arkansas, Connecticut, Delaware, District of Columbia, Florida, Georgia, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia and West Virginia. The certificates or other authorizations permit the Company's networks to provide a full range of local telecommunications services, including basic local exchange service. In certain states, each of the Company, its subsidiaries and the Company's networks may be subject to additional state regulatory requirements, including tariff filing requirements, to begin offering the telecommunications services for which such entities have been certificated. In some states, the Company network tariff lists a rate range or sets prices on an individual case basis. Many states also may have additional regulatory requirements such as reporting and customer service and quality requirements, Y2K compliance, unbundling and universal service contributions all of which are subject to change and may adversely affect the Company. In addition, in virtually every state, the Company's certificate or other authorization is subject to the outcome of proceedings by the state commission that address regulation of LECs and CLECs, competition, geographic build-out, mandatory detariffing, service requirements, and universal service issues.

In addition to obtaining certification, a Company network must negotiate terms of interconnection with the ILEC before it can begin providing switched services. To date, the Company's networks have negotiated interconnection agreements with one or more of the ILECs, in each state in which they have been certificated. Agreements are subject to State PUC approval.

The Company is subject to requirements in some states to obtain prior approval for, or notify the commission of any transfers of control, sales of assets, corporate reorganizations, issuance of stock or debt instruments, name changes and other transactions that may effect a change in the way that the Company does business. Although the Company believes such authorization could be obtained, there can be no assurance that the state commissions would grant the Company authority to complete any transactions.

Local Government Authorizations

A Company network may be required to obtain from municipal authorities street opening and construction permits, or operating franchises, to install and expand its fiber optic networks in certain cities. In some cities, the Local Partners or subcontractors may already possess the requisite authorizations to construct or expand the Company's networks. A Company network or its Local Partners also may be required to obtain a license to attach facilities to utility poles in order to build and expand facilities. Because utilities that are owned by a cooperative or municipality are not subject to federal pole attachment regulation, there are no assurances that a Company network or its Local Partners will be able to obtain pole attachments from such utilities at reasonable rates, terms and conditions.

In some of the areas where the Company's networks provide service, their Local Partners pay license or franchise fees based on a percent of fiber lease payment revenues. In addition, in areas where the Company does not use facilities constructed by a Local Partner, the Company's networks may be required to pay such

fees. 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 addition, some municipalities may seek to impose requirements or fees on users of transmission facilities, even though they do not own such facilities.

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 network or Local Partner. The Telecommunications 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 CLEC.

If any of the existing local partner agreements or fiber lease agreements held by a Local Partner or a Company network for a particular market were terminated prior to its expiration date, such termination could have a material adverse effect on the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company uses fixed rate debt and redeemable preferred stock to fund its working capital requirements, capital expenditures and acquisitions. These financing arrangements expose the Company to market risk related to changes in interest rates. The table below summarizes the fair values and contract terms of the Company's financial instruments subject to interest rate risk as of September 30, 1999:

	Expected Maturity							
	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
Fixed Rate Debt and Redeemable Preferred Stock	—	—	—	—	$303,680	$802,261	$1,105,941	$1,050,781
Average Interest Rate	12.53%	12.53%	12.53%	12.53%	12.41%	12.38%	—	—

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On February 24, 1999, the Company was served with a summons and complaint filed in the United States District Court for the Northern District of New York, Case Number 99-CV-268, by Hyperion Solutions Corporation ("Solutions"), which is described in the complaint as a company in the business of developing, marketing and supporting comprehensive computer software tools, executive information systems and applications that companies use to improve their business performance. The complaint alleges, among other matters, that the Company's use of the name "Hyperion" in its business infringes upon various trademarks and service marks of Solutions in violation of federal trademark laws and violates various New York business practices, advertising and business reputation laws. The complaint seeks, among other matters, to enjoin the Company from using the name or mark "Hyperion" in the Company's business as well as to recover unspecified damages, treble damages and attorneys' fees. Management of the Company believes that the Company has meritorious defenses to the complaint and intends to vigorously defend this lawsuit. Although management believes that this lawsuit will not in any event have a material adverse effect upon the Company, no assurance can be given regarding the effect upon the Company if Solutions were to prevail in this lawsuit.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

The attached Exhibit 99.01 provides certain financial and business information of the Company for the three months ended September 30, 1999, pursuant to Section 4.03(a)(iii) of the Indenture dated April 15, 1996 with respect to the 13% Senior Discount Notes.

The attached Exhibit 99.02 provides certain financial and business information of the Company for the three months ended September 30, 1999, pursuant to Section 4.03(a)(iii) of the Indenture dated August 27, 1997 with respect to the 12 1/4% Senior Secured Notes.

The attached Exhibit 99.03 provides certain financial and business information of the Company for the three and nine months ended September 30, 1999.

The attached Exhibit 99.04 provides certain information with respect to a current proposed financing of the Company.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 3.01	Amended and Restated Certificate of Incorporation, as amended as of October 25, 1999
Exhibit 27.01	Financial Data Schedule (supplied for the information of the Commission)
Exhibit 99.01	"Schedule E - Form of Financial Information and Operating Data of the Subsidiaries and the Joint Ventures Presented by Cluster"
Exhibit 99.02	"Schedule F - Form of Financial Information and Operating Data of the Pledged Subsidiaries and the Joint Ventures"
Exhibit 99.03	Press Release dated November 10, 1999
Exhibit 99.04	Press Release dated November 10, 1999

(b) Reports on Form 8-K:

Form 8-Ks were filed on September 27, 1999, October 26, 1999 and October 27, 1999 which reported information under Item 5 and/or Item 7 thereof. No financial statements were filed.

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.

ADELPHIA BUSINESS SOLUTIONS, INC.
(Registrant)

Date: November 10, 1999

By: /s/ Timothy J. Rigas
Timothy J. Rigas
Vice Chairman, Chief Financial Officer
(authorized officer), Chief Accounting Officer
and Treasurer

Exhibit Index

Exhibit 3.01 Amended and Restated Certificate of Incorporation, as amended as of October 25, 1999.

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Exhibit 99.02 "Schedule F - Form of Financial Information and Operating Data of the Pledged Subsidiaries and the Joint Ventures".

Exhibit 99.03 Press Release dated November 10, 1999

Exhibit 99.04 Press Release dated November 12, 1999

SCHEDULE E

Adelphia Business Solutions Telecommunications, Inc.

Form of Financial Information and Operating Data
Of the Subsidiaries and the Joint Ventures Presented by Cluster

Data presented for the quarter ended: 9/30/99

Unaudited	North East	Mid-Atlantic	Mid-South	*** Other Markets	Total
FINANCIAL DATA (dollars in thousands):					
Total Revenue	$ 12,738.4	$ 20,521.6	$ 10,623.0	$ 6,337.6	$ 50,220.6
Total Capital Expenditures	$ 9,343.6	$ 53,483.4	$ 16,135.3	$ 31,350.1	$ 110,312.4
Total EBITDA	$ 4,465.8	$ (269.2)	$ (4,115.6)	$ (1,774.8)	$ (1,693.8)
Gross PP&E	$ 117,726.0	$ 444,624.4	$ 180,016.5	$ 209,271.2	$ 951,638.1
Proportional Revenue *	$ 12,738.4	$ 15,820.7	$ 10,623.0	$ 6,337.6	$ 45,519.7
Proportional Capital Expenditures*	$ 9,343.6	$ 50,361.4	$ 16,135.3	$ 31,350.1	$ 107,190.4
Proportional EBITDA *	$ 4,465.8	$ (1,606.9)	$ (4,115.6)	$ (1,774.8)	$ (1,031.5)
Proportional Gross PP&E *	$ 117,726.0	$ 378,806.2	$ 180,016.5	$ 209,271.2	$ 885,819.9
STATISTICAL DATA					
Increase for September 30, 1999:					
Markets in Operation	1	4	2	1	8
Route Miles	111	58	189	---	358
Fiber Miles	5,324	2,803	4,704	---	12,831
Buildings connected	46	66	64	5	181
Buildings with customers	316	2,311	941	1,002	4,570
LEC-COs collocated **	---	1	---	1	2
Voice Grade Equivalent Circuits	42,336	129,696	87,360	22,848	282,240
As of June 30, 1999:					
Markets in Operation ****	4	21	9	6	40
Route Miles	3,220	4,350	3,618	4,102	15,290
Fiber Miles	94,374	155,174	69,184	59,368	378,100
Buildings connected	353	763	377	444	1,937
Buildings with customers	2,401	3,879	4,128	1,463	11,871
LEC-COs collocated **	16	82	32	18	148
Voice Grade Equivalent Circuits	285,600	823,872	401,184	303,744	1,814,400
As of September 30, 1999:					
Markets in Operation	5	25	11	7	48
Route Miles	3,331	4,408	3,807	4,102	15,648
Fiber Miles	99,698	157,977	73,888	59,368	390,931
Buildings connected	399	829	441	449	2,118
Buildings with customers	2,717	6,190	5,069	2,465	16,441
LEC-COs collocated **	16	83	32	19	150
Voice Grade Equivalent Circuits	327,936	953,568	488,544	326,592	2,096,640
Access Lines Sold	40,500	137,517	63,371	31,247	272,635
Access Lines Installed	35,666	124,968	60,104	30,067	250,805

* Represents portion attributable to the Company.
** Local Exchange Carrier's central office
*** Other Market amounts includes Network Control Centers and Corporate Capital Expenditures and Gross Property, Plant and Equipment
**** Previously reported amounts have been restated to reflect Metropolitan Statistical Areas.

SCHEDULE F

Adelphia Business Solutions Telecommunications, Inc.

Form of Financial Information and Operating Data of the Pledged Subsidiaries and the Joint Ventures

Data presented for the quarter ended: 9/30/99

Unaudited

	Total
FINANCIAL DATA (dollars in thousands)(a):	
Total Revenue	$ 20,619.1
Total Capital Expenditures	$ 15,181.8
Total EBITDA	$ 5,702.7
Gross Property, Plant & Equipment	$ 228,230.1
STATISTICAL DATA(b):	
As of September 30, 1999:	
Markets in Operation	7
Route Miles	3,166
Fiber Miles	158,626
Buildings connected	981
LEC-COs collocated	61
Voice Grade Equivalent Circuits	958,044
Access Lines Sold	85,471
Access Lines Installed	78,748

(a) Financial Data represents 100% of the operations of all entities except Adelphia Business Solutions of Florida, at its ownership in the Jacksonville network, which is 20%.

(b) Statistical Data represents 100% of operating data for all entities.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

_____ Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

__X__ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period

from April 1, 1998 to December 31, 1998

Commission File Number: 000-21605

HYPERION TELECOMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	***25-1669404***
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Main at Water Street	
Coudersport, PA	***16915***
(Address of principal executive offices)	*(Zip code)*

814-274-9830

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, $0.01 par value

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

Aggregate market value of outstanding Class A Common Stock, par value $0.01 and Class B Common Stock, par value $0.01, held by non-affiliates of the Registrant at May 21, 1999 was $303.1 million based on the closing sale price of the Class A Common Stock as computed by the NASDAQ National Market system as of that date. For purposes of this calculation only, affiliates are deemed to be Adelphia Communications Corporation and directors and executive officers of the Registrant.

At May 21, 1999, 22,393,821 shares of Class A Common Stock, par value $0.01, and 32,300,041 shares of Class B Common Stock, par value $0.01, of the registrant were outstanding.

Documents Incorporated by Reference: Portions of the Proxy Statement for the 1999 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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

PART I

ITEM 1. BUSINESS

The Company

Hyperion Telecommunications, Inc. ("Hyperion" or the "Company") is a super-regional provider of communications services offering a full range of communications services to customers that include businesses, governmental and educational end users and other telecommunications service providers throughout the eastern United States. The Company provides these customers with communications services such as local switch dial tone, long distance service, high-speed data, and Internet connectivity. The customer has a choice of receiving these services individually or as part of a bundle of services, which is typically priced at a discount when compared to the price of the individual services. In order to take advantage of the improved economic returns from providing services over the Company's own network system (having "on-net" traffic), the Company is in the process of significantly expanding the reach of its network system. This network system expansion includes the purchase, lease or construction of fiber optic network facilities in more than 50 new markets and the interconnection of all of the Company's existing and new markets with the Company's own fiber optic network facilities, as well as implementing various technologies including Dense Wave Division Multiplexing ("DWDM") to provide greater bandwidth capacity on the Company's local and long-haul network system.

By the year 2001, Hyperion expects to serve most of the major cities in the eastern half of the United States. The Company currently provides communications services in 46 markets and plans to introduce services in more than 50 new markets, expanding Hyperion's presence to approximately 30 states. At December 31, 1998, the Company had installed 20 Lucent 5ESS switches or remote switching modules and plans to put in operation during 1999 nine additional regional switches (the "super switches"). Once fully installed, the Company's fiber optic backbone will connect each of the Company's markets. This fully redundant, 10,000 route mile network system will support Hyperion's full line of communications service offerings. The Company has chosen the eastern half of the United States as its overall target market because it presents an opportunity for rapid growth. Once fully deployed, management believes that the Company's network system will encompass over 26 million addressable business access lines (approximately 34% of the nation's population), which currently generate annual estimated communications services revenues of over $50 billion.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Transition Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, is forward-looking, such as information relating to the effects of future regulation, future capital commitments and the effects of competition. Such forward-looking information involves important risks and uncertainties that could significantly affect expected results in the future from those expressed in any forward-looking statements made by, or on behalf of, the Company. These "forward looking statements" can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "intends" or "intends" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. These risks and uncertainties include, but are not limited to, uncertainties relating to economic conditions, acquisitions and divestitures, the cost of availability of capital, government and regulatory policies, the pricing and availability of equipment, materials, inventories and programming, Year 2000 issues, product acceptance, technological developments and changes in the competitive environment in which the Company operates. Persons reading this Transition Report on Form 10-K are cautioned that forward-looking statements herein are only predictions, that no assurance can be given that the future results will be achieved, and that actual events or results may differ materially as a result of the risks and uncertainties facing the Company.

Change of Year End. On March 30, 1999, the Board of Directors of Hyperion approved a change in Hyperion's fiscal year from March 31 to December 31. The decision was made to conform to general industry

HYPERION TELECOMMUNICATIONS, INC.

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practice and for administrative purposes. The change became effective for the nine months ended December 31, 1998.

Recent Developments

Expansion of Fiber Network. Since April 1, 1998, Hyperion has entered into agreements with Qwest Communications, Williams Communications, NorthEast Optic Network, Inc. ("NEON"), Metromedia Fiber Network, Inc., e.spire Communications, Inc., Telergy Inc. and Interpath Communications to acquire local and long-haul fiber optic transmission infrastructure to provide facilities-based services in a number of new markets throughout the eastern United States and to interconnect Hyperion's existing markets and these new markets. The agreements entitle the Company to a long-term lease or an indefeasible right of use ("IRU") to approximately 9,600 route miles of local and long-haul fiber for a total cost of approximately $126 million.

The markets reached through these agreements are important to the Company's network system expansion strategy. For example, fiber obtained through the contract with NEON enables Hyperion to quickly enter markets throughout New England including Boston, Massachusetts. The agreement with Metromedia Fiber Network supplements an earlier agreement and provides Hyperion with broad coverage in the New York metropolitan area, as well as new entry into Chicago, Illinois, Washington, DC and northern Virginia. Hyperion will gain cost-effective access to Atlanta, Georgia through the agreement with e.spire. The agreement with Telergy will allow Hyperion to efficiently enter Manhattan, New York along with interconnection from our upstate New York markets and the agreement with Interpath Communications will allow us to enter the Raleigh-Durham/Chapel Hill, North Carolina market. The long-haul agreements with Qwest, Williams, Telergy and others provide the basis for the Company's dedicated long-haul fiber network system, which in turn increases our addressable market approximately 50%. This increased addressable market opportunity, resulting from the signing of the agreements currently in place, can be achieved without a proportionate increase in the number of switches deployed through the use of super switches serving multiple markets in a geographical region.

On April 15, 1999, Hyperion entered into an agreement with e.spire Communications, Inc. ("e.spire") to acquire an IRU for approximately 576 miles of network fiber and construction services which allows the Company access to 14 new markets. In exchange, the Company granted e.spire an IRU to a 432-strand fiber optic cable in south Florida that is currently under construction.

Data Services Agreement. On February 9, 1999, Hyperion entered into a 3 year agreement with Intermedia Communications ("ICI") whereby it will purchase from ICI wholesale frame relay and ATM services, which will be branded under the Hyperion name. As the long-haul portions of Hyperion's network system become operational and data switches are placed in the networks, we expect to migrate customers to our network system. The agreement provides for a discount pricing structure based upon volume purchases, and we believe that this market-entry strategy provides a cost-effective, economical approach to creating market presence and a customer base until our data networks are operational. Over time, we expect most of our customers' data traffic will be carried on our own network system.

Partnership Rollups. During March 1999, Hyperion consummated purchase agreements with subsidiaries of Multimedia, Inc. and MediaOne of Colorado Inc. to acquire their respective interests in our jointly owned networks located in the Wichita, KS, Jacksonville, FL and Richmond, VA markets for an aggregate of approximately $90 million. The agreements increased the Company's ownership interest in each of these networks to 100%. The consummated acquisitions are collectively referred to as the "Roll-ups."

In addition, on March 31, 1999, Hyperion entered into purchase agreements with Entergy Corporation ("Entergy"), the parent of its local partner in the Baton Rouge, LA, Little Rock, AR and Jackson, MS markets, whereby Entergy will receive $36 million in cash for Entergy's ownership interests in each of these markets. Upon consummation of this transaction, which is subject to normal closing conditions and regulatory approvals, the Company's ownership interest in each of these networks will increase to 100%.

LMDS Licenses. During 1998, through a partnership in which Hyperion is a 49.9% limited partner, the Company was the successful bidder, at a cost of approximately $45 million, all of which has been fully paid, for 151 31-GHz licenses, which cover approximately 83 million people in the eastern United States, representing coverage in most of Hyperion's network system territory. The Company and its partner are currently in the process of dissolving the partnership, and the licenses are to be transferred to the Company, at no additional cost to the Company, upon the consent of such transfer by the Federal Communications Commission (the "FCC"), which may not be unreasonably withheld. Hyperion plans to use the local multipoint distribution service ("LMDS") spectrum in most of its markets, and believes the spectrum to be highly complementary to our fiber-based systems as an economical means to provide "last-mile" connectivity for customers that otherwise could not be economically addressed with broadband wireline connectivity.

March 1999 Financing. On March 2, 1999 Hyperion issued $300 million of 12% Senior Subordinated Notes due 2007 (the "Subordinated Notes"). An entity controlled by members of the Rigas family, controlling stockholders of Adelphia, purchased $100 million of the Subordinated Notes directly from Hyperion at a price equal to the aggregate principal amount less the discount to the initial purchasers. The net proceeds of approximately $274 million were or will be used to fund Hyperion's acquisition of interests held by local partners in certain of its markets, and will be used to fund capital expenditures and investments in its networks and for general corporate and working capital purposes.

Hyperion IPO. In the June 30, 1998 quarter, Hyperion issued and sold 12,850,000 shares of Class A Common Stock at a price to the public of $16.00 per share including the underwriters' over-allotment option. Simultaneously with the closing of the IPO, Hyperion issued and sold 6,966,667 additional shares of Class A Common Stock to Adelphia at a purchase price of $15.00 per share in exchange for certain of Hyperion's indebtedness and payables owed to Adelphia and for cash of $49.9 million. These transactions raised approximately $241 million of net proceeds to continue the expansion of Hyperion's existing markets and to build new markets.

Growth Strategy

The key components of the Company's strategy as a leading provider of competitive telecommunications services are:

Focus On Telecommunications-Intensive Customers. Hyperion provides their services to telecommunications-intensive customers that include businesses, governmental and educational end users, and other telecommunications service providers. Hyperion believes that its target customers are a large and underserved universe who generally have limited choices in their communications services purchasing decisions. These customers generally seek reliability, high quality, broad geographic coverage, end-to-end service, solutions-oriented customer service and timely introduction of new and innovative services. The Company offers dedicated access services on a wholesale basis to interchange or long distance carriers ("IXCs") and has entered into national service agreements with AT&T and MCIWorldCom to be their preferred supplier.

Expansion of Sales and Customer Care Effort. Hyperion's goal is to create better customer retention and become the principal and preferred cost-effective alternative to the incumbent communications services provider. To achieve this and to capitalize on the Company's expanded addressable market, Hyperion has rapidly increased and intends to continue to increase its direct sales and support team consisting of sales professionals and engineers. The Company has expanded its sales force from 128 salespeople at December 31, 1997 to 251 salespeople at December 31, 1998 and expects to increase its sales force to approximately 450 salespeople by December 31, 1999.

In addition, Hyperion believes that the best way to care for a customer is to provide local customer service after the sale. Each of Hyperion's markets has a dedicated team of trained customer care professionals committed to ensuring that we meet or exceed our customers' expectations. At December 31, 1998, Hyperion had approximately 136 professionals committed to its customer care effort which Hyperion expects will increase to approximately 250 professionals by December 31, 1999.

Focus on Providing Bundled Packages of Communications Services. In response to market demands and to maximize our selling efforts, the Company offers a full suite of communications services to our customers. Hyperion offers its services individually to suit specific customer needs or bundled together to provide customers with a cost-effective and comprehensive communications solution. In addition to the pricing benefits Hyperion's customers receive from purchasing bundled communications services, the Company believes that bundled services provide Hyperion with increased customer retention, higher operating margins and a reduced cost of acquiring new customers.

The Company's service offerings currently include a wide range of local dial tone and long-distance services in all of its operating markets. In addition, Hyperion has launched internet access services, frame relay and ATM services in certain of our markets and plans to extend these services to all of our markets during 1999. To accelerate its frame relay and ATM service offerings, Hyperion recently entered into a wholesale provider agreement with ICI, whereby it will use ICI's frame relay network and data switches to offer data services to its customers and then move its customers' traffic onto its own network systems as it becomes operational. The Company believes this approach provides an efficient market-entry strategy and allows it to build a market presence under the Hyperion trade name, while providing better long-term operating margins through the use of its own network system.

Drive On-Net Traffic Over High Capacity Fiber Optic Network System. The broad deployment of fiber optic cable in Hyperion's markets typically enables connectivity among the Company, the incumbent local exchange carrier ("LEC") central offices and the Company's customers. Hyperion expects this strategy to result in a high proportion of traffic that is both originated and terminated on its network system, which would provide the Company with higher long-term operating margins. As of December 31, 1998, the Company has collocated in 123 incumbent LEC central offices, a figure which is expected to increase to over 300 during 1999. In addition, as of December 31, 1998, in Hyperion's six most mature markets, 78% of the access lines in service have been provisioned completely on its own network system. Overall, the Company had 110,005 installed access lines at December 31, 1998, approximately 63% of which are provisioned completely on Hyperion's network system.

In addition to the broad deployment of fiber optic cable in its markets, Hyperion has been aggressively adding fiber over long distances to create a fiber optic network system that connects its various markets. Once fully deployed, this fiber optic backbone will enhance the Company's ability to originate and terminate Hyperion's customers' communications traffic over our networks. We believe long term operating margins on Hyperion's long distance and data transfer businesses will increase significantly as a result of connecting these markets.

As an alternative to fiber optic cable, Hyperion also plans to utilize wireless technologies to deliver the "last mile" of communications services where the use of fiber optic cable is not economical. Through the use of a fixed wireless technology known as LMDS, the Company will be able to provide in most of its markets an alternative means for establishing the connectivity that links Hyperion's customers to its network system. See "Recent Developments—LMDS Licenses." These customers might otherwise have limited access to a high speed fiber optic network. Therefore, the Company expects LMDS to increase the amount of on-net traffic we carry in the future.

Expand Market Roll-out Throughout Eastern United States. The Company recently announced that it is expanding the scope of its business plan to add 50 new markets to the existing 46 markets, expanding its presence to approximately 30 states throughout the eastern United States. These 96 markets will provide Hyperion with a market opportunity of more than 26 million addressable business access lines (approximately 34% of the nation's population), which currently generate over $50 billion of annual communications services revenues. Hyperion plans to roll out service in these new markets by installing nine new super switches that, together with remote switch modules, will serve several markets in geographic proximity to each super switch. Each of these markets will be

connected to the system network by inter-city fiber that has been or will be purchased or leased from a number of fiber optic transmission providers.

Products and Services

Hyperion's products and services are designed to appeal to the sophisticated telecommunications needs of its business, governmental and educational customers.

Local Services. Hyperion provides local dial-tone services to customers, which allows them to complete calls in its calling area and to access a long distance calling area. Local services and long distance services can be bundled together using the same transport facility. Hyperion's networks are designed to allow a customer to easily increase or decrease capacity and alter enhanced services as the telecommunications requirements of the business change. In addition to its core local services, Hyperion also provides access to third party directory assistance and operator services.

Long Distance Services. Hyperion provides domestic and international long distance services for completing intrastate, interstate and international calls. Long distance service is offered as an additional service to Hyperion's local exchange customers. Long distance calls which do not terminate on Hyperion's networks (which are currently the bulk of such calls) are passed to long distance carriers which route the remaining portion of the call.

Enhanced Services. In addition to providing typical enhanced services such as voicemail, call transfer and conference calling, Hyperion offers additional value-added enhanced services to complement its core local and long distance services. These enhanced service offerings include:

Access to Internet Services—Enables customers to use its available capacity for access to Internet Service Providers ("ISP"s).

Data Networking Services—The Company can provide high-speed, broadband services to use for data and Internet access such as Integrated Services Digital Network (ISDN) and Primary Rate Interface (PRI).

Specialized Application Services—The Company can create products and services that are tailored for target industries with special telecommunications needs such as the hospitality industry. These services typically include non-measured rate local calling, expanded local calling area, discounted long distance rates and tailored trunking configurations.

Ownership of the Company and the Operating Companies

As of December 31, 1998, Hyperion was a 64.7% owned subsidiary, on a fully diluted basis, of Adelphia. In addition, senior executives of the Company owned 4.6% of the common stock of the Company. Unless the context otherwise requires, references to the "networks" or the "Company's networks" mean the (a) 22 telecommunications networks (serving 46 markets) in operation or under construction (the "Existing Networks") and (b) additional networks under development (the "New Networks"). The Company's 22 Existing Networks were owned by ten wholly owned subsidiaries (through which the Company has an interest in 11 networks), one partnership (through which the Company has an interest in one network) in which it is the majority owner and nine joint venture investments (through which the Company has an interest in 10 networks) in which the Company owns at least 50%. The Company is responsible for the network design, management, billing and operation of the operating companies, for which it receives management fees.

The following is an overview of Hyperion's networks and respective ownership interests as of December 31, 1998.

Company Networks	Actual or Expected Date of Operation (a)	Hyperion Interest	Local Partner
Northeast Cluster			
Vermont	11/94	100.0%	
Syracuse, NY	8/92	100.0	
Buffalo, NY	1/95	100.0	
Albany, NY	6/99	100.0	
Mid-Atlantic Cluster			
Charlottesville, VA	1/95	100.0	
Scranton/Wilkes-Barre, PA	5/98	100.0	
Harrisburg, PA	4/95	100.0	
Morristown, NJ	7/96	100.0	
New Brunswick, NJ	11/95	100.0	
Philadelphia, PA	8/96	50.0	PECO Energy
Allentown/Bethlehem/Easton/Reading, PA	5/98	50.0	PECO Energy
York, PA	5/97	50.0	Susquehanna Cable
State College/Altoona, PA	10/98	50.0	Allegheny Energy
Richmond, VA	9/93	100.0(b)	
Mid-South Cluster			
Lexington, KY	6/97	100.0	
Louisville, KY	3/95	100.0	
Nashville, TN	11/94	95.0	InterMedia Partners
Baton Rouge, LA	12/97	100.0(b)	
Jackson, MS	12/97	100.0(b)	
Little Rock, AR	12/97	100.0(b)	
Other Networks			
Wichita, KS	9/94	100.0(b)	
Jacksonville, FL	9/92	100.0(b)	
Weighted Average Ownership	—	90%(c)	

(a) Refers to the date on which (i) the network is connected to at least one IXC POP, (ii) the network is capable of accepting traffic from IXCs and end users, (iii) the Company's central office is fully functional and (iv) the initial network SONET fiber ring has been completed.

(b) Gives effect to the Rollups and the pending purchase of the Entergy network interests as if such events occurred December 31, 1998.

(c) Based upon gross property, plant and equipment of the Company and the networks as of December 31, 1998, as adjusted for the purchase of certain partners' interests pursuant to the Rollups.

Operating Agreements

Generally, subsidiaries of the Company historically entered into partnership agreements (or limited liability agreements) with local partners to take advantage of the benefits of building networks in conjunction with local cable television or utility operators. Typically operating partnerships have been formed and operated pursuant to three key agreements: (i) a partnership or limited liability company agreement between the Company or one of its wholly owned subsidiaries and a cable operator or utility company (the "Local Partner Agreement"), (ii) a fiber capacity lease agreement between the local partner and the operating partnership (the "Fiber Lease Agreement"), and (iii) a management agreement between the operating partnership and the Company or one of its subsidiaries (the "Management Agreement"). As of December 31, 1998, 10 of the Company's 22 Existing Networks were 100% owned by the Company, excluding the effect of the rollups and the Entergy acquisition.

Local Partner Agreements

As part of its business development strategy, Hyperion has purchased its local partners' interests or entered into agreements to purchase these interests in most of its Existing Networks. Upon completion of these acquisitions, the original Local Partner Agreements are terminated. For the remaining Local Partnership Agreements, the summary below provides a brief description of the general terms and provisions.

Each Local Partner Agreement establishes the structure of the applicable operating partnership by determining, among other things, the partner's capital contribution requirements, capital structure, purpose and scope of business activities, transfer restrictions, dissolution procedures, duration and competition restrictions, as well as the voting and buy/sell rights and rights of first refusal of the partners of the operating partnership. The following discussion applies to partnership and limited liability company agreements.

Ownership and Capital Contributions. The initial capital contributions and percentage of ownership of the operating partnerships vary. Some of the Local Partner Agreements establish maximum capital contributions such that each partner's ultimate aggregate capital contribution is determined at the operating partnership's inception. Capital contributions in excess of the initial capital contribution may be required in several Local Partner Agreements, but generally either must be initiated by the manager of the operating partnership or approved by at least a majority vote of the management committee. Generally, the percentage of ownership is also fixed at the operating partnership's inception. Absent an agreement by the partners, generally, the only circumstances that result in the dilution of such partner's ownership interest are a partner's failure to make a capital contribution or its failure to exercise a right of first refusal.

Matters Requiring a Vote. Most partner or management committee votes of an operating partnership require only a majority vote; however, a unanimous or supermajority vote of the partners or management committee is generally required for, among other things, expansion of the scope of the business activities in the defined business area, admission of additional partners and merger or consolidation with any other entity if the operating partnership is not the surviving entity.

Distributions. Generally, the Local Partner Agreements allow for distributions to the partners; however, the Local Partner Agreements vary with regard to the procedure for determining if, when and how much of a distribution should be made. The partners or the partnership's managing committee makes such determinations by either majority approval or unanimous consent. All distributions are required to be made in proportion to each partner's percentage interest in the partnership.

Transfer of Ownership. The Local Partner Agreements generally prohibit the transfer of partnership interests, including most changes in control, or impose restrictions that significantly limit a partner's ability to transfer its partnership interest. Generally, transfers of entire partnership interests to subsidiaries of a partner's parent corporation and the sale or disposition of all or substantially all of the stock or assets of a partner's affiliates are expressly permitted in the typical Local Partner Agreement.

Rights of First Refusal; Buy Sell Agreements. The partners of most of the operating partnerships also retain certain rights of first refusal and buy sell rights. Generally, after a specified period of time, usually three to six years after the inception of the operating partnership, either partner may transfer its interest to an unrelated third party if such partner first offers its interest to the other partner at the same terms and the other partner elects not to purchase the interest. The right of first refusal usually requires that the selling partner sell all, and not less than all, of its partnership interest pursuant to an offer by a bona fide third party. The selling party must first give the other partner the opportunity to purchase the interest at the same price and under the same terms as the third party's offer.

In addition, in most of the operating partnerships, either partner can, after a specified period of time, usually five to eight years after the inception of the partnership, make an offer to the other partner to sell its own interest. Within 30 to 60 days of submitting a price which generally must be based on a written third party valuation of the partnership interest, the other partner must respond to the offer indicating its election to either accept the offer to buy or sell at the offered price. A partner in one of the partnerships has the right after a specified period of time to put its interest in the respective partnership to the Company at an amount equal to the partner's capital contributions plus interest less any distributions pursuant to the other agreement.

Term. Most of the operating partnerships were created in the last five years and have a duration of 10 to 25 years unless earlier dissolved. Generally, each partner and certain of its affiliates are restricted from competing with the operating partnership in the defined business area so long as the partner is a partner plus two or three years thereafter.

Fiber Lease Agreements

Generally, the operating partnerships lease fiber optic capacity from their local partners or former local partners. In some instances, the operating partnerships lease existing fiber optic capacity and in other instances, the operating partnerships request the local partners or former local partners to construct new fiber optic capacity. In many cases, local partners or former local partners upgrade the capacity of their cable or other infrastructure and as a result, share construction costs with the operating partnership. Monthly lease payments in such instances are based on the amortization of the operating partnership's share of the local partner's cost of construction and material costs over the term of the Fiber Lease Agreement. Because construction and material costs are amortized over the then current term of the Fiber Lease Agreement, it is possible for the amount of a monthly lease payment to be significantly lower during a renewal term unless the construction of additional fiber optic cable is scheduled for such renewal term. Typically, the amount of the lease payments in a renewal period equals the amount of operating maintenance costs for the leased fiber optic cable.

Substantially all of the Fiber Lease Agreements are in their initial terms. Most of the initial terms vary from five to 25 years in length. The Fiber Lease Agreements contain various renewal options. Generally, either party can terminate the Fiber Lease Agreement at the end of the then current term if the terminating party provides prior written notice to the other party. Several of the Fiber Lease Agreements contain termination rights which provide the lessor with the option to terminate the lease if the lessor becomes subject to unfavorable state regulation, an action is brought against the lessor challenging or seeking to adversely modify the lessor's rights or validity or authority to operate, legal or regulatory determination renders it unlawful or impossible for the lessor to satisfy its obligations under the lease or in case of an imposition of public utility or common carrier status on the lessor as a result of its performance of the lease.

Throughout the term of the Fiber Lease Agreements and thereafter, title to the fiber optic cable remains with the local partner or former local partners. Similarly, the operating partnerships retain title to all of their own electronics and switches that become a part of the network. A local partner or former local partner cannot sell its fiber subject to the Fiber Lease Agreement to a third party unless its obligations under the Fiber Lease Agreement are assumed by the third party.

The amount of the lease payments could be affected by the costs the local partners or former local partners incur for attachments to poles, or use of conduit, owned by incumbent LEC's or electric utilities. Various state public

utilities commissions ("State PUCs") and the FCC are reviewing whether use of local partner or former local partners facilities for telecommunications purposes (as occurs when the operating companies lease fiber optic capacity from local partners or former local partners) should entitle incumbent LECs and electric utilities to raise pole attachment or conduit occupancy fees. Such increased fees could result in an increase in the amount of the lease payments made by the operating companies to the local partners or former local partners. In some cases, State PUCs attempt to directly regulate the fiber lease contracts between the operating companies and their local partners or former local partners.

In cases where the Company acquires 100% of the ownership interest of an operating partnership by an acquisition of interests from the local partner, the Fiber Lease Agreement typically is amended to provide for a 15 to 25 year lease of fiber optic capacity from the former local partner that exited the partnership.

On February 20, 1997, the Company entered into several agreements with Telergy, Inc. and certain of its affiliates regarding the lease of dark fiber in New York State. Pursuant to these agreements and in consideration of a payment of $20 million, the Company received (i) a $20 million senior secured note from Telergy, Inc. and (ii) a fully prepaid lease from a Telergy affiliate for at least 25 years (with two additional ten-year extensions) for 144 strands of dark fiber installed or to be installed in a New York fiber optic telecommunications backbone network. The fiber optic backbone network will cover approximately 500 miles from Buffalo to Syracuse to Albany to New York City, New York, and will provide interconnection capability for the Company's operating networks in the state of New York.

IRU Agreements

The Company has entered into several agreements that entitle the Company to a long-term lease or an IRU to approximately 9,000 route miles of local and long-haul dark fiber. Generally each agreement requires Hyperion to pay an aggregate price consisting of an initial payment, followed by installments during the construction period based upon achieving certain milestones (e.g., commencement of construction, conduit installation and fiber installation). The final payment for each segment will be made at the time of acceptance.

Each agreement provides for the sharing of certain maintenance and operating costs. The agreements establish anticipated delivery dates for construction and delivery of segments along the route of Hyperion's networks. The agreements provide for penalties in the event of delay of segments and, in certain circumstances, allow Hyperion to terminate non-delivered segments of the contracts.

AT&T Lease Agreement

On December 31, 1997 the Company consummated an agreement for a $24.5 million long term lease facility from AT&T Capital Corporation (the "AT&T Lease Agreement"). The AT&T Lease Agreement provides financing for certain of the operating companies' switching equipment. Included in the AT&T Lease Agreement is the sale and leaseback of certain switching equipment for which the Company received $14.9 million. The terms of the switching equipment leases under the AT&T Lease Agreement are seven and one half years, commencing December 31, 1997. The AT&T Lease Agreement requires the Company to maintain and insure the leased equipment and prohibits the Company from subleasing the equipment, except to certain designated Company subsidiaries. Under the AT&T Lease Agreement, the Company is required to indemnify AT&T Capital Corporation for certain claims with respect to the leased equipment and for certain tax liabilities.

Management Agreements

Generally, the Company or a wholly owned subsidiary of the Company provides the operating partnerships with the following services pursuant to the Management Agreement for a fee based on the Company's cost of providing such services: general management, monitoring, marketing, regulatory processing, accounting, engineering, designing, planning, construction, maintenance, operations, service ordering and billing. The term of the

typical Management Agreement is three or five years and automatically renews for continuous one-year periods unless one party provides the other with written notice that it intends to terminate the agreement.

Sales and Marketing

The Company targets its network sales and marketing activities to medium and large businesses, government and educational end users and resellers, including IXCs. The Company services its customers through a dedicated sales force of 251 professionals at December 31, 1998 focused on selling the Company's portfolio of service offerings, and currently has over 136 technicians, customer service representatives and administrative support staff at December 31, 1998, enabling the Company to provide its customers with continuous support and superior service. The Company expects to increase its marketing efforts by increasing the size of its current sales force during 1999 to approximately 450 professionals as it increases the breadth of its product offerings to satisfy the growing telecommunications needs of its customers. In addition, the Company has initiated direct marketing and sales of local telecommunications services on an unbundled loop basis to or through total service resale to small business customers in certain markets, generally offering such services under either the Hyperion name or a co-branded name that includes the name of the particular local partner. The Company's networks offer their services in accordance with tariffs filed with the FCC for interstate services and State PUCs for intrastate services. The operating companies are classified as non-dominant carriers by the FCC and therefore have substantial pricing flexibility and in many cases may enter into customer and product specific agreements.

End Users

The Company targets end users which include medium and large businesses, governmental and educational institutions and other telecommunications service providers. End users are currently marketed through Company direct sales representatives in each market. The national sales organization also provides support for the local sales groups and develops new product offerings and customized telecommunications applications and solutions which address the specific requirements of particular customers. In addition, the Company markets the operating companies' products through advertisements, media relations, direct mail and participation in trade conferences. End users typically commit to a service agreement for a term of three to five years which is either renegotiated or automatically converted to a month-to-month arrangement at the end of the contract term. The Company believes it will be able to continue to compete effectively for end users by offering superior reliability, product diversity, service and custom solutions to end user needs at competitive prices. A significant component of an operating company's reliability will be its ability to offer customers end-to-end SONET ring construction for many localized applications. The operating companies' construction of SONET rings combined with the Company's large network size will enable the operating companies to offer fiber optic coverage superior to the incumbent LEC in its markets.

Resellers

Resellers utilize the operating companies' services primarily as a local component of their own service offerings to end-users. The Company has national supplier agreements with all of the major IXCs. The Company believes it can effectively provide IXCs with a full complement of traditional access services as well as switched services. Factors that increase the value of the Company's networks to IXCs include reliability, state-of-the-art technology, route diversity, and ease of ordering and customer service. The Company also generally prices the services of an operating company at a discount relative to the incumbent LEC. In order to further complement the services provided to the IXCs, the Company integrates its networks with IXC networks to enable the IXC to (i) access service, billing and other data directly from the Company and (ii) electronically send automated service requests to the Company. In pursuing this strategy, the Company has entered into the National Service Agreement with AT&T pursuant to which the Company through its networks is an AT&T preferred supplier of dedicated special access and switched access transport services. The National Service Agreement requires the Company to provide such services to AT&T at a discount from the tariffed or published LEC rates. In addition, the Company has entered into the MCIWorldCom Preferred Provider Agreement pursuant to which the Company is designated MCIWorldCom's preferred provider of new end user dedicated access circuits and of end user dedicated access circuits resulting from conversions from the incumbent LEC in the Company's markets.

Special Purpose Networks

The Company develops special purpose networks in conjunction with the operating companies of Adelphia to meet specific customer network requirements. To date, these special purpose networks have included connections to IXC backbone networks, campus networks, private carriage networks and other similar service requirements. The terms and conditions for these special purpose networks are generally specified in agreements with terms of one to five years terms which automatically renew on a month-to-month basis. In addition, special customer networks are sometimes constructed with excess fiber band width capacity, which allows the Company to make additional capacity available to other end users.

The Company's Networks

Network Development and Design

Prior to any network construction in a particular market, the Company's corporate development staff reviews the demographic, economic, competitive and telecommunications demand characteristics of the market. These characteristics generally include market location, the size of the telecommunications market, the number and size of business, educational and government end users and the economic prospects for the area in relation to the Company also carefully analyzes Local Exchange Carriers Central Office ("LEC-CO") access line demographic data. The Company also analyzes market size utilizing a variety of data, including available estimates of the number of interstate access and intrastate private lines in the region, which is available from the FCC.

If a particular market targeted for development is deemed to have sufficiently attractive demographic, economic, competitive and telecommunications demand characteristics, the Company's network planning and design personnel, generally working in conjunction with the Company's local partner, Adelphia or one of Adelphia's affiliates, design a large regional network targeted to provide access to the identified business, educational and government end user revenue base and to the IXC POPs and the LEC-COs in the geographic area covered by the proposed network. The actual network design is influenced by a number of market, cost and other factors including: (i) availability and ease of fiber deployment; (ii) location of LEC-COs and IXC POPs; (iii) the Company's market information; and (iv) cost of construction.

Network Construction

The Company's networks are constructed to cost-effectively access areas of significant end user telecommunications traffic, as well as the majority of the LEC-COs, POPs and most of the IXC's. The Company establishes with its local partner or Adelphia general requirements for network design including engineering specifications, fiber type and amount, construction timelines and quality control. The Company's engineering personnel provide project management, including contract negotiation and overall supervision of the construction, testing and certification of all facilities. The construction period for a new network varies depending upon the number of route miles to be installed, the initial number of buildings targeted for connection to the network, the general deployment of the network and other factors. Networks that the Company has installed to date have generally become operational within six to ten months after the beginning of construction.

Network Operating Control Center

In Coudersport, Pennsylvania, the Company has built the Network Operating Control Center ("NOCC"), which is equipped with state-of-the-art system monitoring and control technology. The NOCC is a single point interface for monitoring all of the Company's networks and provisioning all services and systems necessary to operate the networks. The NOCC supports all of the Company's networks including the management of [illegible] building connections, 20 switches or remote switching modules and 15,005 network route miles as of December 31, 1998. The NOCC is designed to accommodate the Company's anticipated growth.

The NOCC is utilized for a variety of network management and control functions including monitoring, managing and diagnosing the Company's SONET networks, central office equipment, customer circuits and signals and the Company's switches and associated equipment. The NOCC is also the location where the Company provisions, coordinates, tests and accepts all orders for switched and dedicated circuit orders. In addition, the NOCC maintains the database for the Company's circuits and network availability. Network personnel at the NOCC also develop and distribute a variety of software utilized to manage and maintain the networks.

Equipment Supply

The Company and the operating companies purchase fiber optic transmission and other electronic equipment from Lucent, Fujitsu, Tellabs, and other suppliers at negotiated prices. The Company expects that fiber optic cable, equipment and supplies for the construction and development of its networks will continue to be readily available from Lucent, Fujitsu, Tellabs and other suppliers as required. The Company has negotiated multi-year contracts for equipment with Lucent, Fujitsu, and Tellabs. The Company and the operating companies have deployed 17 Lucent switches and three Lucent remote switching modules, which deliver full switching functionality, in 20 of its current markets. The Company plans to deploy an additional nine regional super switches during 1999.

Connections to Customer Locations

Office buildings are connected by network backbone extensions to one of a number of physical rings of fiber optic cable, which originate and terminate at the operating company's central office. Signals are sent simultaneously on both primary and alternate protection paths through a network backbone to the operating company's central office. Within each building, operating company-owned internal wiring connects the operating company's fiber optic terminal equipment to the customer premises. Customer equipment is connected to operating company-provided electronic equipment generally located where customer transmissions are digitized, combined and converted to an optical signal. The traffic is then transmitted through the network backbone to the operating company's central office where it can be reconfigured for routing to its ultimate destination on the network.

The operating company locates its fiber optic equipment in space provided by the building owner or, more typically, on a customer's premises. IXCs often enter into discussions with building owners to allow the Company to serve the IXCs' customers. This network configuration enables the Company to share electronic equipment among multiple customers, causes little interruption for customers during installation and maintenance and allows the Company to introduce new services rapidly and at low incremental cost.

Employees

As of December 31, 1998, the operating companies and the Company employed 969 employees. In support of the operating companies' and the Company's operations, the Company also regularly uses the services of its local partners, employees and contract technicians for the installation and maintenance of its networks. None of the operating companies' or the Company's employees is represented by a collective bargaining agreement. The Company believes that the operating companies' and the Company's relations with their respective employees are good.

Competition

The Company faces competition from many competitors with significantly greater financial resources, well-established brand names and large, existing installed customer bases. Moreover, we expect the level of competition to intensify in the future.

In each of the markets served by the Company's networks, the services offered by the Company compete principally with the services offered by the incumbent LEC serving that area. Incumbent LECs have long-standing relationships with their customers, have the potential to subsidize competitive services from monopoly service revenues, and benefit from favorable state and federal regulations. In light of the passage of the Telecommunications

Act of 1996 (the "Telecommunications Act"), federal and state regulatory initiatives will provide increased opportunities to competitive local exchange carriers ("CLECs") such as the Company, but regulations also have to provide incumbent LECs with increased pricing flexibility for their services as competition increases. Each Regional Bell Operating Company ("RBOC") is authorized to provide in-region long distance service in one or more states by fulfilling the market operating provisions of the Telecommunications Act, the RBOCs may be able to offer "one stop shopping" that would be competitive with the Company's offerings. To date, each request for such authority has been denied by the FCC. An approval could result in decreased market share for the Company if customers are among the operating companies' significant customers. Any of these results could have an adverse effect on the Company.

There has been significant merger activity among the RBOCs in anticipation of entry into the long distance market, including the completed merger of Bell Atlantic and NYNEX, whose combined services cover a substantial portion of the Company's markets. Other combinations have occurred in the industry, which may have an effect on the Company, such as the combination of AT&T Corp. and Teleport Communications Group Inc. ("TCG") and the pending combination of Bell Atlantic and GTE. The effects of these combinations are unknown at this time. The Company believes that combinations of RBOCs and others will also affect the Company's strategy of originating and terminating a significant proportion of its customers' communications traffic over its own networks, rather than relying on the network of the incumbent LEC.

The Company also faces, and will continue to face, competition from other current and potential market entrants, including other CLECs, incumbent LECs which are not subject to RBOC restrictions on long distance, AT&T, MCIWorldCom, Sprint and other IXCs, cable television companies, electric utilities, microwave carriers, wireless telecommunications providers and private networks built by large end users. In addition, new carriers such as Williams, Qwest Communications International and Level 3 Communications are building and expanding nationwide networks which, in some cases, are designed to provide local services. Further, AT&T's acquisitions of TCI and MediaOne will exploit ubiquitous local cable infrastructure for telecommunications and other services provided by the operating companies. Finally, although the Company has generally good relationships with the various existing IXCs, there are no assurances that any of these IXCs will not build their own facilities, purchase other carriers or their facilities, or resell the services of other carriers rather than use the Company's services when entering the market for local exchange services.

Regulation

Government Overview

A significant portion of the services provided by the Company and its networks are subject to regulation by federal, state and local government agencies. Future federal or state regulations and legislation may be more favorable to us than current regulation and legislation and therefore may have a material and adverse impact on our business and financial projects. In addition, we may expend significant financial and managerial resources to participate in proceedings setting rules at either federal or state level, without achieving a favorable result.

Federal Legislation and Regulation

The Telecommunications Act ("Telecommunications Act") enacted on February 8, 1996, substantially departs from prior legislation in the telecommunications industry by establishing local exchange competition as a national policy. This act removes state regulatory barriers to competition, and imposes numerous requirements to facilitate the provision of local telecommunications services by multiple providers. For instance, carriers must provide to each other services for resale, number portability, dialing parity, access to rights of way and compensation for traffic they exchange. Incumbent Local Exchange Carriers ("ILECs") must provide competitors with network interconnection, access to unbundled network elements, and collocation at ILEC premises, among other things. Finally, the FCC is responsible for implementing and presiding over regulations for accounting safeguards, subsidiaries and access.

The FCC is charged with the broad responsibility of implementing the local competition provisions of the Telecommunications Act. It has done so by promulgating rules which encourage increased local competition. In 1997, a federal appeals court for the Eighth Circuit vacated some of these rules. In January 1999, the United States Supreme Court reversed elements of the Eighth Circuit's ruling, finding that the FCC has broad authority to interpret the Telecommunications Act and issue rules for its implementation. Specifically, the Court stated that the FCC has authority to set pricing guidelines for unbundled network elements, to prevent ILECs from dismantling existing combinations of network elements, and to establish rules allowing competitors to "pick and choose" among provisions of existing interconnection agreements. However, the Court vacated the FCC's rules that identified the unbundled network elements that ILECs must provide to CLECs. The FCC recently initiated a new proceeding to reexamine which unbundled network elements ILECs must provide. In addition, because the Eighth Circuit had only ruled on the FCC's jurisdiction to set a pricing methodology, the ILECs have renewed their opposition to the actual methodology.

Many new carriers have experienced difficulties in working with the ILECs, with respect to provisioning, interconnection, rights-of-way, collocation and implementing the systems used by these new carriers to order and receive unbundled network elements and wholesale service from the ILECs. Coordination with ILECs is necessary for new carriers such as us to provide local service to customers on a timely and competitive basis. The Telecommunications Act created incentives for ILECs to cooperate with new carriers and permit access to their facilities satisfied statutory conditions designed to open their local markets to competition. The ILECs in the Company's proposed markets are not yet permitted by the FCC to offer long distance services and the Company cannot be assured that these ILECs will be accommodating to the Operating Companies once they are permitted to offer long distance service. If the operating companies are unable to obtain the cooperation of a ILEC in a region, whether or not such ILEC has been authorized to offer long distance service, ability to offer local services in such region on a timely and cost effective basis would be adversely affected.

The FCC recently adopted new rules designed to make it easier and less expensive for CLECs to obtain collocation at ILEC central offices by, among other things, restricting the ILECs' ability to prevent certain types of equipment from being collocated and requiring ILECs to offer alternative collocation arrangements to CLECs. The FCC also initiated a new proceeding to address line sharing which, if implemented, would allow CLECs to offer data services over the same line that a consumer uses for voice services without the CLEC having to provide the voice service. While the Company expects that the FCC's new collocation rules will be beneficial to the Operating Companies, it remains uncertain that these new rules will be implemented in a favorable manner. Moreover, ILECs or other parties may ask that FCC to reconsider some or all of its new collocation rules, or may appeal these rules in federal court.

A number of ILECs around the country have been contesting whether the obligation to pay reciprocal compensation to CLECs should apply to local telephone calls terminating ISPs. The ILECs claim that this traffic is interstate in nature and therefore should be exempt from compensation arrangements applicable to local, intrastate calls. Most states have required ILEC to pay ISPs reciprocal compensation. However, on February 25, 1999, the FCC adopted an order in which it determined that calls to ISPs are interstate in nature and proposed rules to govern compensation to carriers for transmitting these calls. It stated, however, that its action was not intended to dislodge previous state decisions interpreting interconnection agreements between ILECs and CLECs to require reciprocal compensation between two local carriers jointly delivering dial-up traffic to ISPs. Although the FCC does not intend to require ISPs to pay access charges to contribute to universal service funds, the FCC's order could affect the costs incurred by ISPs and the demand for their offerings. An unfavorable outcome could materially affect the Company's potential future revenues.

Several ILECs have recently filed petitions at the FCC requesting a waiver of certain obligations imposed on incumbent LECs in the Telecommunications Act with respect to ILEC-provisioned high-speed data services, including, among other things, the obligation to unbundle and offer for resale such services. In addition, the ILECs are seeking to provide high-speed data services on an interLATA basis without complying with the market opening provisions of the competitive checklist set forth in the Telecommunications Act, which would be otherwise required of them. The FCC has subsequently approved that such services are subject to interstate jurisdiction and to the resale

and unbundling obligation of the Telecommunications Act. However, the FCC has initiated a proceeding to determine whether ILECs can create separate affiliates for their high speed data services that would be free from these obligations. This outcome could have a material adverse effect on the Company.

Any of the regulatory changes discussed above could require renegotiation of some portions of existing interconnection agreements, or subject them to additional court and regulatory proceedings. It remains to be seen whether the operating companies can continue to obtain and maintain interconnection agreements on terms acceptable to them in every state, though most states have already adopted pricing rules, and new interconnection agreements are for the most part consistent with the FCC's related pricing provisions.

In an exercise of its "forbearance authority," the FCC has ruled that following a transition period nondominant IXCs will no longer be able to file tariffs with the FCC concerning their interexchange long distance services (the "IXC Detariffing Order"). Tariffs set forth the terms and conditions under which the operating companies provide services. This would deprive the Company of the advantages of being able to rely on terms and conditions contained in a filed tariff, requiring instead reliance on individual contracts. The IXC Detariffing Order has been stayed pending review in the U.S. Court of Appeals for the District of Columbia.

In May 1997, the FCC released an order establishing a significantly expanded federal universal service subsidy regime. For example, the FCC established new subsidies for telecommunications and information services provided to qualifying schools and libraries with an annual cap of $2.3 billion and for services provided to rural health care providers with an annual cap of $400 million. The FCC also expanded the federal subsidies for local exchange telephone service provided to low-income consumers. Providers of interstate telecommunications services, such as the Company, as well as certain other entities, must pay for these programs. The Company's share of the payments into these federal subsidy funds will be based on its share of certain defined telecommunications and telecommunications revenues. Currently, the FCC is assessing such payments on the basis of a provider's revenue for the previous year. In the May 1997 order, the FCC also announced that it will soon revise its rules for subsidizing service provided to consumers in high cost areas, which may result in further substantial increases in the overall cost of the universal service program. Several parties have appealed the May 1997 order. Such appeals have been consolidated and transferred to the United States Court of Appeals for the Fifth Circuit where oral argument was heard in December 1997. Various states area also in the process of implementing their own universal service programs.

To the extent that the operating companies provide interexchange telecommunications services, access charges are required to be paid to ILECs when the facilities of those companies are used to originate or terminate interexchange calls. Also, as CLECs, the operating companies provide access service to other interexchange service providers. The interstate access charges of ILECs are subject to extensive regulation by the FCC, while those of CLECs are subject to a lesser degree of FCC regulation but remain subject to the requirement that all charges be just, reasonable, and not unreasonably discriminatory. In two orders released in December 1996 and May 1997, the FCC made major changes in the interstate access charge structure. In the December 1996 order, the FCC removed restrictions on ILECs ability to lower access prices and relaxed the regulation of new switched access services in those markets where there are other providers of access service. If this increased pricing flexibility is not adequately monitored by federal regulators, it could have a material adverse effect on the Company's ability to compete in providing interstate access services. The May 1997 order substantially increased the cost that ILECs subject to the FCC's price cap rules ("price cap LECs") recover through a monthly, non-traffic sensitive access charge. In the May 1997 order, the FCC also announced its plan to bring interstate access rate levels more in line with cost. The plan will include rules that are expected to be established sometime in 1999 that may grant price cap LECs increased pricing flexibility upon demonstration of increased competition (or potential competition) in relevant markets. The manner in which the FCC implements this approach to lowering access charge levels could have a material effect on the Company's ability to compete in providing interstate access services.

In addition, the operating companies assess access charges to companies that use their facilities to originate or terminate long distance calls. Some of these companies, including AT&T and Sprint, have attempted from time to time to resist paying access charges that exceed the access charges of the ILEC in any given geographic area. Such

operating companies have not experienced any such challenges to their rights to collect access charges, they could experience them in the future. If so, the effect upon the Company's business could be material and adverse.

The Telecommunications Act prohibits state and local governments from enforcing any law, rule or legal requirement that prohibits or has the effect of prohibiting any entity from providing interstate or intrastate telecommunications services. States retain jurisdiction under the Telecommunications Act to adopt laws necessary to preserve universal service, protect public safety and welfare, ensure the continued quality of telecommunications services and safeguard the rights of consumers. The Company has challenged states' attempts to limit competition in certain rural areas. An FCC order is pending. Depending on the result, the Company's expansion plans may be adversely affected.

The FCC also presides over ongoing proceedings addressing a variety of other matters, including number portability, internet telephony, slamming, and pole attachment. The outcome of any such proceedings may adversely affect the Company and its ability to offer service in competition with LECs.

State Regulation

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

In addition, operating companies have been certificated or are otherwise authorized to provide telecommunications services in Alabama, Arkansas, Connecticut, Delaware, District of Columbia, Florida, Indiana, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont and Virginia and West Virginia. The certificates or other authorizations permit the operating companies to provide a full range of local telecommunications services, including basic local exchange service. In certain states, each of the Company, its subsidiaries and the operating companies may be subject to additional state regulatory requirements, including tariff filing requirements, to begin offering the telecommunications services for which such entities have been certificated. In some states, and operating company's tariff lists a rate range or sets prices on an individual case basis. Many states also may have additional regulatory requirements such as reporting and customer service and quality requirements, Y2K compliance, unbundling and universal service contributions all of which are subject to change and may adversely affect the Company. In addition, in virtually every state, the Company's certificate or other authorization is subject to the outcome of proceedings by the state commission that address regulation of LECs and CLECs, competition, geographic build-out, mandatory detariffing, and service requirements, and universal service issues.

In addition to obtaining certification, an operating company must negotiate terms of interconnection with the incumbent LEC before it can begin providing switched services. To date, the operating companies have negotiated interconnection agreements with one or more of the incumbent LECs, in each state in which they have been certificated. Agreements are subject to state PUC approval.

Local Government Authorizations

An operating company may be required to obtain from municipal authorities street opening and construction permits, or operating franchises, to install and expand its fiber optic networks in certain cities. In some cities, the local partners or subcontractors may already possess the requisite authorizations to construct or expand the Company's networks. An operating company or its local partners also may be required to obtain a license to attach facilities to utility poles in order to build and expand facilities. Because utilities that are owned by a cooperative or municipality are not subject to federal pole attachment regulation, there are no assurances that an operating company or its local partners will be able to obtain pole attachments from these utilities at reasonable rates, terms and conditions.

In some of the areas where the operating companies provide service, their local governments impose taxes or franchise fees based on a percent of fiber lease payment revenues. In addition, in areas where the Company does not use facilities constructed by a local partner, the operating company may be required to pay such fees. 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 addition, some municipalities may seek to impose requirements or fees on users of transmission facilities, even though they do not own such facilities.

In many markets, other companies providing local telecommunications services, particularly the incumbent LECs, currently are excused from paying license or franchise fees or pay fees that are materially lower than those required to be paid by the operating company or local partner. The Telecommunications 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 CLEC.

If any of the existing Local Partner Agreements or Fiber Lease Agreements held by a local partner of an operating company for a particular market were terminated prior to its expiration date and the local partner or operating company were forced to remove its fiber optic cables from the streets or abandon its services in place, even with compensation, such termination could have a material adverse effect on the Company.

ITEM 2. PROPERTIES

The Company leases its principal executive offices from Adelphia in Coudersport, Pennsylvania and leases its offices in Pittsburgh, Pennsylvania. Additionally, the Company owns its NOCC facilities.

All of the fiber optic cable, fiber optic telecommunications equipment and other properties and equipment used in the networks, are owned or leased by the applicable operating company. 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. As of December 31, 1998, the Company's total telecommunications equipment is comprised primarily of fiber optic telecommunications equipment, fiber optic cable, switches, furniture and fixtures, leasehold improvements and construction in progress. Such properties do not lend themselves to description by character and location of principal units.

Substantially all of the fiber optic telecommunications equipment used in the Company's networks is housed in multiple leased facilities in various locations throughout the metropolitan areas served by the Company. The Company believes that its properties and those of its operating companies are adequate and suitable for their intended purpose.

ITEM 3. LEGAL PROCEEDINGS

On February 24, 1999, the Company was served with a summons and complaint filed in the United States District Court for the Northern District of New York, Case Number 99-CV-268, by Hyperion Solutions Corporation ("Solutions"), which is described in the complaint as a company in the business of developing, marketing and supporting comprehensive computer software tools, executive information systems and applications that companies use to improve their business performance. The complaint alleges, among other matters, that the Company's use of the name "Hyperion" in its business infringes upon various trademarks and service marks of Solutions in violation of federal trademark laws and violates various New York business practices, advertising and business reputation laws. The complaint seeks, among other matters, to enjoin the Company from using the name or mark "Hyperion" in the Company's business as well as to recover unspecified damages, treble damages and attorneys' fees. Management of the Company believes that the Company has meritorious defenses to the complaint and intends to vigorously defend this lawsuit. Although management believes that this lawsuit will not in any event have a material adverse effect

upon the Company, no assurance can be given regarding the effect upon the Company if Solutions were to prevail in this lawsuit.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 1998, other than those previously reported on the Company's Form 10-Q for the quarterly period ended December 31, 1998.

Executive Officers of the Registrant

The executive officers of the Company are:

Name	Age	Position
Executive Officers		
John J. Rigas	74	Chairman and Director
James P. Rigas	41	Vice Chairman, Chief Executive Officer and Director
Michael J. Rigas	45	Vice Chairman and Director
Timothy J. Rigas	42	Vice Chairman, Chief Financial Officer, Treasurer and Director
Daniel R. Milliard	51	Vice Chairman, President, Secretary and Director
Other Officers		
Edward E. Babcock, Jr.	36	Vice President, Finance
Thomas W. Cady	44	Vice President, Sales and Marketing
Mark Erickson	45	Vice President, Operations
John B. Glicksman	38	Vice President, General Counsel, Assistant Secretary
Theodore A. Huf	57	Vice President, Engineering
John D. Lasater	46	Vice President, National Accounts
Jeffrey J. Miller	36	Vice President, Business Development

Executive Officers

John J. Rigas is the Chairman of the Board of the Company. He also is the founder, Chairman of the Executive Officer and President of Adelphia. Mr. Rigas has owned and operated cable television systems since 1952. Among his business and community service activities, Mr. Rigas is Chairman of the Board of Directors of Penn Bank Corp., Inc., Coudersport, Pennsylvania and a member of the Board of Directors of the Charles Cole Memorial Hospital. He is a director of the National Cable Television Association and a member of its Pioneer Committee and a past President of the Pennsylvania Cable Television Association. He is also a member of the Board of Directors of C-SPAN and the Cable Advertising Bureau, and is a Trustee of St. Bonaventure University. He graduated from Rensselaer Polytechnic Institute with a B.S. in Management Engineering in 1950.

John J. Rigas is the father of Michael J. Rigas, Timothy J. Rigas and James P. Rigas, each of whom currently serves as a director and executive officer of the Company.

James P. Rigas is Vice Chairman, Chief Executive Officer and a Director of the Company. From 1986 to 1988, he was Vice President, Strategic Planning and a Director of Adelphia and a Vice President and Director of Adelphia's other subsidiaries. Mr. Rigas currently spend substantially all of his time on concerns of the Company. He has been with Adelphia since 1986. Mr. Rigas graduated from Harvard University (magna cum laude) in 1980 and received a Juris Doctor degree and an M.A. degree in Economics from Stanford University in 1984. From June 1984 to February 1986, he was a consultant with Bain & Co., a management consulting firm.

Michael J. Rigas is Vice Chairman and a Director of the Company. Executive Vice President, Chief Operating Officer and a Director of Adelphia and a Vice President and Director of Adelphia's other subsidiaries. He has been with Adelphia since 1981. From 1979 to 1981, he worked for Webster, Chamberlain & Bean, a Washington, D.C. law firm. Mr. Rigas graduated from Harvard University (magna cum laude) in 1978 and received his Juris Doctor degree from Harvard Law School in 1979.

Timothy J. Rigas is Vice Chairman, Chief Financial Officer, Treasurer and a Director of the Company. Executive Vice President, Chief Accounting Officer, Treasurer and a Director of Adelphia, and a Vice President and Director of Adelphia's other subsidiaries. He has been with Adelphia since 1979. Mr. Rigas graduated from the University of Pennsylvania, Wharton School, with a B.S. degree in Economics (cum laude) in 1979.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for each of the four years in the period ended March 31, 1998 and the nine months ended December 31, 1998 have been derived from the audited consolidated financial statements of the Company and the related notes thereto. These data should be read in conjunction with the consolidated financial statements and related notes thereto for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Transition Report on Form 10-K. The balance sheet data as of March 31, 1995, 1996 and 1997 and the statement of operations data and the other Company data with respect to the fiscal years ended March 31, 1995 and 1996 have been derived from audited consolidated financial statements of the Company not included herein.

	Year Ended March 31,				Nine Months Ended December 31,
	1995	1996	1997	1998	1998
Statement of Operations Data (a):	(Dollars in thousands, except per share amounts)				
Revenues	$ 1,729	$ 3,322	$ 5,088	$ 13,510	$ 34,776
Operating expenses:					
Network operations	1,382	2,690	3,432	7,804	18,709
Selling, general and administrative	2,524	3,084	6,780	14,314	35,341
Depreciation and amortization	463	1,184	3,945	11,427	26,671
Operating loss	(2,640)	(3,636)	(9,069)	(20,085)	(45,945)
Gain on sale of investment	—	—	8,405	—	—
Interest income	39	199	5,976	13,304	10,232
Interest income – affiliate	—	—	—	—	8,395
Interest expense and fees	(3,321)	(6,088)	(28,377)	(49,314)	(38,638)
Other income	—	—	—	—	1,113
Equity in net loss of joint ventures	(1,799)	(4,292)	(7,223)	(12,967)	(9,580)
Net loss	(7,692)	(13,620)	(30,547)	(69,082)	(74,185)
Dividend requirements applicable to preferred stock	—	—	—	(12,809)	(21,117)
Net loss applicable to common stockholders	(7,692)	(13,620)	(30,547)	(81,891)	(95,302)
Basic and diluted net loss per weighted average share of common stock	$ (0.24)	$ (0.42)	$ (0.89)	$ (2.33)	$ (1.80)
Common stock dividends	—	—	—	—	—
Other Company Data (a):					
EBITDA (b)	$ (2,177)	$ (2,452)	$ (5,124)	$ (8,658)	$ (19,274)
Capital expenditures and Company investments (c)	30,276	18,894	70,306	112,894	215,570
Cash used in operating activities	(2,130)	(833)	(4,823)	(8,333)	(8,819)
Cash used in investing activities	(30,376)	(18,894)	(72,819)	(268,894)	(200,454)
Cash provided by financing activities	32,506	19,732	77,655	463,847	221,088

	As of March 31,				As of December 31,
	1995	1996	1997	1998	1998
Balance Sheet Data (a):	(Dollars in thousands)				
Cash and cash equivalents	$ —	$ —	$ 99,834	$ 291,788	$ 242,270
Total assets	27,212	45,269	174,861	679,992	836,142
Long term debt and exchangeable redeemable preferred stock	35,541	50,835	215,678	558,480	722,703
Common stock and other stockholders' equity (deficiency)	(13,701)	(27,321)	(50,254)	(118,991)	74,033

(a) The data presented represents financial information for the Company and its consolidated subsidiaries. As of December 31, 1998, 10 of the Company's networks were owned by joint ventures in which it owned an interest of 50% or less, and for which the Company reports its interest pursuant to the equity method of accounting consistent with generally accepted accounting principles.

(b) Earnings before interest expense, income taxes, depreciation and amortization, other non-cash charges, gain on sale of investment, interest income and equity in net loss of joint ventures ("EBITDA") and similar measurements of cash flow are commonly used in the telecommunications industry to analyze and compare telecommunications companies on the basis of operating performance, leverage, and liquidity. While EBITDA is not an alternative to operating income as an indicator of operating performance or an alternative to cash flows from operating activities as a measure of liquidity, all as defined by generally accepted accounting principles, and while EBITDA may not be comparable to other similarly titled measures of other companies, the Company's management believes EBITDA is a meaningful measure of performance.

(c) For the fiscal years ended March 31, 1995, 1996, 1997 and 1998 and the nine months ended December 31, 1998, the Company's capital expenditures (including capital expenditures relating to its wholly owned operating companies) were $2.9, $6.1, $24.6, $68.6 and $146.8 million, respectively, and the Company's investments in its less than wholly owned operating companies were $27.3, $12.8, $45.8, $44.3 and $69.0 million, respectively, for the same periods. Furthermore, during the fiscal year ended March 31, 1997, the Company invested $20.0 million in fiber assets and a senior secured note.

Supplemental Operating Company Financial and Operating Data

The following supplemental unaudited financial results and network operating data of [illegible] operating companies is derived from Company information. All financial results are presented on an [illegible] GAAP basis (see note (a) below). See "Management's Discussion and Analysis of Financial [illegible] of Operations—Supplementary Operating Company Financial Analysis." The Company reports its interest in [illegible] or less owned networks pursuant to the equity method of accounting consistent with generally [illegible] principles. As a result, the financial information set forth below is not indicative of the Company's [illegible] position or results of operations.

ADJUSTED GAAP (a)

	Consolidated		
	Year Ended March 31,		
	[illegible]	[illegible]	[illegible]
	(Dollars in thousands)		
Operating revenue	$ [illegible]	$ [illegible]	$ [illegible]
Direct operating expenses	[illegible]	[illegible]	[illegible]
Gross margin	[illegible]	[illegible]	[illegible]
Selling, general and administrative expenses	[illegible]	[illegible]	[illegible]
Depreciation and amortization expense	[illegible]	[illegible]	[illegible]
Operating loss	[illegible]	[illegible]	[illegible]
Interest income	[illegible]	[illegible]	[illegible]
Interest income – affiliate	[illegible]	[illegible]	[illegible]
Interest expense	[illegible]	[illegible]	[illegible]
Other income	[illegible]	[illegible]	[illegible]
Net loss	[illegible]	[illegible]	[illegible]
Dividend requirements applicable to preferred stock	[illegible]	[illegible]	[illegible]
Net loss applicable to common stockholders	$ [illegible]	$ [illegible]	$ [illegible]
Basic and diluted net loss per weighted average share of common stock	$ [illegible]	$ [illegible]	$ [illegible]
Weighted average shares of common stock outstanding (in thousands)	[illegible]	[illegible]	[illegible]
Other Operating Data:			
EBITDA (b)	$ [illegible]	$ [illegible]	$ [illegible]
Capital Expenditures	[illegible]	[illegible]	[illegible]
	As of March 31,		December 31,
	[illegible]	[illegible]	[illegible]
Other Network Data:			
Gross property, plant & equipment (in thousands) (c)	$ [illegible]	$ [illegible]	$ [illegible]
Networks (d)	[illegible]	[illegible]	[illegible]
Markets served (e)	[illegible]	[illegible]	[illegible]
Route miles (e)	[illegible]	[illegible]	[illegible]
Fiber miles (e)	[illegible]	[illegible]	[illegible]
Buildings w/ customers	[illegible]	[illegible]	[illegible]
LEC central offices collocated	[illegible]	[illegible]	[illegible]
Access lines sold	[illegible]	[illegible]	[illegible]
Access lines installed	[illegible]	[illegible]	[illegible]
Switches installed (f)	[illegible]	[illegible]	[illegible]
Employees (g)	[illegible]	[illegible]	[illegible]

(a) The adjusted GAAP financial data presented represents the collective sum of Hyperion and Hyperion's economic interest in each of the operating companies it owns and manages at Hyperion's ownership percentage adjusted for the consolidation of certain joint ventures (Buffalo, Syracuse, New Jersey, Louisville, Lexington, Harrisburg, Richmond, Jacksonville and Wichita). While this presentation format is not in accordance with generally accepted accounting principles ("GAAP"), management of Hyperion believes that this format depicts the operational progress, and the associated economic effect on Hyperion, of the Company's results of operations. Network Data is derived from the operating companies' records and presents information for the Company's networks.

(b) EBITDA and similar measurements of cash flow are commonly used in the telecommunications industry to analyze and compare telecommunications companies on the basis of operating performance, leverage, and liquidity. While EBITDA is not an alternative to operating income as an indicator of operating performance or an alternative to cash flows from operating activities as a measure of liquidity, all as defined by generally accepted accounting principles, and while EBITDA may not be comparable to other similarly titled measures of other companies, the Company's management believes EBITDA is a meaningful measure of performance.

(c) Represents adjusted GAAP property, plant and equipment (before accumulated depreciation) of the networks, the NOCC and the Company.

(d) Includes networks under construction.

(e) Data as of March 31, 1997 excludes networks under construction. Data as of March 31, 1998 and December 31, 1998 includes networks under construction.

(f) Represents Lucent 5ESS switches or remote switch modules which deliver full switch functionality.

(g) Employees includes employees of both the operating companies and the Company.

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

(Dollars in thousands except per share amounts)

Overview

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Transition Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, is forward-looking, such as information relating to the effects of future regulation, future capital commitments and the effects of competition. Such forward-looking information involves important risks and uncertainties that could significantly affect expected results in the future from those expressed in any forward-looking statements made by, or on behalf of, the Company. Words such as "forward looking statements" can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "intends" or "intends" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. These risks and uncertainties include, but are not limited to, uncertainties relating to economic conditions, acquisitions and divestitures, the cost of availability of capital, government and regulatory policies, the pricing and availability of equipment, materials, inventories and programming, Year 2000 issues, product acceptance, technological developments and changes in the competitive environment in which the Company operates. Persons reading this Transition Report on Form 10-K are cautioned that forward-looking statements herein are not predictions and no assurance can be given that the future results will be achieved, and that actual events or results may differ materially as a result of the risks and uncertainties facing the Company.

The "Company" or "Hyperion" means Hyperion Telecommunications, Inc. together with its consolidated subsidiaries, except where the context otherwise requires. Unless the context otherwise requires, references to the "networks" or the "Company's networks" mean the (a) 22 telecommunications networks in 20 markets currently in operation or under construction (the "Existing Networks") owned as of December 31, 1998 by its Operating Companies (which, as defined herein, are (i) wholly and majority owned subsidiaries of the Company as well as joint venture partnerships and corporations managed by the Company and in which the Company holds a majority equity interest with one or more other partners) and (b) additional networks under development (the "New Networks") as of such date.

Hyperion is a super-regional provider of communications services offering a full range of telecommunications services to customers that include businesses, governmental and educational end users and other telecommunications service providers throughout the eastern United States. The Company provides these customers with telecommunications services such as local switch dial tone, long distance service, high speed data, and Internet connectivity. The customer has a choice of receiving these services individually or as part of a bundle of services, which is typically priced at a discount when compared to the price of the individual services. In order to take advantage of the improved economic returns from providing services over the Company's own network facilities (versus resale traffic), the Company is in the process of significantly expanding the reach of its network systems. The network system expansion includes the purchase, lease or construction of fiber optic network facilities in new and existing markets and the interconnection of all of the Company's existing and new markets with the Company's own fiber optic network facilities, as well as implementing various technologies including Dense Wave Division Multiplexing ("DWDM") to provide greater bandwidth capacity on the Company's local and long haul networks.

By the year 2001, Hyperion expects to serve most of the major cities in the eastern half of the United States. The Company currently provides communications services in 46 markets and plans to introduce services in more than 50 new markets, expanding Hyperion's presence to approximately 30 states. At December 31, 1998, the Company had installed 20 Lucent 5ESS switches or remote switching modules and plans to add 9 switches during 1999 nine additional regional switches (the "super switches"). Once fully installed, the Company's fiber optic backbone will connect each of the Company's markets. This fully redundant, 16,000 route mile network will

support Hyperion's full line of communications service offerings. The Company has chosen the eastern half of the United States as its overall target market because it presents an opportunity for rapid growth. Once fully deployed, management believes that the Company's network system will encompass over 26 million addressable business access lines (approximately 34% of the nation's population), which currently generate annual estimated communications services revenues of over $50,000,000.

The Company has experienced initial success in the sale of business access lines with approximately 133,686 access lines sold as of December 31, 1998, of which approximately 110,005 lines are installed. This represents an addition of 39,726 access lines sold and 32,871 access lines installed during the quarter ended December 31, 1998. As of December 31, 1998, approximately 63% of these access lines are provisioned entirely on the Company's network ("on-net lines") with the remainder being a combination of unbundled loops or total service resale from LEC networks.

Financing and Acquisition Transactions

On May 8, 1998, Hyperion issued and sold 12,500,000 shares of Class A common stock at a price to the public of $16.00 per share (the "IPO"). Simultaneously with the closing of the IPO, Hyperion issued and sold an additional 3,324,001 shares of Class A common stock to Adelphia at a purchase price of $15.00 per share (or an aggregate of approximately $49,900). In addition, at such closing, Hyperion issued 3,642,666 shares of Class A common stock to Adelphia in exchange for certain of Hyperion's indebtedness and payables owed to Adelphia at a purchase price of $15.00 per share (or an aggregate of $54,600). In a related transaction, on June 5, 1998, Hyperion issued and sold 350,000 shares of Class A common stock at the $16.00 IPO price pursuant to the underwriters' over-allotment option in the IPO. At December 31, 1998, Adelphia owned approximately 66% of the Hyperion outstanding common stock and approximately 86% of the total voting power.

On March 2, 1999 Hyperion issued $300,000 of 12% Senior Subordinated Notes due 2007 (the "Subordinated Notes"). An entity controlled by members of the Rigas family, controlling stockholders of Adelphia, purchased $100,000 of the Subordinated Notes directly from Hyperion at a price equal to the aggregate principal amount less the discount to the initial purchasers. The net proceeds of approximately $295,000 were or will be used to fund Hyperion's acquisition of interests held by local partners in certain of its markets and will be used to fund capital expenditures and investments in its networks and for general corporate and working capital purposes.

On March 23, 1999, Hyperion consummated a purchase agreement with Multimedia, Inc. ("Multimedia"), the parent of its local partner in the Wichita, KS market, whereby Multimedia received approximately $9,778 in cash for Multimedia's ownership interest in this network. In addition, Hyperion will be responsible for the payment of fiber lease liabilities due to Multimedia in the amount of approximately $2,800 which are payable over the next six years. As a result of the transaction, the Hyperion ownership in Wichita increased to 100%.

On March 31, 1999, Hyperion consummated purchase agreements with subsidiaries of MediaOne of Colorado, Inc. ("MediaOne"), its local partners in the Jacksonville, FL and Richmond, VA networks, whereby MediaOne received approximately $81,520 in cash for MediaOne's ownership interests in these networks. In addition, Hyperion will be responsible for the payment of fiber lease liabilities due to MediaOne in the amount of approximately $14,500 which are generally payable over the next ten years. As a result of the transactions, Hyperion's ownership interest in each of these networks increased to 100%. Together with the Multimedia acquisition, these transactions are referred to below as the "Roll-ups."

On March 31, 1999, Hyperion entered into purchase agreements with Entergy Corporation ("Entergy"), the parent of its local partner in the Baton Rouge, LA, Little Rock, AR and Jackson, MS markets, whereby Entergy will receive $35,776 in cash for Entergy's ownership interests in these markets. Upon consummation of this transaction, which is subject to normal closing conditions and regulatory approvals, the Company's ownership interest in each of these networks will increase to 100%.

Results of Operations

Change of Year End. On March 30, 1999, the Board of Directors of Hyperion approved a change in Hyperion's fiscal year from March 31 to December 31. The decision was made to conform to general industry practice and for administrative purposes. The change became effective for the nine months ended December 31, 1998.

Nine months Ended December 31, 1998 in Comparison with Nine months Ended December 31, 1997

Revenues increased 300% to $34,776 for the nine months ended December 31, 1998 from $8,690 for the same period in the prior fiscal year. Growth in revenues of $26,086 resulted from an increase in revenues from majority and wholly-owned Operating Companies of approximately $27,171 as compared to the same period in the prior fiscal year due to the continued expansion of the Company's customer base, its success in the sale of switched services as a result of the retail end user strategy adopted by the Company and the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks. Management fees from non-consolidated subsidiaries decreased $1,085 as compared to the same period in the prior fiscal year primarily due to the consolidation of the above mentioned networks.

Network operations expense increased 255% to $18,709 for the nine months ended December 31, 1998 from $5,263 for the same period in the prior fiscal year. The increase was attributable to the expansion of operations at the NOCC, and the increased number and size of the operations of the Operating Companies which resulted in increased employee related costs and equipment maintenance costs and the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks.

Selling, general and administrative expense increased 288% to $35,141 for the nine months ended December 31, 1998 from $9,099 for the same period in the prior fiscal year. The increase was due primarily to increased expense associated with the network expansion plan, an increase in the sales force at the Operating Networks and an increase in corporate overhead costs to accommodate the growth in the number, size and operations of Operating Companies managed and monitored by the Company, as well as the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks.

Depreciation and amortization expense increased 280% to $26,671 during the nine months ended December 31, 1998 from $7,027 for the same period in the prior fiscal year primarily as a result of increased amortization of deferred financing costs and increased depreciation resulting from the higher fixed asset base at the NOCC and the majority and wholly owned Operating Companies and the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks.

Interest income for the nine months ended December 31, 1998 increased 1,178% to $11,111 from $868 for the same period in the prior fiscal year as a result of increased cash and cash equivalents and short term investment securities due to the investment of the proceeds of the 12 1/4% Senior Secured Notes, the 12 7/8% Senior Exchangeable Redeemable Preferred Stock and the IPO, partially offset by demand advances made to Adelphia.

Interest income – affiliate for the nine months ended December 31, 1998 increased to $2,393 from $0 as a result of demand advances made to Adelphia during the current period.

Interest expense increased 8% to $38,638 during the nine months ended December 31, 1998 from $35,777 for the same period in the prior fiscal year. The increase was attributable to the interest on the 12 1/4% Senior Secured Notes partially offset by the reduction of interest expense associated with the reduced amounts owed to Adelphia and higher interest capitalized on networks under construction.

Equity in net loss of joint ventures increased to $9,580 during the nine months ended December 31, 1998 from $9,284 for the same period in the prior fiscal year. The net losses of the non-consolidated partnerships for the nine months ended December 31, 1998 were primarily the result of interest expense and other offsetting startup and other costs and expenses associated with design, construction, operation and management of

the networks of the Operating Companies, and the effect of the typical lag time between the incurrence of such costs and expenses and the subsequent generation of revenues by a network. The increase was partially offset by the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg networks for the current period.

The number of non-consolidated Operating Companies paying management fees to the Company was 8 at December 31, 1998. These Operating Companies and networks under construction paid management and monitoring fees to the Company, which are included in revenues, aggregating approximately $2,724 for the nine months ended December 31, 1998, as compared with $3,809 for the same period in the prior fiscal year. The non-consolidated Operating Companies' net losses, including networks under construction, for the nine months ended December 31, 1997 and 1998 aggregated approximately $13,719 and $22,325 respectively.

Preferred stock dividends increased by 264% to $21,117 for the nine months ended December 31, 1998 from $5,794 for the same period in the prior fiscal year. The increase is due to the preferred stock which was issued in October 1997.

Year ended March 31, 1998 in comparison with year ended March 31, 1997

Revenues increased 166% to $13.5 million for the fiscal year ended March 31, 1998, from $5.1 million in the prior fiscal year. Growth in revenues of $8.4 million resulted primarily from majority and wholly-owned Operating Companies' revenues which increased approximately $6.8 million as compared to the prior fiscal year due to increases in the customer base and the impact of consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg Operating Companies. Management fees from nonconsolidated Operating Companies increased $1.6 million over the prior fiscal year due to a full year of operation in Philadelphia and the commencement of operations in the markets served in partnership with Entergy.

Network operations expense increased 127% to $7.8 million in Fiscal 1998 from $3.4 million in the prior fiscal. The increase was attributable to the expansion of operations at the NOCC, and the increased number and size of the operations of the Operating Companies which resulted in increased employee related costs and equipment maintenance costs and the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg Operating Companies.

Selling, general and administrative expense increased 111% to $14.3 in Fiscal 1998 from $6.8 million in the prior fiscal year. The increase was due to an increase in the sales required to support the existing networks, corporate and NOCC overhead cost increases to accommodate the growth in the number and size of the Operating Companies and the consolidation of the Buffalo, Syracuse, New Jersey, Louisville, Lexington and Harrisburg Operating Companies.

Depreciation and amortization expense increased 191% to $11.5 million during Fiscal 1998 from $3.9 million in the prior fiscal year primarily as a result of increased depreciation resulting from higher capital expenditures at the NOCC and the consolidated Operating Companies and the amortization of costs incurred in connection with the issuance of the 12 1/4% Senior Secured Notes.

Gain on sale of investment for Fiscal 1997 was due to the sale of the Company's 15.7% partnership interest in TCG of South Florida to Teleport Communications Group Inc. on May 16, 1996 for an aggregate sale price of approximately $11.6 million. This sale resulted in a gain of $8.4 million. No such sale occurred during Fiscal 1998.

Interest income for Fiscal 1998 increased to $13.3 million from $6.0 in the prior fiscal year as a result of interest income earned on investment of the proceeds of the 12 1/4% Senior Secured Notes, the 12 7/8% Senior Exchangeable Redeemable Preferred.

Interest expense and fees increased 74% to $49.3 million during Fiscal 1998 from $28.4 million in the prior fiscal year. The increase was attributable to incremental non-cash interest expense associated with the 13% Senior Discount Notes and interest expense associated with the 12 1/4% Senior Secured Notes.

Equity in net loss of joint ventures increased by 80% to $13 million Fiscal 1998 from $7.1 million in the prior fiscal year as more non-consolidated Operating Companies began operations. The net losses of the non-consolidated Operating Companies for Fiscal 1998 were primarily the result revenues only partially offsetting overhead and other costs and expenses associated with design, construction, operation and marketing costs of the networks of the non-consolidated Operating Companies, and the effect of the typical lag time between the incurrence of such costs and expenses and the subsequent generation of revenues by a network.

The number of non-consolidated Operating Companies paying management fees to the Company increased from 12 at March 31, 1997 to 8 at March 31, 1998. These networks paid management and marketing fees to the Company, which are included in revenues, aggregating approximately $4.8 million for Fiscal 1998, an increase of approximately $1.6 million over prior fiscal year. The non-consolidated networks' net losses, including networks under construction, for Fiscal 1998 aggregated approximately $19.9 million.

Dividend requirements applicable to preferred stock during the year ended March 31, 1998 consisted solely of the 12 7/8% Senior Exchangeable Redeemable Preferred Stock issued in October 1997.

Supplementary Operating Company Financial Analysis

The Company believes that historically, working with local partners to develop markets has enabled the Company to build larger networks in a rapid and more cost effective manner than it could have on its own. As of December 31, 1998, the Company had joint ventures covering 10 networks with local partners where the Company owns 50% or less of each joint venture. In three of these joint ventures, the Company has recently purchased its local partners' interest. As a result of the Company's historic ownership position in these joint ventures, a substantial portion of the Operating Companies' historic results are reported by the Company on the equity method of accounting for investments which only reflects the Company's pro rata share of net income or loss of the unconsolidated Operating Companies. Because of the recently completed Roll-ups, the historical Generally Accepted Accounting Principles ("GAAP") presentation of the assets, liabilities and results of operations of the Company does not represent a complete measure of the financial position, growth or operations of the Company.

In order to provide an additional measure of the financial position, growth and performance of the Company and its Operating Companies, management of the Company analyzes financial information of the Operating Companies on an adjusted GAAP basis. Adjusted GAAP reflects Hyperion's consolidated GAAP basis of accounts and results of operations adjusted for the inclusion of certain operating companies (Buffalo, Syracuse, New Haven, Louisville, Lexington, Harrisburg, Richmond, Jacksonville, and Wichita) which were either purchased in February 1998 or are involved in the Roll-ups, as more fully described in "Item 1-Business, Recent Developments." The adjusted GAAP results of operations are presented as if Hyperion consolidated all Operating Companies which were either purchased in February 1998 or are involved in the Roll-ups during the entire period presented. This basis of information, however, is not indicative of the Company's overall historical financial position or results of operations

Summary adjusted GAAP information:

	Nine Months Ended December 31,	
	1997	1998
Adjusted GAAP revenue	$ 18,715	$ 47,336
Adjusted GAAP EBITDA	(5,086)	(14,704)
Adjusted GAAP operating loss	(31,719)	(53,805)
Adjusted GAAP net loss applicable to common stockholders	(72,913)	(103,426)
Adjusted GAAP capital expenditures	76,029	158,059
Adjusted GAAP gross property, plant and equipment	386,089	533,719

For the nine months ended December 31, 1998, adjusted GAAP revenue increased 153% to $47,336 as compared to $18,715 for the same period in the prior fiscal year. The increase in revenues resulted from the continued expansion of the Company's customer base and its success in the roll out of switched services as a result of the retail end user strategy adopted by the Company.

For the nine months ended December 31, 1998, adjusted GAAP EBITDA loss was $14,704 as compared to $5,086 for the same period in the prior fiscal year. The increase in adjusted GAAP EBITDA loss for the nine months ended December 31, 1998 was due primarily to increased selling, general, and administrative expenses as a result of the increase in direct sales and marketing distribution channels as the Company has aggressively moved to an end-user strategy over the past year, focusing on medium to large business customers, governmental and educational end-user and other telecommunications service providers, and was also due to increased costs associated with the Company's New Network expansion efforts.

For the nine months ended December 31, 1998, adjusted GAAP operating loss was $53,805 as compared to $31,719 for the same period in the prior fiscal year. The increase in adjusted GAAP operating loss was due primarily to the above mentioned increase in selling, general and administrative expenses and increased depreciation and amortization expense resulting from a higher depreciable asset base.

For the nine months ended December 31, 1998, adjusted GAAP net loss applicable to common stockholders was $103,426 as compared to $72,913 for the same period in the prior fiscal year. The increase in adjusted GAAP net loss applicable to common stockholders was due primarily to the above mentioned increase in selling, general and administrative expenses, increased depreciation and amortization, increased equity in net loss of joint ventures and increased preferred stock dividends associated with the Company's financing activities. In particular, depreciation and amortization increased substantially due to the significant capital investment the Company has made and the consolidation of the Operating Companies involved in the February 1998 acquisitions and the Roll-ups.

During the nine months ended December 31, 1998, the Company and its Operating Companies invested $200,331 in capital expenditures, of which Hyperion's adjusted GAAP share was $158,059.

Liquidity and Capital Resources

The development of the Company's business and the installation and expansion of the Operating Companies' networks, as well as the development of the New Networks, combined with the construction of the

Company's NOCC, have resulted in substantial capital expenditures and investments during the past several years. Capital expenditures by the Company were $39,775 and $146,752 for the nine months ended December 31, 1997 and 1998, respectively. Further, investments made by the Company in nonconsolidated Operating Companies and in LMDS licenses were $53,194 and $69,018 for the nine months ended December 31, 1997 and 1998, respectively. The significant increase in capital expenditures for the nine months ended December 31, 1998 as compared with the same period in the prior fiscal year is largely attributable to capital expenditures necessary to develop the Existing Networks and the New Networks, as well as the fiber purchases to interconnect the networks. The Company expects that it will continue to incur substantial capital expenditures in this development effort. The Company also expects to continue to fund operating losses as the Company develops and grows its business. For information regarding recent transactions affecting the Company's liquidity and capital resources, see "Financing and Acquisition Transactions."

The Company has experienced negative operating and investing cash flow since its inception. A combination of operating losses, substantial capital investments required to build the Company's networks and its state-of-the-art NOCC, and incremental investments in the Operating Companies has resulted in substantial negative cash flow.

Expansion of the Company's Existing Networks and services and the development of New Networks and additional networks and services requires significant capital expenditures. The Company's operations have required and will continue to require substantial capital investment for (i) the installation of electronics for switched services in the Company's networks, (ii) the expansion and improvement of the Company's NOCC and Existing Networks, (iii) the design, construction and development of New Networks and (iv) the acquisition of additional ownership interests in Existing Networks or New Networks. The Company has made substantial capital investments and investments in Operating Companies in connection with the installation of IESS switches or remote switching modules in all of its Existing Networks and plans to install regional super switches in certain key New Networks when such New Networks are operational. To date, the Company has installed switches in all of its Existing Networks and plans to provide such services in all of its New Networks on a standard switching platform based on Lucent 5 switch technology. In addition, the Company intends to increase spending on marketing and sales significantly in the foreseeable future in connection with the expansion of its sales force and marketing efforts generally. The Company also plans to purchase its partners' interest in the Operating Companies when it can do so at attractive economic terms. The Company estimates that it will require approximately $[illegible] to fund the Rollups, the Entergy acquisition, anticipated capital expenditures, working capital requirements and operating losses and pro rata investments in the Operating Companies from January 1999 through the end of March 2000. The Company believes that the net proceeds from the offering of the Subordinated Notes, together with its existing cash resources and internally generated funds, will be sufficient to fund the Rollups, the Entergy acquisition, the Company's capital expenditures, working capital requirements, operating losses and pro rata investments in the Operating Companies's capital expenditures through the fiscal quarter ended September 30, 2000. In addition, there can be no assurance that the Company's future cash requirements will not vary significantly from those presently planned due to a number of factors including acquisition of additional networks, development of the LMDS spectrum, continued acquisition of increased ownership in its networks and material variances from expected capital expenditure requirements for Existing Networks and New Networks or (ii) that anticipated financings, local partner investments and other sources of capital will become available to the Company. In addition, it is possible that expansion of the Company's networks may include the geographic expansion of the Company's existing clusters and the development of acquisition of other new markets not currently planned. The Company expects to continue to build new networks in additional markets, which have broader geographic coverage and require higher capital outlays than those with partners in the past. The Company also has funded the purchase of certain partnership interests and expects to fund additional purchases of partnership interests.

The Company will need substantial additional funds to fully fund its business plan. The Company expects to fund its capital requirements through existing resources, credit facilities and vendor financings at the Company and Operating Company levels, internally generated funds, equity invested by local partners in Operating Companies and additional debt or equity financings, as appropriate, and expects to fund its purchase of partnership interests of local partners through existing resources, internally generated funds and additional debt or equity financings, as

appropriate. There can be no assurances, however, that the Company will be successful in generating sufficient cash flow or in raising sufficient debt or equity capital on terms that it will consider acceptable, or at all.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," has been issued and is effective for fiscal quarters of fiscal years beginning after June 15, 1999. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management of the Company has not completed its evaluation of the impact of the impact of SFAS No. 133 on the Company's financial statements.

Statement of Position ("SOP") 98-5, "Reporting on the Cost of Start-Up Activities", has been issued and is effective for fiscal years beginning after December 15, 1998. SOP 98-5 provides guidance on the financial reporting of start up costs and organizational costs. It requires such costs to be expensed as incurred. Management of the Company believes that SOP 98-5 will not have a material impact on the Company's financial statements.

Year 2000 Issues

The year 2000 issue refers to the inability of computerized systems and technologies to recognize and process dates beyond December 31, 1999. This could present risks to the operation of the Company's business in several ways. The Company is evaluating the impact of the year 2000 issue on its business applications and its products and services. The evaluation includes a review of the Company's information technology systems, telephony equipment and other embedded technologies. A significant portion of the Company's computerized systems and technologies have been developed, installed or upgraded in recent years and are generally more likely to be year 2000 ready. The Company is also evaluating the potential impact as a result of its reliance on third-party systems that may have year 2000 issues.

Computerized business applications that could be adversely affected by the year 2000 issue include:

- information processing and financial reporting systems,
- customer billing systems,
- customer service systems,
- telecommunication transmission and reception systems, and
- facility systems.

System failure or miscalculation could result in an inability to process transactions, send invoices, accept customer orders or provide customers with products and services. Customers could also experience a temporary inability to receive or use the Company's products and services.

The Company has developed a program to assess and address the year 2000 issue. This program consists of the following phases:

- inventorying and assessing the impact on affected technology and systems,
- developing solutions for affected technology and systems,
- modifying or replacing affected technology and systems,
- testing and verifying solutions,

- implementing solutions, and
- developing contingency plans.

The Company has substantially completed inventorying and assessing the affected computerized systems and technologies. The Company is in various stages of its year 2000 compliance program with respect to the remaining phases as it relates to the affected systems and technologies.

The Company has engaged a consulting firm familiar with its financial reporting systems. This firm has developed and tested year 2000 solutions that the Company is in the process of implementing. The Company expects its financial reporting systems to be year 2000 compliant by July 1999.

A third-party billing vendor currently facilitates customer billing. The Company is currently in the process of testing an in-house service ordering, provisioning, maintenance and billing system that would replace the third party billing vendor. The Company expects to have this new system implemented by September 1999. On a contingency basis, the third-party vendor has provided a written statement that it will certify it is fully year 2000 compliant by August 1999.

Telecommunication plant rebuilds and upgrades in recent years have minimized the potential impact of the year 2000 issue on the Company's facilities, customer service, telecommunication transmission and reception systems. The Company is engaged in a comprehensive internal inventory and assessment of all hardware components and component controlling software throughout its telecommunication networks. The Company expects to implement any hardware and software modifications, upgrades or replacements resulting from the internal review by August 1999.

Through December 31, 1998, costs incurred directly related to addressing the year 2000 issue totaled $3.0. The Company has also redeployed internal resources to meet the goals of its year 2000 program. The Company currently estimates the total cost of its year 2000 remediation program to be approximately $7.5. Although the Company will continue to incur substantial capital expenditures in the ordinary course of meeting its telecommunications system upgrade goals through the year 2000, it will not specifically accelerate its expenditures to facilitate year 2000 readiness, and accordingly such expenditures are not included in the above estimate.

The Company has begun communicating with others with whom it does significant business to determine their year 2000 readiness and to determine the extent to which the Company is vulnerable to year 2000 issues related to those third parties. The Company purchases much of its technology from third parties. There can be no assurance that the systems of other companies on which the Company's systems rely will be year 2000 ready or timely converted into systems compatible with the Company systems. The Company's failure or a third-party's failure to become year 2000 ready or the Company's inability to become compatible with third parties with which the Company has a material relationship, may have a material adverse effect on the Company, including significant service interruption or outages; however the Company can not currently estimate the extent of any such adverse effects.

The Company is in the process of identifying secondary sources to supply its systems or services in the event it becomes probable that any of its systems will not be year 2000 ready prior to the end of 1999. The Company is also in the process of identifying secondary vendors and service providers to replace those vendors and service providers whose failure to be year 2000 ready could lead to a significant delay in the company's ability to provide its service to its customers.

Impact of Inflation

The Company does not believe that inflation has had a significant impact on the Company's consolidated operations or on the operations of the Operating Companies in the past two fiscal years or the period ended March 31, 1998 and the nine months ended December 31, 1998.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company uses fixed rate debt to fund its working capital requirements, capital expenditures and acquisitions. These debt arrangements expose the Company to market risk related to changes in interest rates. The table below summarizes the fair values and contract terms of the Company's financial instruments subject to interest rate risk as of December 31, 1998.

	Expected Maturity							
	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
Debt	---	---	---	---	303,840	478,674	782,514	669,924
Fixed Rate								
Average Interest Rate	12.72%	12.72%	12.72%	12.72%	12.62%	12.62%		

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and related notes thereto and independent auditors' report follow.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Hyperion Telecommunications, Inc.:

We have audited the accompanying consolidated balance sheets of Hyperion Telecommunications, Inc. and subsidiaries as of March 31, 1998 and December 31, 1998, and the related consolidated statements of operations, of common stock and other stockholders' equity (deficiency) and of cash flows for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement 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, such consolidated financial statements present fairly, in all material respects, the financial position of Hyperion Telecommunications, Inc. and subsidiaries at March 31, 1998 and December 31, 1998, and the results of their operations and their cash flows for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Pittsburgh, Pennsylvania
May 17, 1999

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share amounts)

	March 31, 1998	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ [illegible]	$ [illegible]
Due from parent – net	[illegible]	[illegible]
Due from affiliates – net	[illegible]	[illegible]
Accounts receivable – net	[illegible]	[illegible]
Total current assets	[illegible]	[illegible]
U.S. government securities – pledged	[illegible]	[illegible]
Investments	[illegible]	[illegible]
Property, plant and equipment – net	[illegible]	[illegible]
Other assets – net	[illegible]	[illegible]
Total	$ [illegible]	$ [illegible]
LIABILITIES, PREFERRED STOCK, COMMON STOCK AND OTHER STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$ [illegible]	$ [illegible]
Due to parent – net	[illegible]	
Accrued interest and other liabilities	[illegible]	[illegible]
Total current liabilities	[illegible]	[illegible]
13% Senior Discount Notes due 2005	[illegible]	[illegible]
12 1/4% Senior Secured Notes due 2004	[illegible]	[illegible]
Note payable – Adelphia	[illegible]	
Other debt	[illegible]	[illegible]
Total liabilities	[illegible]	[illegible]
12 7/8% Senior Exchangeable Redeemable Preferred Stock	[illegible]	[illegible]
Commitments and contingencies (Note 7)		
Common stock and other stockholders' equity (deficiency):		
Class A common stock, $0.01 par value, 200,000,000 shares authorized; [illegible] and [illegible] shares outstanding, respectively	[illegible]	[illegible]
Class B common stock, $0.01 par value, 150,000,000 shares authorized; [illegible] and [illegible] shares outstanding, respectively	[illegible]	[illegible]
Additional paid-in capital	[illegible]	[illegible]
Class A common stock warrants	[illegible]	
Class B common stock warrants	[illegible]	[illegible]
Loans to stockholders	[illegible]	
Accumulated deficit	[illegible]	[illegible]
Total common stock and other stockholders' equity (deficiency)	[illegible]	[illegible]
Total	$ [illegible]	$ [illegible]

See notes to consolidated financial statements.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands except per share amounts)

	Year Ended March 31, 1997	1998	Nine Months Ended December 31, 1998
Revenues	$ 5,088	$ 13,510	$ 34,276
Operating expenses:			
Network operations	3,432	7,804	18,709
Selling, general and administrative	6,780	14,314	35,341
Depreciation and amortization	3,945	11,477	26,671
Total	14,157	33,595	80,721
Operating loss	(9,069)	(20,085)	(45,945)
Other income (expense):			
Gain on sale of investment	8,405	---	---
Interest income	5,976	13,304	10,233
Interest income – affiliate	---	---	8,195
Interest expense and fees	(28,377)	(49,334)	(38,618)
Other income	---	---	1,113
Loss before income taxes, equity in net loss of joint ventures and extraordinary gain	(23,065)	(56,115)	(64,842)
Income tax expense	(259)	---	---
Loss before equity in net loss of joint ventures and extraordinary gain	(23,324)	(56,115)	(64,842)
Equity in net loss of joint ventures	(7,223)	(12,967)	(9,580)
Loss before extraordinary gain	(30,547)	(69,082)	(74,422)
Extraordinary gain on repurchase of debt	---	---	237
Net loss	(30,547)	(69,082)	(74,185)
Dividend requirements applicable to preferred stock	---	(12,409)	(21,117)
Net loss applicable to common stockholders	$ (30,547)	$ (81,491)	$ (95,302)
Basic and diluted net loss per weighted average share of common stock before extraordinary gain	$ (0.89)	$ (2.33)	$ (1.81)
Basic and diluted extraordinary gain on repurchase of debt per weighted average share of common stock	---	---	0.01
Basic and diluted net loss per weighted average share of common stock	$ (0.89)	$ (2.33)	$ (1.80)
Weighted average shares of common stock outstanding	34,421	34,986	53,035

See notes to consolidated financial statements.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCK AND OTHER STOCKHOLDERS' EQUITY (DEFICIENCY)
(Dollars in thousands except per share amounts)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Class C Common Stock	Class D Common Stock	Loans to Stockholders	Accumulated Deficit	Total
Balance, March 31, 1996	$ —	$ [illegible]	$ —	$ —	$ —	$ —	$ [illegible]	$ [illegible]
Proceeds from issuance of Class B common stock warrants	—	—	—	—	[illegible]	—	—	[illegible]
Loans to stockholders	—	—	—	—	—	[illegible]	—	[illegible]
Excess of purchase price of acquired assets over related party predecessor owner's carrying value	—	—	—	—	—	—	[illegible]	[illegible]
Issuance of Class A common stock bonus	[illegible]	—	[illegible]	—	—	—	—	[illegible]
Net loss	—	—	—	—	—	—	[illegible]	[illegible]
Balance, March 31, 1997	[illegible]	[illegible]	[illegible]	—	[illegible]	[illegible]	[illegible]	[illegible]
Issuance of Class A common stock warrant	—	—	—	[illegible]	—	—	—	[illegible]
Dividend requirements applicable to preferred stock	—	—	—	—	—	—	[illegible]	[illegible]
Other	—	—	—	—	—	—	[illegible]	[illegible]
Issuance of Class A common stock bonus	[illegible]	—	[illegible]	—	—	—	—	[illegible]
Net loss	—	—	—	—	—	—	[illegible]	[illegible]
Balance, March 31, 1998	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Proceeds from issuance of Class A common stock	[illegible]	—	[illegible]	—	—	—	—	[illegible]
Proceeds from issuance of Class A common stock to Adelphia	[illegible]	—	[illegible]	—	—	—	—	[illegible]
Exercise of Class A common stock warrant	[illegible]	—	[illegible]	[illegible]	—	—	—	—
Conversion of note and payables to Adelphia to Class A common stock	[illegible]	—	[illegible]	—	—	—	—	[illegible]
Exercise of Class B common stock warrants	—	[illegible]	[illegible]	—	[illegible]	—	—	—
Conversion of Class B common stock to Class A common stock	[illegible]	[illegible]	—	—	—	—	—	—
Repayment of loan to stockholders	—	—	—	—	—	[illegible]	—	[illegible]
Dividend requirements applicable to preferred stock	—	—	[illegible]	—	—	—	[illegible]	[illegible]
Other	—	—	[illegible]	—	—	—	[illegible]	[illegible]
Issuance of Class A common stock bonus	[illegible]	—	[illegible]	—	—	—	—	[illegible]
Net loss	—	—	—	—	—	—	[illegible]	[illegible]
Balance December 31, 1998	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]

See notes to consolidated financial statements.

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended March 31, 1997	1998	Nine Months Ended December 31, 1998
Cash flows from operating activities:			
Net loss	$ (30,547)	$ (69,082)	$ (74,185)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	2,604	9,038	11,810
Amortization	1,341	2,410	2,511
Equity in net loss of joint ventures	7,223	12,967	9,300
Non-cash interest expense	23,467	34,038	25,857
Deferred income taxes	257	---	---
Gain on sale of investment	(8,405)	---	---
Issuance of Class A common stock bonus	156	27	769
Extraordinary gain on repurchase of debt	---	---	(1,311)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Other assets—net	(624)	(5,303)	(15,513)
Accounts payable	(264)	6,023	9,865
Accrued interest and other liabilities – net	(31)	3,519	10,814
Net cash used in operating activities	(4,823)	(6,333)	(9,510)
Cash flows from investing activities:			
Net cash used for acquisitions	(5,040)	(65,968)	---
Expenditures for property, plant and equipment	(24,627)	(68,629)	(146,773)
Investment in fiber asset and senior secured note	(20,000)	---	---
Proceeds from sale of investment	11,618	---	---
Investments in joint ventures	(34,769)	(64,260)	(60,114)
Investments in U.S. government securities – pledged	---	(83,400)	---
Sale of U.S. government securities – pledged	---	15,653	15,212
Net cash used in investing activities	(72,818)	(266,604)	(191,675)
Cash flows from financing activities:			
Proceeds from issuance of preferred stock	---	194,522	---
Proceeds from issuance of Class A common stock	---	---	255,862
Proceeds from sale and leaseback of equipment	---	14,876	---
Proceeds from debt	163,705	250,000	---
Repayments of debt	---	(2,326)	(19,569)
Proceeds from issuance of Class B common stock warrants	11,087	---	---
Costs associated with debt financing	(6,555)	(12,564)	---
Costs associated with issuance of Class A common stock	---	---	(14,745)
(Loans to) repayment from stockholders	(3,000)	---	3,000
Repayment of note payable—Adelphia	(25,000)	---	---
Advances to affiliates	(2,782)	(535)	(2,761)
Net cash provided by financing activities	137,455	444,973	221,787
Increase in cash and cash equivalents	59,814	170,936	20,602
Cash and cash equivalents, beginning of period	---	59,814	230,750
Cash and cash equivalents, end of period	$ 59,814	$ 230,750	$ 251,352

See notes to consolidated financial statements.

(1) The Company and Summary of Significant Accounting Policies

Organization and Business

The consolidated financial statements include the accounts of Hyperion Telecommunications, Inc. and it's wholly and majority owned subsidiaries ("Hyperion" or the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company was formed in 1993 and is a majority owned subsidiary of Adelphia Communications Corporation ("Adelphia").

On March 30, 1999, the Board of Directors of Hyperion approved a change in Hyperion's fiscal year from March 31 to December 31. The decision was made to conform to general industry practice and for administrative purposes. The change became effective for the nine months ended December 31, 1998.

On May 8, 1998, the Company issued and sold 12,500,000 shares of Class A common stock at a price to the public of $16.00 per share (the "IPO"). Simultaneously with the closing of the IPO, the Company issued and sold an additional 3,324,001 shares of Class A common stock to Adelphia at a purchase price of $15.00 per share for an aggregate of approximately $49,900). In addition, at such closing, the Company issued 2,882,888 shares of Class A common stock to Adelphia in exchange for certain of the Company's indebtedness and payables with a carrying value of $44,258 owed to Adelphia at a purchase price of $15.00 per share for an aggregate of $54,000). In a related transaction, on June 5, 1998, the Company issued and sold 350,000 shares of Class A common stock at the $16.00 IPO price pursuant to the underwriters' over-allotment option in the IPO. At December 31, 1998, Adelphia owned approximately 66% of Hyperion's outstanding common stock and approximately 86% of total voting power.

The Company provides facilities-based telecommunications services through its subsidiaries and joint ventures, in which it has less than a majority ownership interest. The Company's efforts have been directed primarily toward becoming an owner and manager of competitive local exchange carrier ("CLEC") business telecommunications services in selected mid-sized cities. The Company has historically partnered with a local cable television or utility company, whose fiber facilities are located in the market areas, to build competitive access fiber optic networks. The Company then operates the networks for a management fee. These networks provide local switch dial tone, long distance service, high-speed data and internet connectivity to businesses, governmental and educational end users and other telecommunication service providers. The Company's revenues are derived from a combination of direct business telecommunication services provided by its subsidiaries and management fees from its unconsolidated joint ventures.

Joint ventures in which the Company does not have a majority interest are accounted for under the equity method of accounting.

Acquisitions and Sale of Partner Interests

On May 16, 1996, the Company sold its 15.7% interest in TCG of South Florida for approximately $11,613, resulting in a pre-tax gain of $8,405. Amounts related to TCG of South Florida included in the Company's equity in net loss of joint ventures for the year ended March 31, 1997 were $221.

On August 1, 1996, the Company purchased additional general and limited partnership interests in Hyperion of Tennessee for approximately $5,000, which increased the Company's ownership of Hyperion of Tennessee to 95%.

On September 12, 1997, the Company consummated an agreement with Time Warner Entertainment Advance/Newhouse ("TWEAN") to exchange interests in four New York CLEC networks. As a result of the

transaction, the Company paid TWEAN $7,638 and increased its ownership in the networks serving Buffalo and Syracuse, New York to 60% and 100%, respectively, and eliminated its interest in the Albany and Binghamton networks, which became wholly owned by TWEAN.

On February 12, 1998, the Company purchased additional partnership interests in Louisville Lightwave (Louisville and Lexington), NHT Partnership (Buffalo), New Jersey Fiber Technologies and Hyperion of Harrisburg. As a result, the Company's ownership in these networks increased to 100%. The aggregate purchase price was comprised of approximately $45,000 in cash and a warrant for 731,624 shares of the Company's Class A common stock. (See Note 6.) In addition, Hyperion paid certain amounts related to fiber lease financings upon consummation of the purchase of the additional partnership interests.

All of the acquisitions described above were accounted for using the purchase method. Accordingly, the financial results of each acquisition have been included in the Company's consolidated financial statements from the date acquired.

The following unaudited financial information of the Company assumes that the August 1, 1996, September 12, 1997 and February 12, 1998 transactions had occurred on April 1, 1996.

	Year Ended March 31,		Nine Months Ended December 31,
	1997	1998	1998
Revenues	$ 8,495	$ 17,919	$ 34,776
Net loss	(38,744)	(80,004)	(74,185)
Net loss applicable to common stockholders	(38,744)	(92,413)	(95,103)
Net loss per weighted average share of common stock	(1.10)	(2.59)	(1.90)

See Note 4 for discussion of other partnership interest purchases subsequent to December 31, 1998.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid instruments with an initial maturity date of three months or less.

U.S. Government Securities – Pledged

U.S. Government Securities – Pledged consist of highly liquid investments which will be used to pay the first six semi-annual interest payments of the 12 ¼% Senior Secured Notes. Such investments are classified as held-to-maturity and the carrying value approximates market value.

Accounts Receivable

An allowance for doubtful accounts of $1,128 is recorded as a reduction of accounts receivable at December 31, 1998. There was no allowance for doubtful accounts at March 31, 1998.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Costs capitalized include amounts directly associated with network engineering, design and construction.

Provision for depreciation of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets beginning in the month the asset is available for use or is acquired.

The estimated useful lives of the Company's principal classes of property, plant and equipment are as follows:

Telecommunications networks	10-20 years
Network monitoring and switching equipment	5-10 years
Other	3-10 years

Revenue Recognition

The Company recognizes revenue from telecommunications services in the month the related service is provided. Revenues on billings to customers for services in advance of providing such services are deferred and recognized when earned. The Company recognizes revenues related to management and network monitoring of the joint ventures in the month that the related services are provided. Reciprocal compensation revenue is an element of switched service revenue, which represents compensation from Local Exchange Carriers ("LECs") for local exchange traffic terminated on the Company's facilities originated by other LECs. Hyperion recognizes revenue based upon established contracts with the LECs and has established a reserve for a portion of those revenues that are under dispute.

Significant Customers

During the nine months ended December 31, 1998, Hyperion's sales to AT&T and Bell Atlantic represented 11.4% and 10.1% of total revenues, respectively. During the year ended March 31, 1998, Hyperion sales to AT&T and MCIWorldCom ("MCI"), represented 13.3% and 14.3% of total revenues, respectively.

Basic and Diluted Net Loss per Weighted Average Share of Common Stock

Basic net loss per weighted average share of common stock is computed based upon the weighted average number of common shares and warrants outstanding during the period. Diluted net loss per common share is equal to basic net loss per common share because the Adelphia Warrant discussed in Note 8 had an antidilutive effect for the periods presented; however, the Adelphia Warrant could have a dilutive effect on earnings per share in future periods. A warrant to purchase 731,624 shares of Class A common stock and Class B common stock warrants to purchase shares of Class B common stock have been included as shares outstanding for purposes of the calculation of both basic and diluted net loss per share for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998. All references in the accompanying consolidated financial statements to the number of shares of common stock have been retroactively restated to reflect the stock split (See Note 8).

Other Assets - net

Costs incurred in developing new networks or expanding existing networks negotiating rights-of-way and obtaining legal/regulatory authorizations are deferred and amortized over five years. Pre-operating costs, included in other assets, represent certain non-development costs incurred during the pre-operating phase of a newly constructed network and are amortized over five-year periods commencing with the start of operations. Deferred debt financing costs, included in other assets, are amortized over the term of the related debt. The unamortized amounts of deferred debt financing costs at March 31, 1998 and December 31, 1998 were $14,366 and $14,606, respectively. Also included in other assets at March 31, 1998 and December 31, 1998 is a Senior Secured Note (See Note 5).

Asset Impairments

Hyperion periodically reviews the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Measurement of any impairment would include a comparison of estimated future operating cash flows anticipated to be generated during the remaining life of the assets with their net carrying value. An impairment loss would be recognized as the amount by which the carrying value of the assets exceeds their fair value.

Financial Instruments

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of accounts receivable. Concentration of credit risk with respect to accounts receivable is limited due to the dispersion of the Company's customer base among different customers and geographic areas.

The Company's financial instruments include cash and cash equivalents, Note payable—Adelphia, Senior Secured Notes, Senior Discount Notes and Redeemable Preferred Stock. The fair value of the Note payable—Adelphia exceeded the carrying value by $11,443 at March 31, 1998. The fair value of the Senior Secured Notes exceeded carrying value by approximately $31,250 and $2,500 at March 31, 1998 and December 31, 1998, respectively. The fair value of the Redeemable Preferred Stock exceeded the carrying value by approximately $15,688 at March 31, 1998, the carrying value of the Redeemable Preferred Stock exceeded the fair value by approximately $23,938 at December 31, 1998. The fair value of the Senior Discount Notes exceeded the carrying value by approximately $35,649 and $9,516 at March 31, 1998 and December 31, 1998, respectively. The fair value of the Note payable—Adelphia was estimated based upon the terms in comparison with other similar instruments. The fair value of the Senior Discount Notes, the Senior Secured Notes and the Redeemable Preferred Stock were based upon quoted market prices.

Non-cash Financing and Investing Activities

Capital leases entered into during the year ended March 31, 1998 and the nine months ended December 31, 1998 totaled $24,500 and $1,155, respectively (See Note 5). Dividend requirements applicable to preferred stock were satisfied by the issuance of an additional 6,860 and 20,624 shares of such preferred stock during the year ended March 31, 1998 and the nine months ended December 31, 1998, respectively (See Note 5). During the nine months ended December 31, 1998, Hyperion converted the Note Payable – Adelphia and certain accounts payable into Class A common stock (See Note 1). See Note 1 for discussion of non-cash investing activities.

Use of Estimates in the Preparation of Financial Statements

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

Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," has been issued and is effective for fiscal quarters of fiscal years beginning after June 15, 1999. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management of the Company has not completed its evaluation of the impact of SFAS No. 133 on the Company's financial statements.

Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities," has been issued and is effective for fiscal years beginning after December 15, 1998. SOP 98-5 provides guidance on the financial reporting of start up costs and organization costs. It requires such costs to be expensed as incurred. Management of the Company believes that SOP 98-5 will not have a material impact on the Company's financial statements.

Reclassifications

For the fiscal years ended March 31, 1997 and 1998, certain amounts have been reclassified to conform with the presentation for the nine months ended December 31, 1998.

(2) Property, Plant and Equipment

Property, plant and equipment consists of the following:

	March 31, 1998	December 31, 1998
Telecommunications networks	$ 50,421	$ 59,764
Network monitoring and switching equipment	130,283	165,697
Fiber asset under construction (Note 3)	11,500	11,500
Fiber optic use rights	—	44,109
Construction in process	66,075	123,439
Other	6,605	8,282
	264,884	412,791
Less accumulated depreciation	(14,251)	(38,089)
Total	$250,633	$374,702

Depreciation is computed on the straight-line method using estimated useful lives of 5 to 20 years for operating plant and equipment and 3 to 20 years for support equipment and real estate. Additions to property, plant and equipment are recorded at cost which includes amounts for material, applicable labor and overhead and interest. Depreciation expense amounted to $2,604, $9,038 and $23,838 for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998, respectively. Capitalized interest amounted to $4,271 and $9,986 for the year ended March 31, 1998 and the nine months ended December 31,1998, respectively.

(3) Investment in Fiber Asset and Senior Secured Note

On February 20, 1997, the Company entered into several agreements regarding the leasing of dark fiber in New York state in furtherance of its strategy to interconnect its networks in the northeastern United States. Pursuant to these agreements and in consideration of a payment of $20,000, the Company received a $20,000 Senior Secured

Note bearing interest at 22 1/2% (subject to reduction upon early repayment of principal) due February 2002 (subject to early redemption options), from Telergy, Inc. ("Telergy"), a right to receive 58,752 shares of Telergy Class A common stock ("Telergy Stock"), and a fully prepaid lease from a Telergy affiliate for an initial lease term of 25 years (with two additional ten-year extensions) for 24 strands of dark fiber installed or to be installed in a New York fiber optic telecommunications backbone network. The Company has included $11,500 and $8,500 in Property, Plant and Equipment and Other Assets, respectively, as the allocation of the $20,000 payment between the fiber asset and the Senior Secured Note. No amounts were allocated to the Telergy Stock. The allocation reflects the Company's estimate of the relative fair values of the assets acquired. Hyperion will recognize the interest income on the Senior Secured Note when received.

During the nine months ended December 31, 1998, construction of the fiber has continued and no repayments have been received on the Senior Secured Note. On May 15, 1998, Telergy paid Hyperion $1,000 in exchange for the Telergy Stock and a gain of $1,000 was recorded by the Company, which is included in "other income" in the consolidated statement of operations.

On November 10, 1998, the Senior Secured Note was amended to mature on January 20, 2000 in exchange for an indefeasible right to use ("IRU") or long term lease of certain fiber segments in New York City and along Telergy's long haul fiber segments in the northeastern United States and Southeastern Canada.

(4) Investments

The equity method of accounting is used to account for investments in joint ventures in which the Company owns less than a majority interest. Under this method, the Company's initial investment is recorded at cost and subsequently adjusted for the amount of its equity in the net income or loss of its joint ventures. Dividends or other distributions are recorded as a reduction of the Company's investment. Investments in joint ventures accounted for using the equity method reflect the Company's equity in their underlying net assets.

The Company's nonconsolidated investments are as follows:

	Ownership Percentage	March 31, 1998	December 31, 1998
MetroOne Fiber Technologies (Jacksonville)	20.0% (1)	$ 7,984	$ 8,150
Minnesota Hyperion Telecommunications (Wichita)	49.9% (2)	3,537	3,461
MetroOne of Virginia (Richmond)	37.0% (1)	7,213	7,284
PECO Hyperion (Philadelphia)	50.0%	21,229	33,976
PECO Hyperion (Allentown, Bethlehem, Easton, Reading)	50.0%	2,753	7,227
Hyperion of York	50.0%	4,256	5,721
Allegheny Hyperion Telecommunications	50.0%	---	1,043
Entergy Hyperion Telecommunications of Louisiana	50.0% (3)	3,407	6,714
Entergy Hyperion Telecommunications of Mississippi	50.0% (3)	3,666	7,130
Entergy Hyperion Telecommunications of Arkansas	50.0% (3)	4,209	7,586
Indian Creek Communications	49.9% (4)	10,009	44,617
Other	Various	1,333	1,121
		69,596	118,614
Cumulative equity in net losses		(16,532)	(26,486)
Total investments		$ 53,064	$ 112,128

(1) As discussed below, the Company consummated agreements on March 31, 1999 which increased its ownership to 100% in these networks.
(2) As discussed below, the Company consummated agreements on March 23, 1999 which increased its ownership to 100% in this network.
(3) As discussed below, the Company entered into a definitive agreement on March 31, 1999 to increase its ownership to 100% in these networks.
(4) On March 24, 1998, the Federal Communications Commission ("FCC") completed the auction of licenses for Local Multipoint Distribution Service ("LMDS"). In connection with the FCC's full review of all bids and the granting of final licenses, the Company, through Baker Creek Communications, acquired 195 licenses for a total cost of approximately $44,605, $[illegible] of which was paid upon submission of the Company's bid in January 1998 with the remainder paid as of October 1998.

Summarized unaudited combined financial information for the Company's nonconsolidated investments listed above being accounted for using the equity method of accounting as of the dates and for the periods ended, is as follows:

	March 31, 1998	December 31, 1998
Current assets	$ 7,476	$ 11,315
PP&E-net	153,495	190,552
Non-current assets	13,454	47,523
Current liabilities	13,422	18,599
Non-current liabilities	54,004	48,835

	Year Ended March 31, 1997	Year Ended March 31, 1998	Nine months ended December 31, 1998
Revenues	$ 7,251	$ 11,999	$ 24,986
Net loss	(9,841)	(19,923)	(22,325)

During 1998, through a partnership in which Hyperion is a 49.9% limited partner, the Company was the successful bidder, at a cost of approximately $45,000, for 195 31 GHz licenses (see above), which cover approximately 83 million people in the eastern United States representing coverage in most of its network system territory. Hyperion and its partner are currently in the process of dissolving the partnership and the licenses are to become the property of Hyperion at no additional cost to Hyperion. As of December 31, 1998, the partnership had fully funded its obligation due to the FCC. The Company plans to use the LMDS spectrum in most of its markets, and believes the spectrum to be highly complementary to its fiber-based systems as an economical means to provide "last-mile" connectivity for customers which otherwise could not be economically addressed with broadband connectivity. The Company is in the process of further refining its plans for utilization of the LMDS spectrum, which could involve substantial additional funds.

On March 23, 1999, Hyperion consummated a purchase agreement with Multimedia, Inc. ("Multimedia"), the parent of its local partner in the Wichita, KS market, whereby Multimedia received approximately $9,778 in cash for Multimedia's ownership interest in this network. In addition, Hyperion will be responsible for the payment of fiber lease liabilities due to Multimedia in the amount of approximately $2,800 which are payable over the next six years. As a result of the transaction, the Hyperion ownership in Wichita increased to 100%.

On March 31, 1999, Hyperion consummated purchase agreements with subsidiaries of MediaOne of Colorado, Inc. ("MediaOne"), its local partners in the Jacksonville, FL and Richmond, VA networks, whereby MediaOne received approximately $81,520 in cash for MediaOne's ownership interests in these networks. In addition, Hyperion will be responsible for the payment of fiber lease liabilities due to MediaOne in the amount of approximately $14,500 which are generally payable over the next ten years. As a result of the transactions, Hyperion's ownership interest in each of these networks increased to 100%.

On March 31, 1999, Hyperion entered into purchase agreements with Entergy Corporation ("Entergy"), the parent of its local partner in the Baton Rouge, LA, Little Rock, AR, and Jackson, MS markets, whereby Entergy will receive $35,776 in cash for Entergy's ownership interests in each of these markets. Upon consummation of this transaction, which is subject to normal closing conditions and regulatory approvals, the Company's ownership interest in each of these networks will increase to 100%.

(5) Financing Arrangements

Note payable - Adelphia

The Company had an unsecured credit arrangement with Adelphia which had no repayment terms prior to April 15, 1996. On April 15, 1996, $25,000 of the proceeds from the sale of the 13% Senior Discount Notes (the "Senior Discount Notes") and Class B Common stock Warrants discussed below were used to repay a portion of this obligation. Interest expense and fees on this credit arrangement were based upon the weighted average cost of unsecured borrowings of Adelphia during the corresponding periods. The total amount of interest converted to note principal through April 15, 1996 was $9,007.

Effective April 15, 1996, the remaining balance due on the Note payable-Adelphia was evidenced by an unsecured subordinated note due April 16, 2003. This obligation had an interest rate of 16.5% per annum. Interest accrued through May 8, 1998 on the amount outstanding to Adelphia totaled $10,645. On May 8, 1998, the Note payable - Adelphia and all accrued interest was converted into shares of Class A common stock simultaneously with the closing of the IPO (See Note 1).

13% Senior Discount Notes and Class B Common Stock Warrants

On April 15, 1996, the Company issued $329,000 of 13% Senior Discount Notes due April 15, 2006 and 329,000 warrants to purchase an aggregate of 1,993,638 shares of its Class B common stock. Proceeds to the Company, net of discounts, commissions, and other transaction costs were approximately $168,600. Prior to April 15, 2001, interest on the Senior Discount Notes is not payable in cash, but is added to principal. Thereafter, interest is payable semi-annually commencing October 15, 2001. The Senior Discount Notes are unsecured and are senior to all future subordinated indebtedness. On or before April 15, 1999 and subject to certain restrictions, the Company may redeem, at its option, up to 25% of the aggregate principal amount of the Senior Discount Notes at a price of 113% of the Accreted Value (as defined in the Indenture). On or after April 15, 2001, the Company may redeem, at its option, all or a portion of the Senior Discount Notes at 106.5% which declines to par in 2002, plus accrued interest.

The holders of the Senior Discount Notes may put the Senior Discount Notes to the Company at any time at a price of 101% of accreted principal upon the occurrence of a Change of Control (as defined in the Indenture). In addition, the Company will be required to offer to purchase Senior Discount Notes at a price of 100% with the

proceeds of certain asset sales (as defined in the Indenture). The Indenture stipulates, among other things, limitations on additional borrowings, issuance of equity instruments, payment of dividends and other distributions, repurchase of equity interests or subordinated debt, sale—leaseback transactions, liens, transactions with affiliates, sales of Company assets, mergers and consolidations.

The Class B common stock warrants are exercisable at $0.00308 per share, upon the earlier of May 1, 1997 or a Change of Control. Unless exercised, the Class B common stock warrants expire on April 1, 2001. The number of shares and the exercise price for which a warrant is exercisable are subject to adjustment under certain circumstances. Through December 31, 1998, 195,965 warrants were exercised and converted into 1,187,541 shares of Class B common stock. Of the 1,187,541 shares issued, 1,172,391 shares had been converted into Class A common stock as of December 31, 1998. The Company received $3 in consideration for the exercise of the warrants.

During the nine months ended December 31, 1998, the Company paid $17,313 to repurchase a portion of the Senior Discount Notes which had a face value of $25,160 and a carrying value of $17,750. The notes were retired upon repurchase which resulted in a $237 gain.

12 1/4% Senior Secured Notes

On August 27, 1997, the Company issued $250,000 aggregate principal amount of 12 1/4% Senior Secured Notes due September 1, 2004 (the "Senior Secured Notes"). The Senior Secured Notes are collateralized through the pledge of the common stock of certain of the Company's wholly owned subsidiaries. A portion of the proceeds was invested in U.S. government securities and placed in an escrow account for payment in full when due of the first six scheduled semi-annual interest payments on the Senior Secured Notes as required by the Indenture.

Interest is payable semi-annually commencing March 1, 1998. The Senior Secured notes rank *part passu* in right of payment with all existing and future senior Indebtedness (as defined in the Indenture) of the Company and will rank senior in right of payment to future subordinated Indebtedness of the Company. On or before September 1, 2000 and subject to certain restrictions, the Company may redeem, at its option, up to 25% of the aggregate principal amount of the Senior Secured Notes at a price of 112.25% of principal with the net proceeds of one or more Qualified Equity Offerings (as defined in the Indenture). On or after September 1, 2001, the Company may redeem, at its option, all or a portion of the Senior Secured Notes at 106.125% of principal which declines to par in 2003, plus accrued interest. The holders of the Senior Secured Notes may put them to the Company at a price of 101% of principal upon the occurrence of a Change of Control (as defined in the Indenture). The Indenture stipulates, among other things, limitations on additional borrowing, payment of dividends and other distributions, repurchase of equity interests, transactions with affiliates and the sale of assets.

12 7/8% Senior Exchangeable Redeemable Preferred Stock

On October 9, 1997, the Company issued $200,000 aggregate liquidation preference of 12 7/8% Senior Exchangeable Redeemable Preferred Stock due October 15, 2007 (the "Preferred Stock"). Proceeds to the Company, net of commissions and other transaction costs, were approximately $194,500.

Dividends are payable quarterly commencing January 15, 1998 at 12 7/8% of the liquidation preference of outstanding Preferred Stock. Through October 15, 2002, dividends are payable in cash or additional shares of Preferred Stock at the Company's option. Subsequent to October 15, 2002, dividends are payable in cash. The Preferred Stock ranks junior in right of payment to all indebtedness and other obligations of the Company, its subsidiaries and joint ventures. On or before October 15, 2000, and subject to certain restrictions, the Company

may redeem, at its option, up to 35% of the initial aggregate liquidation preference of the Preferred Stock originally issued with the net cash proceeds of one or more Qualified Equity Offerings (as defined in the Certification of Designation) at a redemption price equal to 112.875% of the liquidation preference per share of the Preferred Stock, plus, without duplication, accumulated and unpaid dividends to the date of redemption, provided that after any such redemption, there are remaining outstanding shares of Preferred Stock having an aggregate liquidation preference of at least 65% of the initial aggregate liquidation preference of the Preferred Stock originally issued. On or after October 15, 2002, the Company may redeem, at its option, all or a portion of the Preferred Stock at 100% of the liquidation preference thereof declining to 100% of the liquidation preference in 2007, plus accrued and unpaid dividends. The Company is required to redeem all of the shares of Preferred Stock outstanding on October 15, 2007 at a redemption price equal to 100% of the liquidation preference thereof, plus, without duplication, accumulated and unpaid dividends to the date of redemption.

The holders of the Preferred Stock may put the Preferred Stock to the Company at a price equal to 101% of the liquidation preference thereof upon the occurrence of a Change of Control (as defined in the Certification of Designation). The Certificate of Designation stipulates, among other things, limitations on additional borrowings, payment of dividends and other distributions, transactions with affiliates and the sale of assets. The Company may, at its option, on any dividend payment date, exchange in whole, but not in part, the then outstanding shares of Preferred Stock for 12 7/8% Senior Subordinated Debentures due October 15, 2007 (the "Exchange Debentures"). Interest, redemption and registration rights provisions of the Exchange Debentures are consistent with the provisions of the Preferred Stock.

Long Term Lease Facility

On December 31, 1997, the Company consummated an agreement for a $15,000 long term lease facility with AT&T Capital Corporation. The lease facility provides financing for certain of the Company's capital expenditures. Included in the lease facility is the sale and leaseback of certain switch equipment for which the Company received $14,876.

Other Debt

Other debt consists primarily of capital leases entered into in connection with the acquisition of equipment for use in the telecommunications networks and the long-term lease facility described above. The interest rates on such debt ranges from 7.5% to 15.0%.

Maturities of other debt for the five years after December 31, 1998 are as follows:

1999	$ 7,246
2000	1,123
2001	1,196
2002	1,274
2003	1,358

12% Senior Subordinated Notes

On March 2, 1999, Hyperion issued $300,000 of 12% Senior Subordinated Notes due 2009 (the "Subordinated Notes"). An entity controlled by members of the Rigas family, controlling shareholders of the Company, purchased $100,000 of the Subordinated Notes directly from Hyperion at a price equal to the aggregate principal amount less the discount to the other initial purchasers. The net proceeds of approximately $292,500 were used to fund Hyperion's acquisition of interests held by local partners in certain of its markets and to repay debt to fund capital expenditures and investments in its networks, and for general corporate and working capital purposes.

(6) Common Stock and Other Stockholders' Equity (Deficiency)

Hyperion's authorized capital stock consists of 300,000,000 shares of Class A common stock, par value $0.01 per share, 150,000,000 shares of Class B common stock, par value $0.01 per share, and 5,000,000 shares of preferred stock, par value $0.01 per share. On May 8, 1998, Hyperion completed the IPO of its Class A common stock (See Note 1).

Common Stock

Shares of Class A common stock and Class B common stock are substantially identical, except that holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to 10 votes per share on all matters submitted to a vote of stockholders. The Class B common stock is convertible into one share of Class A common stock. In the event a cash dividend is paid, the holders of the Class A and the Class B common stock will be paid an equal amount.

Prior to the IPO, certain key company officers (the "Officers") were parties to a stockholder agreement, as amended (the "Stockholder Agreement") with Adelphia. The Stockholder Agreement provided, among other things, (i) that upon the earlier of (a) the termination of employment of any of the officers or (b) after October 7, 1998, such officers may put their shares to Adelphia for fair market value, unless such put rights are terminated as a result of the registration of the Company's common stock under the Securities Act of 1933 (the "Securities Act") and (ii) for certain buy/sell and termination rights and duties among Adelphia and the Officers. The Stockholder Agreement terminated automatically upon the date of the IPO. Adelphia also agreed to vote its shares in the Company to elect each officer to the Board of Directors of the Company as long as such person is both an employee and a stockholder of the Company.

The Company also entered into Term Loan and Stock Pledge Agreements ("Loan Agreements") with each of the Officers. Pursuant to the Loan Agreements, each Officer borrowed $1,000 from the Company. Each of these loans accrued interest at the average rate at which the Company could invest cash on a short-term basis, was secured by a pledge of the borrower's common stock in the Company, and would mature upon the earlier of (i) October 8, 1998 or (ii) the date of the IPO and the Officers have the right to sell at least $1,000 worth of their shares. Each Loan Agreement also provided that any interest accruing on a loan from the date six months after the date of such loan would be offset by a bonus payment when principal and interest thereon are due and which would include additional amounts to pay income taxes applicable to such bonus payment.

Pursuant to agreements among the Company, Adelphia and the Officers, simultaneous with the consummation of the IPO, (i) the Stockholder Agreement and Loan Agreements terminated, (ii) the Officers each repaid the $1,000 borrowed from the Company pursuant to the Loan Agreements plus accrued interest thereon by each selling 66,667 shares of Class B common stock to Adelphia and using the proceeds therefrom to repay such loans and (iii) the Company has paid to the Management Stockholders bonus payments in the amount of interest accruing on the Loans from the date six months after the date of the Loan Agreements and any additional amounts necessary to pay income taxes applicable to such bonus payments.

On April 8, 1998, the Board of Directors of the Company approved a 3.25-for-one stock split of its Class A and Class B common stock payable to stockholders of record on April 28, 1998. The stock split was effected in the form of a dividend of 2.25 shares for every outstanding share of common stock. All references in the accompanying consolidated financial statements to the number of shares of common stock and the par value have been retroactively restated to reflect the stock split on April 28, 1998.

Warrants

Class A Common Stock Warrant

On February 12, 1998, the Company consummated an agreement with Lenfest Telephone, Inc. whereby Lenfest received a warrant to obtain 731,624 shares of Class A common stock of the Company (the "Lenfest Warrant") in exchange for its partnership interest in the Harrisburg, Pennsylvania network. The Lenfest Warrant was exercised during May 1998 for no additional consideration.

Class B Common Stock Warrants

The Class B common stock warrants were issued on April 15, 1996 in connection with the issuance of the Senior Discount Notes (See Note 5).

Adelphia Warrant

On June 13, 1997, the Company entered into agreements with MCI. Pursuant to these agreements, the Company is designated MCI's preferred provider for new end user dedicated access circuits and certain conversions of end user dedicated access circuits as a result of conversions from the incumbent LECs in the Company's markets. Hyperion also has certain rights of first refusal to provide MCI with certain telecommunications services in these markets. In this arrangement, the Company issued a warrant to purchase 913,380 shares of Class A common stock for $0.01 per share to MCI (the "MCI Warrant") representing 2 ½% of the common stock of the Company on a fully diluted basis. MCI could receive additional warrants to purchase up to an additional 6% of the shares of the Company's Class A common stock, on a fully diluted basis, at fair value, if MCI met certain purchase volume thresholds over the term of the agreement.

In connection with the IPO and the related over-allotment option, the Company and MCI entered into an agreement that provides as follows with respect to the MCI Warrant and MCI's right to receive additional warrants as a result of the IPO (the "Additional MCI Warrants"): (i) the Adelphia and MCI Warrants expire with respect to the shares sold to the public in the IPO, the over-allotment option and with respect to the shares MCI purchased will have an exercise price equal to the lower of $6.15 per share or the price per share to the public in the IPO (the "IPO Price"), and (ii) Adelphia purchased from MCI the MCI Warrant and the Additional MCI Warrants for a purchase price equal to the number of Class A common stock shares issuable under the warrants being purchased times the IPO Price minus the underwriting discount, less the aggregate exercise price of such warrants. Furthermore, in consideration of the obligations undertaken by Adelphia to facilitate the agreements between MCI and Hyperion, Hyperion paid to Adelphia a fee of $500 and issued a warrant to Adelphia, which expires three years after its issuance, to purchase 200,000 shares of Class A common stock at an exercise price equal to the IPO Price.

Long-Term Incentive Compensation Plan

On October 3, 1996, the Board of Directors and stockholders of the Company approved the Company's 1996 Long-Term Incentive Compensation Plan (the "1996 Plan"). The 1996 Plan provides for the grant of (i) options which qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, (ii) options which do not so qualify, (iii) share awards (with or without restrictions or conditions), (iv) stock appreciation rights and (v) stock equivalent or phantom units. The number of shares of Class A common stock available for issuance initially was 5,687,500. Such number is to increase each year by 1% of outstanding shares of all classes of the Company's common stock, up to a maximum of 8,125,000 shares. Options, awards and units may be granted under the 1996 Plan to directors, officers, employees and consultants. The 1996

Plan provides the incentive stock options must be granted with an exercise price of not less than the fair market value of the underlying common stock on the date of grant. Options outstanding under the Plan may be exercised by paying the exercise price per share through various alternative settlement methods. On March 4, 1997, April 1, 1997 and April 1, 1998, the Company issued 338,000 shares, 58,500 shares and 58,500 shares, respectively, of Class A common stock to Daniel R. Milliard pursuant to his employment agreement with the Company.

In April 1998 and in recognition for valuable past service to the Company and as an incentive for future services, the Company authorized the issuance under the 1996 Plan to each of John J. Rigas, Michael J. Rigas, Timothy J. Rigas and James P. Rigas of (i) stock options (the "Rigas Options") covering 100,000 shares of Class A common stock, which options will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant (vesting conditioned on continued service as an employee or director) and which shall be exercisable at the IPO price and (ii) phantom stock awards (the "Rigas Grants") covering 100,000 shares of Class A common stock, which phantom awards will vest in equal one-third amounts on the third, fourth and fifth year anniversaries of grant(vesting conditioned on continued service as an employee or director). At December 31, 1998, no Rigas Options or Rigas Grants have been granted. Also in April 1998, pursuant to the then existing Stockholder Agreement, the Company authorized the issuance under the 1996 Plan to certain Officers of stock options (the "Management Stockholder Options") currently covering a total of 13,047 shares of Class A common stock with exercise price and vesting terms identical to the Rigas Options. In addition to the Rigas Options, the Rigas Grants and the employment agreement, the Company currently expects to issue under the 1996 Plan stock options, restrictive stock grants, phantom stock awards or other awards to other 1996 Plan participants covering up to a total of 325,000 shares of Class A common stock during 1999.

(7) Commitments and Contingencies

The Company rents office space, node space and fiber under leases with terms which are generally less than one year or under agreements that are generally cancelable on short notice. Total rental expense under all operating leases aggregated $1,103, $1,236 and $1,893 for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998, respectively.

The minimum future lease obligations under the noncancelable operating leases as of December 31, 1998 are approximately:

Period ending December 31,	
1999	$3,296
2000	2,888
2001	2,779
2002	2,659
2003	2,645
Thereafter	8,176

The Company has entered into an employment agreement with the President of the Company, the terms of which expire on March 31, 2001, unless extended by the Company for additional one year periods. The employment agreement provides for base salary, benefits, stock options or stock grants and cash and stock bonuses payable if specified management goals are attained as established annually by the Board of Directors. In addition, the employment agreement contains noncompetition and nondisclosure provisions.

The telecommunications industry and Hyperion are subject to extensive regulation at the federal, state and local levels. On February 8, 1996, President Clinton signed the Telecommunications Act of 1996 ("Telecommunications Act"), the most comprehensive reform of the nation's telecommunications laws since the

the Communications Act of 1934. Management of Hyperion is unable to predict the effect that the Telecommunications Act, related rulemaking proceedings or other future rulemaking proceedings will have on its business and results of operations in future periods.

Hyperion has entered into a series of agreements with several local and long-haul fiber optic network providers that will allow Hyperion to significantly increase its presence in the eastern half of the United States. These agreements, totaling approximately $126,000, provide Hyperion with ownership or an IRU to over [illegible] route miles of local and long-haul fiber optic cable. Through December 31, 1998, Hyperion has paid $41,804 of the total due under the agreements, which was included in property, plant and equipment. Hyperion believes this will allow it to expand its business strategy to include on-net provisioning of regional, local and long distance, internet and data communications and to cost-effectively further interconnect most of its 46 existing markets and to enter and interconnect approximately 50 new markets by the end of 2001.

(8) Related Party Transactions

The following table summarizes the Company's transactions with related parties:

	Year Ended March 31,		Nine Months Ended December 31,
	1997	1998	1998
Revenues:			
Management fees	$ 2,600	$ [illegible]	$ [illegible]
Network monitoring fees	604	[illegible]	[illegible]
Special access fees	540	500	
Total	$ 3,744	$ [illegible]	$ [illegible]
Interest Income	$ 230	$ [illegible]	$ [illegible]
Expenses:			
Interest expense and fees	$ 4,731	$ [illegible]	$ [illegible]
Allocated corporate costs	1,199	[illegible]	[illegible]
Fiber leases	738	[illegible]	[illegible]
Total	$ 6,668	$ [illegible]	$ [illegible]

Management fees from related parties represent fees received by the Company from its unconsolidated joint ventures for the performance of financial, legal, regulatory, network design, construction and other administrative services.

Network monitoring fees represent fees received by the Company for technical support for the monitoring of each individual joint venture's telecommunications system.

Special access fees represent amounts charged to joint ventures for use of the network of a wholly owned subsidiary of the Company.

Interest income represents interest charged on certain affiliate receivable balances with joint ventures and with Adelphia.

Interest expense and fees relate to the Note payable—Adelphia (See Note 5).

Allocated corporate costs represent costs incurred by Adelphia on behalf of the Company for the administration and operation of the Company. These costs include charges for office space, corporate aircraft and shared services such as finance activities, information systems, computer services, human resources, and taxation. Such costs were estimated by Adelphia and do not necessarily represent the actual costs that would be incurred if the Company was to secure such services on its own.

Fiber lease expense represents amounts paid to various subsidiaries of Adelphia for the utilization of existing cable television plant for development and operation of the consolidated operating networks.

During the year ended March 31, 1997, the Company purchased from Adelphia for approximately $6,483, Adelphia's historical cost to acquire the assets, certain fiber that had previously been leased from Adelphia. Because the entities involved in the transaction are under the common control of Adelphia, the excess of the purchase price of the assets over the predecessor owner's net book value was charged to accumulated deficit.

During the year ended March 31, 1998 and the nine months ended December 31, 1998, Hyperion paid $290 and $1,044, respectively, to entities owned by certain shareholders of Adelphia primarily for property, plant and equipment and services.

(9) Income Taxes

Adelphia and its corporate subsidiaries (including the Company) filed consolidated federal income tax returns for the years ended March 31, 1997 and 1998. For the nine months ended December 31, 1998, Hyperion will not be included within Adelphia's consolidated federal income tax return. For financial reporting purposes, current and deferred income tax assets and liabilities are computed on a separate company basis. The net operating loss carryforwards and the valuation allowance for the year ended March 31, 1998 are adjusted for the effects of filing a consolidated income tax return, similar to provisions of the Internal Revenue Code. At December 31, 1998, the Company had net operating loss carryforwards for federal income tax purposes of $178,503 expiring through 2018.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating loss carryforwards.

The Company's net deferred tax asset included in other assets - net is comprised of the following:

	March 31, 1998	December 31, 1998
Deferred tax assets:		
Differences between book and tax basis of intangible assets	[illegible]	[illegible]
Net operating loss carryforwards	[illegible]	[illegible]
Other	[illegible]	[illegible]
Total	[illegible]	[illegible]
Valuation allowance	[illegible]	[illegible]
Total	[illegible]	[illegible]
Deferred tax liabilities:		
Differences between book and tax basis of property, plant and Equipment	[illegible]	[illegible]
Investment in partnerships	[illegible]	[illegible]
Total	[illegible]	[illegible]
Net deferred tax asset	[illegible]	[illegible]

The net change in the valuation allowance for the year ended March 31, 1998 and the nine months ended December 31, 1998 was an increase of $5,023 and $31,367, respectively.

Income tax expense for the years ended March 31, 1997 and 1998 and the nine months ended December 31, 1998 is as follows:

	Year Ended March 31,		Nine Months Ended December 31,
	1997	1998	1998
Current	$ (2)	$ —	$ —
Deferred	(257)	—	—
Total	$ (259)	$ —	$ —

A reconciliation of the statutory federal income tax rate and the Company's effective income tax rate is as follows:

	Year Ended March 31,		Nine Months Ended December 31,
	1997	1998	1998
Statutory federal income tax rate	35.0%	35.0%	35.0%
Change in valuation allowance	(34.6)	(35.0)	(35.0)
State taxes, net of federal benefit and other	(1.2)	—	—
Income tax expense	(0.8)%	—%	—%

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth above in Part 1 under the caption "Executive Officers of the Registrant" is incorporated herein by reference. The other information required by this item is incorporated herein by reference to the information set forth under the caption "Election of Directors" and the information, if any, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," in the Company's definitive proxy statement for the 1998 Annual Meeting of Stockholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or by reference to a filing amending this Transition Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the information set forth under the caption "Executive Compensation" in the Company's definitive proxy statement for the 1998 Annual Meeting of Stockholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or by reference to a filing amending this Transition Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated herein by reference to the information set forth under the caption "Principal Stockholders" in the Company's definitive proxy statement for the 1998 Annual Meeting of Stockholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or by reference to a filing amending this Transition Report of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the information set forth under the caption "Certain Transactions" in the Company's definitive proxy statement for the 1998 Annual Meeting of Stockholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or by reference to a filing amending this Transition Report on Form 10-K.

PART IV

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

Financial Statements, schedules and exhibits not listed have been omitted where the required information is included in the consolidated financial statements or notes thereto, or is not applicable or required.

(a)(1) A listing of the consolidated financial statements, notes and independent auditors' report required by Item 8 are listed on in the index in Item 8 of this Transition Report on Form 10-K.

(2) Financial Statement Schedules: Schedule II – Valuation and Qualifying Accounts

(3) Exhibits

START

OF

RETAKE

A reconciliation of the statutory federal income tax rate and the Company's effective income tax rate is as follows:

	Year Ended March 31,		Nine Months Ended December 31,
	1997	1998	1998
Statutory federal income tax rate	35.0%	35.0%	35.0%
Change in valuation allowance	(34.6)	(35.0)	(35.0)
State taxes, net of federal benefit and other	(1.2)	—	—
Income tax expense	(0.8)%	—%	—%

(10) Quarterly Financial Data (unaudited)

The following tables summarize the financial results of the Company for each of the quarters in the year ended March 31, 1998 and the nine months ended December 31, 1998:

	Three Months Ended			
	June 30, 1997	September 30, 1997	December 31, 1997	March 31, 1998
Revenues	$ 1,520	$ 2,157	$ [illegible]	$ [illegible]
Operating expenses:				
Network operations	1,180	1,436	[illegible]	[illegible]
Selling, general and administrative	2,380	2,879	[illegible]	[illegible]
Depreciation and amortization	1,372	2,311	[illegible]	[illegible]
Total	4,932	6,616	[illegible]	[illegible]
Operating loss	(3,412)	(4,459)	[illegible]	[illegible]
Other income (expense):				
Interest income	763	1,461	[illegible]	[illegible]
Interest expense and fees	(8,077)	(11,098)	[illegible]	[illegible]
Loss before income taxes and equity in net loss of joint ventures	(10,726)	(14,093)	[illegible]	[illegible]
Income tax expense	—	—	—	—
Loss before equity in net loss of joint ventures	(10,726)	(14,093)	[illegible]	[illegible]
Equity in net loss of joint ventures	(2,540)	(3,586)	[illegible]	[illegible]
Net loss	(13,266)	(17,679)	[illegible]	[illegible]
Dividend requirements applicable to preferred stock	—	—	[illegible]	[illegible]
Net loss applicable to common stockholders	$ (13,266)	$ (17,679)	$ [illegible]	$ [illegible]
Basic and diluted net loss per weighted average share of common stock	$ (0.38)	$ (0.51)	$ [illegible]	$ [illegible]
Weighted average shares of common stock outstanding (in thousands)	34,890	34,890	[illegible]	[illegible]

(10) Quarterly Financial Data (unaudited), continued

	June 30, 1998	September 30, 1998	December 31, 1998
Revenues	$ 7,635	$ 12,098	$ 15,043
Operating expenses:			
Network operations	4,989	7,056	6,664
Selling, general and administrative	8,432	10,391	16,518
Depreciation and amortization	6,120	9,843	10,708
Total	19,541	27,290	33,890
Operating loss	(11,906)	(15,192)	(18,847)
Other income (expense):			
Interest income	4,235	4,169	4,829
Interest income – affiliate	1,824	2,995	3,576
Interest expense and fees	(13,704)	(12,535)	(12,399)
Other income	1,000	113	—
Loss before income taxes, equity in net loss of joint ventures and extraordinary gain	(18,551)	(20,450)	(25,841)
Income tax expense	—	—	—
Loss before equity in net loss of joint ventures and extraordinary gain	(18,551)	(20,450)	(25,841)
Equity in net loss of joint ventures	(3,190)	(2,614)	(3,776)
Loss before extraordinary gain	(21,741)	(23,064)	(29,617)
Extraordinary gain on repurchase of debt	—	237	—
Net loss	(21,741)	(22,827)	(29,617)
Dividend requirements applicable to preferred stock	(6,807)	(7,026)	(7,284)
Net loss applicable to common stockholders	$ (28,548)	$ (29,853)	$ (36,901)
Basic and diluted net loss per weighted average share of common stock	$ (0.59)	$ (0.54)	$ (0.66)
Weighted average shares of common stock outstanding (in thousands)	45,110	55,497	55,497

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth above in Part I under the caption "Executive Officers of the Registrant" is incorporated herein by reference. The other information required by this item is incorporated herein by reference to the information set forth under the caption "Election of Directors" and the information, if any, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," in the Company's definitive proxy statement for the 1998 Annual Meeting of Stockholders filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or by reference to a filing amending this Transition Report on Form 10-K.

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PART IV

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

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(a)(1) A listing of the consolidated financial statements, notes and independent auditors' report required by Item 8 are listed on in the index in Item 8 of this Transition Report on Form 10-K.

(2) Financial Statement Schedules: Schedule II – Valuation and Qualifying Accounts

(3) Exhibits

END

OF

RETAKE

SCHEDULE II

HYPERION TELECOMMUNICATIONS, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

(Dollars in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions Write-Offs	Balance at End of Period
Year Ended March 31, 1997:				
Allowance for Doubtful Accounts	$ —	$ —	$ —	$ —
Valuation allowance for derferred tax assets	$ 10,459	$ 1,897	$ —	$ 12,356
Year Ended March 31, 1998:				
Allowance for Doubtful Accounts	$ —	$ —	$ —	$ —
Valuation allowance for deferred tax assets	$ 12,356	$ 5,023	$ —	$ 17,379
Nine Months Ended December 31, 1998:				
Allowance for Doubtful Accounts	$ —	$ 1,128	$ —	$ 1,128
Valuation allowance for deferred tax assets	$ 17,379	$ 31,367	$ —	$ 48,746

EXHIBIT NO.	DESCRIPTION
3.1	Certificate of Incorporation of Registrant, together with all amendments thereto. (Incorporated herein by reference is Exhibit 3.01 to Registrant's Current Report on Form 8-K for the event dated October 9, 1997.)
3.2	Bylaws of Registrant. (Incorporated herein by reference is Exhibit 3.2 to Registration Statement No. 333-12619 on Form S-1.)
4.1	Indenture, dated as of April 15, 1996, between the Registrant and Bank of Montreal Trust Company. (Incorporated herein by reference is Exhibit 4.1 to Registration Statement No. 333-12619 on Form S-4.)
4.2	First Supplemental Indenture, dated as of September 11, 1996, between the Registrant and Bank of Montreal Trust Company. (Incorporated herein by reference is Exhibit 4.2 to Registration No. 333-12619 on Form S-4.)
4.3	Form of 13% Senior Discount Note. (Incorporated herein reference is Exhibit 4.3 to Registration Statement No. 333-12619 on Form S-4.)
4.4	Form of Class A Common Stock Certificate. (Incorporated herein by reference is Exhibit 4.1 to Registrant's Registration Statement on Form 8-A, dated October 23, 1996.)
4.5	Indenture, dated as of August 27, 1997, with respect to the Registrant's 12 1/4% Senior Secured Notes due 2004, between the Registrant and the Bank of Montreal Trust Company. (Incorporated herein by reference is Exhibit 4.01 to Form 8-K dated August 27, 1997.) (File No. 0-21605)
4.6	Form of 12 1/4% Senior Secured Note due 2004 (contained in Exhibit 4.5).
4.7	Pledge Agreement between the Registrant and the Bank of Montreal Trust Company, as Collateral Agent, dated as of August 27, 1997. (Incorporated herein by reference is Exhibit 4.02 to Form 8-K dated August 27, 1997.) (File No. 0-21605)
4.8	Pledge, Escrow and Disbursement Agreement, between the Registrant and the Bank of Montreal Trust Company, dated as of August 27, 1997. (Incorporated herein by reference is Exhibit 4.03 to Form 8-K dated August 27, 1997.) (File No. 0-21605)
4.9	Second Supplemental Indenture, dated as of August 27, 1997, between the Registrant and the Bank of Montreal Trust Company, regarding the Registrant's 13% Senior Discount Notes due 2003. (Incorporated herein by reference is Exhibit 4.06 to Form 8-K dated August 27, 1997 (File No. 0-21605)
4.10	Certificate of Designation for 12 7/8% Series A and Series B Senior Exchangeable Redeemable Preferred Stock due 2007. (Contained in Exhibit 3.01 to Registrant's Current Report on Form 8-K for the event dated October 9, 1997 which is incorporated herein by reference.) (File No. 0-21605)
4.11	Form of Certificate for 12 7/8% Senior Exchangeable Redeemable Preferred Stock due 2007. (Incorporated herein by reference is Exhibit 4.02 to the Registrant's Current Report on Form 8-K for the event dated October 9, 1997.) (File No. 0-21605)

4.12	Form of Indenture, with respect to the Registrant's 12 7/8% Senior Subordinated Exchange Debentures due 2007. (Contained as Annex A in Exhibit 3.01 to Registrant's Current Report on Form 8-K for the event dated October 9, 1997 which is incorporated herein by reference.) (File No. 0-21605)
4.13	Indenture dated as of March 2, 1999, with respect to Hyperion Telecommunications, Inc. 12% Senior Subordinated Notes due 2007, between Hyperion and the Bank of Montreal Trust Company (Incorporated by reference herein is Exhibit 4.01 to the Current Report on Form 8-K for Adelphia Communications Corporation filed on March 10, 1999.) (File No. 0-16014).
4.14	Form of 12% Senior Subordinated Notes due 2007 (Contained in Exhibit 4.13)
10.1*	Employment Agreement between the Registrant and Charles R. Drenning. (Incorporated herein by reference is Exhibit 10.1 to Registration Statement No. 333-06957 on Form S-4.)
10.2*	Employment Agreement between the Registrant and Paul D. Fajerski. (Incorporated herein by reference is Exhibit 10.2 to Registration Statement No. 333-06957 on Form S-4.)
10.3*	Employment Agreement between the Registrant and Randolph S. Fowler. (Incorporated herein by reference is Exhibit 10.3 to Registration Statement No. 333-06957 on Form S-4.)
10.4	Pre-Incorporation and Shareholder Restrictive Agreement between Adelphia, Paul D. Fajerski, Charles R. Drenning and Randolph S. Fowler. (Incorporated herein by reference is Exhibit 10.5 to Registration Statement No. 333-06957 on Form S-4.)
10.5	Letter Agreement dated March 19, 1996 between the Registrant, Charles R. Drenning, Paul D. Fajerski, Randolph S. Fowler and Adelphia. (Incorporated herein by reference is Exhibit 10.12 to Registration Statement No. 333-06957 on Form S-4.)
10.6	Warrant Agreement dated as of April 15, 1996, by and among Hyperion Telecommunications, Inc. and Bank of Montreal Trust Company. (Incorporated herein by reference is Exhibit 10.13 to Registration Statement No. 333-06957 on Form S-4.)
10.7	Warrant Registration Rights Agreement dated as of April 15, 1996, by and among Hyperion Telecommunications, Inc. and the Initial Purchasers. (Incorporated herein by reference is Exhibit 10.14 to Registration Statement No. 333-06957 on Form S-4.)
10.8	Form of Management Agreement. (Incorporated herein by reference is Exhibit 10.15 to Registration Statement No. 333-06957 on Form S-4.)
10.9*	Employment Agreement between Hyperion Telecommunications, Inc. and Daniel R. Milliard dated as of March 4, 1997. (Incorporated herein by reference is Exhibit 10.01 to Current Report on Form 8-K of Adelphia Communications Corporation dated May 1, 1997.) (File Number 0-16014)
10.10*	1996 Long-Term Incentive Compensation Plan. (Incorporated herein by reference is Exhibit 10.17 to Registration Statement No. 333-13663 on Form S-1.)
10.11	Registration Rights Agreement among Charles R. Drenning, Paul D. Fajerski, Randolph S. Fowler, Adelphia Communications Corporation and the Company. (Incorporated herein by reference is Exhibit 10.18 to Registration Statement No. 333-13663 on Form S-1.)
10.12	Registration Rights Agreement between Adelphia Communications Corporation and the Company (Incorporated herein by reference is Exhibit 10.19 to Registration Statement No. 333-13663 on Form S-1.)

10.13	Extension Agreement dated as of January 8, 1997, among Hyperion [illegible] Adelphia Communications Corporation, Charles R. Dreming, Paul D. [illegible] and six Trusts named therein. (Incorporated herein by reference is Exhibit [illegible] on Form 8-K of Adelphia Communications Corporation dated May 1, [illegible]
10.14	Purchase Agreement among the Registrant, Bear Stearns & Co. Inc., Chase Securities Inc., CIBC Securities (USA) Inc., CIBC Wood Gundy Securities Corp., and Scotia Capital Markets (USA) Inc. Purchasers") dated August 21, 1997. (Incorporated herein by reference is Exhibit [illegible] dated August 27, 1997.) (File No. 0-21605)
10.15	Purchase Agreement among the Registrant and Bear Stearns & Co. Inc. (the "Initial Purchaser") dated October 1, 1997 regarding the 12 7/8% Senior Exchangeable Redeemable Preferred Stock due 2007. (Incorporated by reference is Exhibit 10.01 to the Registrant's Current Report on Form 8-K for the event dated October 9, 1997.) (File No. 0-21605)
10.16*	Management Services Agreement dated as of April 10, 1998, between Adelphia Communications Corporation and the Registrant (Incorporated herein by reference is Exhibit [illegible] Registration Statement No. 333-48209 on Form S-1).
10.17	Letter Agreement dated April 10, 1998, among the Registrant, Adelphia Communications Corporation and MCImetro Access Transmission Services, Inc. (Incorporated herein by reference is Exhibit 10.24 to Registration Statement No. 333-48209 on Form S-1).
10.18	Amendment to Registration Rights Agreement dated as of April 15, 1998, between the Registrant and Adelphia Communications Corporation (Incorporated herein by reference is Exhibit [illegible] Registration Statement No. 333-48209 on Form S-1).
10.19	Letter Agreement dated as of April 9, 1998, between the Registrant and Adelphia Communications Corporation regarding the purchase of Class A Common Stock (Incorporated herein by reference is Exhibit 10.26 to Registration Statement No. 333-48209 on Form S-1).
10.20	U.S. Underwriting Agreement dated May 4, 1998 among the Company and the Representatives named therein (Incorporated herein by reference is Exhibit 10.01 to the Registrant's Current Report on Form 8-K dated June 24, 1998.) (File No. 0-21605)
10.21	International Underwriting Agreement dated May 4, 1998 among the Company and the Representatives named therein (Incorporated herein by reference is Exhibit [illegible] to the Registrant's Current Report on Form 8-K dated June 24, 1998.) (File No. 0-21605)
10.22	Warrant issued to MCI dated May 8, 1998 (Incorporated herein by reference is Exhibit [illegible] Registrant's Current Report on Form 8-K dated June 24, 1998.) (File No. 0-21605)
10.23	Warrant issued in favor of Adelphia Communications Corporation dated June 5, 1998 (Incorporated herein by reference is Exhibit 10.04 to the Registrant's Current Report on Form 8-K dated June 24, 1998.) (File No. 0-21605)
10.24	Registration Rights Agreement between the Registrant and the Initial Purchasers dated August 27, 1997, regarding the 12 1/4%Senior Secured Notes due 2004. (Incorporated herein by reference is Exhibit 4.04 to Form 8-K dated August 27, 1997.) (File No. 0-21605)
10.25	Registration Rights Agreement between the Registrant and the Initial Purchaser dated October 9, 1997, regarding the 12 7/8% Senior Exchangeable Redeemable Preferred Stock due 2007. (Incorporated herein by reference is Exhibit 4.04 to the Registrant's Current Report on Form 8-K for the event dated October 9, 1997.) (File No. 0-21605)

10.26	Purchase Agreement between Hyperion Telecommunications, Inc. and the Initial Purchasers named therein, dated as of February 25, 1999, regarding Hyperion's 12% Senior Subordinated Notes due 2007 (Incorporated herein by reference is Exhibit 10.03 to Adelphia's Current Report on Form 8-K for the event dated February 22, 1999.) (File No. 0-16104).
10.27	Purchase Agreement between Hyperion Telecommunications, Inc. and Highland Holdings, dated as of February 25, 1999, regarding Hyperion's 12% Senior Subordinated Notes due 2007 (Incorporated herein by reference is Exhibit 10.05 to Adelphia's Current Report on Form 8-K for the event dated February 22, 1999.) (File No. 0-16104).
21.1	Subsidiaries of the Registrant
23.1	Consent of Deloitte & Touche LLP
27.1	Financial Data Schedule
99.1	"Schedule E – Form of Financial Information and Operating Data of the Subsidiaries and the Joint Ventures Presented by Cluster".
99.2	"Schedule F – Form of Financial Information and Operating Data of the Pledged Subsidiaries and the Joint Ventures.
99.3	Press Release Dated June 24, 1998

* Denotes management contracts and compensatory plans and arrangements required to be identified by Item 14(a)(1).

The Registrant will furnish to the Commission upon request copies of instruments not filed herewith which authorize the issuance of long-term obligations of Registrant not in excess of 10% of the Registrant's total assets on a consolidated basis.

(b) The Registrant did not file any Form 8-K reports during the three months ended March 31, 1999.

(c) The Company hereby files as exhibits to this Form 10-K the exhibits set forth in Item 14(a)(3) hereof which are not incorporated by reference.

(d) The Company hereby files as financial statement schedules to this Form 10-K the financial statement schedules set forth in Item 14(a)(2) hereof.

SIGNATURES

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

HYPERION TELECOMMUNICATIONS, INC.

May 27, 1999

By: /s/ Daniel R. Milliard
Daniel R. Milliard,
President

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

May 27, 1999

/s/ John J. Rigas
John J. Rigas,
Chairman and Director

May 27, 1999

/s/ Timothy J. Rigas
Timothy J. Rigas,
Vice Chairman, Treasurer, Chief Financial Officer and Director

May 27, 1999

/s/ Michael J. Rigas
Michael J. Rigas,
Vice Chairman and Director

May 27, 1999

/s/ James P. Rigas
James P. Rigas,
Vice Chairman, Chief Executive Officer and Director

May 27, 1999

/s/ Daniel R. Milliard
Daniel R. Milliard,
Vice Chairman, President, Secretary and Director

May 27, 1999

/s/ Peter J. Metros
Pete J. Metros,
Director

May 27, 1999

/s/ James L. Gray
James L. Gray,
Director

May 27, 1999

/s Randolph F. Fowler
Randolph F. Fowler
Director

May 27, 1999

/s/ Edward E. Babcock Jr.
Edward E. Babcock, Jr.
Chief Accounting Officer

EXHIBIT 21.1

SUBSIDIARIES OF REGISTRANT

Hyperion Telecommunications, Inc. (Delaware corporation)

Hyperion Telecommunications, LLC (Delaware limited liability company)

Hyperion Communications General Holdings, Inc. (Delaware corporation)

Hyperion Communications Capital, Inc. (Delaware corporation)

Hyperion Communications Long Haul, L.P. (Delaware limited partnership)

Hyperion International, LLC (Delaware limited liability company)

Hyperion Communications of Alabama, LLC (Delaware limited liability company)

Hyperion Communications of Arkansas, LLC (Delaware limited liability company)

Entergy Hyperion Telecommunications of Arkansas, L.L.C. (50% owned (an Arkansas limited liability company)

Hyperion Communications of Connecticut, Inc. (Delaware corporation)

Hyperion Communications of Delaware, LLC (Delaware limited liability company)

Hyperion Communications of District of Columbia, LLC (Delaware limited liability company)

Hyperion Communications of Florida, LLC (Florida limited liability company)

Hyperion Telecommunications of Florida, Inc. (Florida corporation)

Hyperion Communications of Jacksonville, Inc. (Florida corporation)

Hyperion Communications of Georgia, LLC (Delaware limited liability company)

Hyperion Communications of Illinois, Inc. (Delaware corporation)

Hyperion Communications of Indiana, L.P. (Delaware limited liability company)

Hyperion Communications of Kansas, LLC (Delaware limited liability company)

Hyperion Communications of Kentucky, Inc. (Delaware corporation)

Hyperion Telecommunications of Louisiana, Inc. (Delaware corporation)

Entergy Hyperion Telecommunications of Louisiana, L.L.C. (50% owned (an Arkansas limited liability company)

Hyperion Communications of Maine, Inc. (Delaware corporation)

Hyperion Communications of Maryland, LLC (Delaware limited liability company)

Hyperion Communications of Massachusetts, Inc. (Delaware corporation)

Hyperion Communications of Michigan, Inc. (Delaware corporation)

Hyperion Communications of Mississippi, L.P. (Delaware limited partnership)

Hyperion Telecommunications of Mississippi, Inc. (Delaware corporation)

Entergy Hyperion Telecommunications of Mississippi, L.L.C. (50% owned) (an Arkansas limited liability company)

Hyperion Communications of New Hampshire, Inc. (Delaware corporation)

Hyperion Communications of New Jersey, LLC (Delaware limited liability company)

Hyperion Telecommunications of New York, Inc. (Delaware corporation)

Hyperion Communications of Eastern New York, Inc. (Delaware corporation)

Hyperion Communications of North Carolina, Inc. (Delaware corporation)

Hyperion Communications of North Carolina, L.P. (Delaware limited partnership)

Hyperion Communications of Ohio, Inc. (Delaware corporation)

Hyperion Telecommunications of Pennsylvania, Inc. (Delaware corporation)

PECO Hyperion Telecommunications (50% owned) (Pennsylvania general partnership)

Hyperion Susquehanna Telecommunications (50% owned) (Pennsylvania general partnership)

Allegheny Hyperion Telecommunications, L.L.C. (50% owned) (Pennsylvania limited liability company)

Hyperion Telecommunications of Harrisburg, Inc. (Delaware corporation)

Hyperion Communications of Pennsylvania, LLC (Delaware limited liability company)

Hyperion Communications of Rhode Island, Inc. (Delaware corporation)

Hyperion Communications of South Carolina, Inc. (Delaware corporation)

Hyperion Telecommunications of Tennessee, Inc. (Delaware corporation)

AVR, L.P. d/b/a Hyperion of Tennessee, L.P. (95% owned) (California limited partnership)

Hyperion Communications of Tennessee, L.P. (Delaware limited partnership)

Hyperion Communications of Texas, L.P. (Delaware limited partnership)

Hyperion Communications of Vermont, Inc. (Delaware corporation)

Hyperion Communications of Virginia, LLC (Virginia limited liability company)

Hyperion Communications of West Virginia, LLC (Delaware limited liability company)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Post-Effective Amendment No. 2 to Registration Statement No. [illegible] 12619 on Form S-3 (formerly Form S-1), and Registration Statement No. [illegible] of Hyperion Telecommunications, Inc. on Form S-8 of our report dated May 17, 1999, appearing in this Transition Report on Form 10-K of Hyperion Telecommunications, Inc. for the nine months ended December 31, 1998.

/s/ DELOITTE & TOUCHE LLP
Pittsburgh, Pennsylvania

May 25, 1999

SCHEDULE E

Hyperion Telecommunications, Inc.

Form of Financial Information and Operating Data
of the Subsidiaries and the Joint Ventures Presented by Cluster

Data presented for the quarter ended: **12/31/98**

Unaudited

	North East	Mid-Atlantic	Mid-South	*** Other	Total
FINANCIAL DATA (dollars in thousands):					
Total Revenue	$ 7,017.5	$ 8,700.5	$ 5,331.5	$ 3,469.2	$ 24,518.7
Total Capital Expenditures	$ 7,192.2	$ 24,221.0	$ 12,392.8	$ 10,373.2	$ 54,179.2
Total EBITDA	$ 2,713.1	$ (2,536.0)	$ (3,774.0)	$ 365.5	$ (3,231.4)
Gross PP&E	$ 103,486.1	$ 299,901.1	$ 117,674.8	$ 120,407.7	$ 641,469.7
Proportional Revenue *	$ 6,866.9	$ 5,655.6	$ 4,616.8	$ 950.8	$ 18,090.1
Proportional Capital Expenditures*	$ 7,192.2	$ 17,989.8	$ 10,290.5	$ 9,040.0	$ 44,512.5
Proportional EBITDA *	$ 2,791.7	$ (2,437.3)	$ (3,060.1)	$ (210.8)	$ (2,916.5)
Proportional Gross PP&E *	$ 103,486.1	$ 230,921.6	$ 96,501.8	$ 77,785.3	$ 508,694.8
STATISTICAL DATA					
Increase for December 31, 1998					
Networks in Operation	--	--	--	--	--
Route Miles	1,634	1,943	2,399	3,318	9,294
Fiber Miles	25,984	44,923	10,696	21,794	103,397
Buildings connected	6	1	40	8	55
Total Buildings with Customers	374	14	93	62	640
LEC-COs collocated **	--	--	--	--	--
Voice Grade Equivalent Circuits	38,808	(26,304)	(9,096)	(71,520)	(68,112)
As of September 30, 1998:					
Networks in Operation	3	9	6	2	20
Route Miles	1,564	2,210	1,158	779	5,711
Fiber Miles	67,325	106,079	55,584	37,392	266,380
Buildings connected (adjusted)	341	680	310	362	1,693
Total Buildings with Customers	1,649	811	2,825	535	5,820
LEC-COs collocated **	16	64	25	18	123
Voice Grade Equivalent Circuits	173,544	496,032	209,352	267,072	1,146,000
As of December 31, 1998:					
Networks in Operation	3	9	6	2	20
Route Miles	3,198	4,153	3,557	4,097	15,005
Fiber Miles	93,309	151,002	66,280	59,186	369,777
Buildings connected with fiber	347	681	350	370	1,748
Total Buildings with Customers	2,023	922	2,918	597	6,460
LEC-COs collocated **	16	64	25	18	123
Voice Grade Equivalent Circuits	212,352	469,728	200,256	195,552	1,077,888
Access Lines Sold	20,711	63,231	39,341	10,403	133,686
Access Lines Installed	17,578	53,061	31,379	7,987	110,005

* Represents portion attributable to the Company.
** Local Exchange Carrier's central office
*** *Other Network amounts includes Network Control Centers and Corporate Capital Expenditures* and Gross Property, Plant and Equipment

SCHEDULE F

Hyperion Telecommunications, Inc.

Form of Financial Information and Operating Data of the Pledged Subsidiaries and the Joint Ventures

Data presented for the quarter ended:

Unaudited

FINANCIAL DATA (dollars in thousands)(a):	
Total Revenue	$
Total Capital Expenditures	$
Total EBITDA	$
Gross Property, Plant & Equipment	$
STATISTICAL DATA(b):	
As of December 31, 1998:	
Networks in Operation:	
Route Miles	
Fiber Miles	
Buildings connected	
LEC-COs collocated	
Voice Grade Equivalent Circuits	
Access Lines Sold	
Access Lines Installed	

(a) Financial Data represents 100% of the operations of all entities except Hyperion of Florida, which is at Hyperion's ownership in the Jacksonville network, which is 20%.

(b) Statistical Data represents 100% of operating data for all entities

EXHIBIT D

Proposed Tariff

ADELPHIA BUSINESS SOLUTIONS OPERATIONS, INC.

REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES

APPLYING TO INTRASTATE TOLL COMMUNICATION SERVICES

WITHIN THE STATE OF SOUTH DAKOTA

This tariff applies to the Intrastate Toll Communications Services furnished by Adelphia Business Solutions Operations, Inc. ("Company") between one or more points in the State of South Dakota. This tariff is on file with the South Dakota Public Utilities Commission, and copies may be inspected, during normal business hours, at the Company's principal place of business, DDI Plaza Two, 500 Thomas Street, Suite 400, Bridgeville, Pennsylvania 15017.

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Section 4 – INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.1.4 INTRALATA CALL CHARGES (Cont'd)

A. Usage Charges:

1. Business Postalized Rate Service

a. IntraLATA call charges can be based on a postalized per minute usage rate with a discount based on the per month volume of calls.

See Rate Schedule in Section 5 of this Tariff.

2. Residential Postalized Rate Service

a. IntraLATA call charges can be based on a postalized per minute usage rate with a discount based on the per month volume of calls.

See Rate Schedule in Section 5 of this Tariff.

4.1.5 PER CALL SERVICE CHARGES

The service charges listed in the Rate Schedule specified in Section 5 of this tariff apply to intrastate toll calls for which live or automated operator assistance is provided for call completion and/or billing.

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Section 4 - INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.2 INTERLATA TOLL SERVICE is furnished for communication between telephones in different LATAs in accordance with the regulations and schedules of charges specified in this tariff.

4.2.1 INTERLATA TOLL USAGE

A. Basic Long Distance Service

Long distance voice service is a facilities based, direct-dial long distance telephone service.

B. Long Distance TSR Switched

TSR Switched voice service is a non-facilities based direct-dial long distance telephone service. This long distance product is accessed through Total Service Resale (TSR) switched long distance connectivity.

C. Long Distance TSR Dedicated

TSR Dedicated voice service is a non-facilities based long distance telephone service. This long distance product is accessed through Total Service Resale (TSR) dedicated long distance connectivity from the customer premise to the long distance point of presence.

4.2.2 INTERLATA CALL CHARGES

InterLATA call charges are based on a postalized per minute usage rate with a discount based on the per month volume of calls.

Charges for all classes of calls may be to the calling station, to the called station when the called party agrees to accept the charges, to an authorized telephone number which is not the called station or the calling station (3rd number billing), or to an authorized calling card.

See Rate Schedule in Section 5 of this Tariff.

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Section 4 - INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.2.3 LONG DISTANCE FEATURES

The following features are available for all types of long distance services mentioned above.

A. Account Codes

Account Codes enable businesses to categorize long distance charges for purposes of cost allocation and control. ABSO customers have the ability to assign a different number code to each department, product, client, etc., allowing long distance charges to be billed back accordingly. Account Codes are three or four digits long and are available in the following types:

1. Customer Verified Codes-These codes are assigned by the customer, but managed by the carrier. These codes must be entered for the call to be completed.
2. Carrier Verified Codes-These codes are pre-assigned and managed by the carrier. The code must be dialed for the call to be completed.
3. Unverified Codes-These codes are set and managed by the customer. The code must be dialed for the call to be completed.

B. Operator Services

All long distance "O" originated calls are routed to long distance operators. A third party handles the actual operator services functions and directly bills the calling customer. The calls are branded by the operator services company and this brand may differ based upon which regional center actually processes the call. The services offered include:

1. Collect Calls – automated or operator assisted
2. Third Number Billing – billed to another number if BNS or verbally approved
3. Person-to-Person – automated or operated assisted

C. Directory Assistance

ABSO offers and bills for directory assistance on a per call basis.

See Rate Schedule in Section 5 of this Tariff.

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Section 4 - INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.2.4 TOLL FREE SERVICE

Toll Free service provides customer with toll free calling to their business locations. Toll free pricing is based on a recurring monthly fee plus a postalized per minute usage rate for interLATA toll calls. Specialized Number requests are available.

A. Basic Toll Free

Basic Toll Free service is a facilities based, direct-dial toll free service. The following features apply:

1. Call origination
2. Call routing
3. Toll free directory assistance listing

A. TSR Switched

TSR switched toll free service is a non-facilities based direct-dial telephone toll free service. This toll free product is accessed through Total Service Resale (TSR) switched long distance connectivity. The following features apply:

1. Call origination
2. Call routing
3. Toll free directory assistance listing

See Rate Schedule in Section 5 of this Tariff.

B. TSR Dedicated

TSR Dedicated toll free service is a non-facilities based telephone service. This toll free product is accessed through Total Service Resale (TSR) dedicated long distance connectivity from the customer premise to the long distance point of presence.

See Rate Schedule in Section 5 of this Tariff.

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RATES & CHARGES

By: Janet S. Livengood, Esquire, Director of Legal and Regulatory Affairs
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Section 5 - RATES & CHARGES

5.1 CALLING CARD SERVICES

Per Call Surcharge: $0.00

	Per Minute Rate
Day	$0.20
Evening	$0.20
Night/ Weekend	$0.20

On – Demand Features*:

Audio Text (per minute)	$0.40
Message Store and Forward (per message)	$1.50
Operator Assistance (per message)	
Station to Station	$1.00
Person to Person	$NOC
Conference Calling (Charges applied to each participant)	
Set-up Charge	$2.00
Per Minute Usage Rate	$0.40

*NOTE: All features are automatically available on the calling cards. There is no monthly fee for these features. The rates apply when the features are utilized.

5.2 PREPAID DEBIT CARD SERVICES

Per Call Surcharge: $0.60

	Per Minute Rate
Day	$0.192
Evening	$0.192
Night/ Weekend	$0.192

5.3 PRIMARY INTEREXCHANGE (PIC) OR INTRASTATE TOLL CARRIER CHANGE CHARGE

	Business	Residence
Charge	$5.00	NOC

5.4 PER CALL SERVICE CHARGES

The following service charges apply to intrastate toll calls for which live or automated operator assistance is provided for call completion and/or billing.

Operator Station to Station	$1.25
Person to Person	$3.00
3rd Number Billed	$1.50
Collect Calls	$1.50
All other Operator Service	$1.50

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5.5 INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES

5.5.1 Intrastate Toll Rates

INTRALATA TOLL RATE TABLE

Direct Dial Day Rates

Mileage	Initial Period		Additional Period	
Limit	ABSO Rate	Increment	ABSO Rate	Increment
0-10	$0.1680	60 Seconds	$0.0280	60 Seconds
11-16	$0.2080	60 Seconds	$0.0280	60 Seconds
17-22	$0.2400	60 Seconds	$0.0400	60 Seconds
23-30	$0.2720	60 Seconds	$0.0400	60 Seconds
31-40	$0.2880	60 Seconds	$0.0480	60 Seconds
41-55	$0.3120	60 Seconds	$0.0520	60 Seconds
56-85	$0.3200	60 Seconds	$0.0520	60 Seconds
86-124	$0.3280	60 Seconds	$0.0560	60 Seconds
125-244	$0.3440	60 Seconds	$0.0560	60 Seconds
245-3000	$0.3520	60 Seconds	$0.0560	60 Seconds

Direct Dial Evening Rates

Mileage	Initial Period		Additional Period	
Limit	ABSO Rate	Increment	ABSO Rate	Increment
0-10	$0.1260	60 Seconds	$0.0210	60 Seconds
11-16	$0.1560	60 Seconds	$0.0210	60 Seconds
17-22	$0.1800	60 Seconds	$0.0300	60 Seconds
23-30	$0.2040	60 Seconds	$0.0300	60 Seconds
31-40	$0.2160	60 Seconds	$0.0360	60 Seconds
41-55	$0.2340	60 Seconds	$0.0390	60 Seconds
56-85	$0.2400	60 Seconds	$0.0390	60 Seconds
86-124	$0.2460	60 Seconds	$0.0420	60 Seconds
125-244	$0.2580	60 Seconds	$0.0420	60 Seconds
245-3000	$0.2640	60 Seconds	$0.0420	60 Seconds

Direct Dial Night Rates

Mileage	Initial Period		Additional Period	
Limit	ABSO Rate	Increment	ABSO Rate	Increment
0-10	$0.1008	60 Seconds	$0.0168	60 Seconds
11-16	$0.1248	60 Seconds	$0.0168	60 Seconds
17-22	$0.1440	60 Seconds	$0.0240	60 Seconds
23-30	$0.1632	60 Seconds	$0.0240	60 Seconds
31-40	$0.1728	60 Seconds	$0.0288	60 Seconds
41-55	$0.1872	60 Seconds	$0.0312	60 Seconds
56-85	$0.1920	60 Seconds	$0.0312	60 Seconds
86-124	$0.1968	60 Seconds	$0.0336	60 Seconds
125-244	$0.2064	60 Seconds	$0.0336	60 Seconds
245-3000	$0.2112	60 Seconds	$0.0336	60 Seconds

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Section 5 - RATES & CHARGES (Cont'd)

5.5 INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES

5.5.2 Intrastate Toll Time of Day Tables

Service class: Direct Dial

Weekday Rate

12:00 AM	to	8:00 AM	Night Rates
8:00 AM	to	5:00 PM	Day Rates
5:00 PM	to	11:00 PM	Evening Rates
11:00 PM	to	12:00 PM	Night Rates

Saturday Rate

12:00 AM	to	12:00 PM	Night Rates

Sunday Rate

12:00 AM	to	5:00 PM	Night Rates
5:00 PM	to	11:00 PM	Evening Rates
11:00 PM	to	12:00 PM	Night Rates

Holiday Weekday Rate

12:00 AM	to	8:00 AM	Night Rates
8:00 AM	to	11:00 PM	Evening Rates
11:00 PM	to	12:00 PM	Night Rates

Holiday Saturday Rate

12:00 AM	to	12:00 PM	Night Rates

Holiday Sunday Rate

12:00 AM	to	5:00 PM	Night Rates
5:00 PM	to	11:00 PM	Evening Rates
11:00 PM	to	12:00 PM	Night Rates

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Section 5 - RATES & CHARGES (Cont'd)

5.5 INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

5.5.2 INTRALATA CALL CHARGES (Cont'd)

A. Usage Charges (Contd)

Basic IntraLATA Service
Postalized Rate

Volume (expressed in calls per month)	Per Minute Usage Rate
Less than 1,000	$0.075
1,000 – 2,499	$0.070
2,500 – 4,999	$0.065
5,000 – 9,999	$0.060
10,000 or more	$0.055

B. Intralata TSR Switched

Postalized Rate
$0.099 Per Minute Usage Rate

5.5.3 INTERLATA CALL CHARGES

A.. Basic Long Distance

Volume (expressed in calls per month)	Per Minute Usage Rate
Less than 1,000	$0.075
1,000 – 2,499	$0.070
2,500 – 4,999	$0.065
5,000 – 9,999	$0.060
10,000 or more	$0.055

B. Long Distance TSR Switched

Postalized Rate
$0.099 Per Minute Usage Rate

C. Long Distance TSR Dedicated

Individual Case Basis (ICB)

Section 5 - RATES & CHARGES (Cont'd)

5.5 INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

5.5.4 LONG DISTANCE FEATURES

A. Account Codes

Feature	Installation (Non-recurring)	Monthly Recurring Charge
Customer Verified Codes	$25.00	$25.00
Carrier Verified Codes	$00.00	$00.00
Unverified Codes	$00.00	$00.00

5.5.5 TOLL FREE SERVICE

Specialized Number Requests $35.00 per number reserved

A. Basic Toll Free Service

Recurring Fee for Toll Free Number $5.00

Postalized Rate

Volume (expressed in calls per month)	Per Minute Usage Rate
Less than 1,000	$0.075
1,000 – 2,499	$0.070
2,500 – 4,999	$0.065
5,000 – 9,999	$0.060
10,000 or more	$0.055

B. Toll Free TSR Switched Service

Monthly Recurring Fee $9.95

Per Minute Usage Rate $0.999

C. Toll Free TSR Dedicated Service

Individual Case Basis (ICB)

Toll Free Feature	Monthly Recurring Fee	Per Minute Usage Rate
Call Origination	$0.00	$0.000
Call Routing	$0.00	N/A
Toll Free Directory Listing	$20.00/Toll Free No.	N/A

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CHECK SHEET

The pages of this tariff are effective as of the date shown. The original and revised pages named below contain all changes from the original tariff and are in effect on the date shown.

Page	Revision	Page	Revision
1	Original	29	Original
2	Original	30	Original
3	Original	31	Original
4	Original	32	Original
5	Original	33	Original
6	Original	34	Original
7	Original	35	Original
8	Original	36	Original
9	Original	37	Original
10	Original	38	Original
11	Original	39	Original
12	Original	40	Original
13	Original	41	Original
14	Original	42	Original
15	Original	43	Original
16	Original	44	Original
17	Original	45	Original
18	Original	46	Original
19	Original	47	Original
20	Original	48	Original
21	Original	49	Original
22	Original	50	Original
23	Original	51	Original
24	Original	52	Original
25	Original	53	Original
26	Original	54	Original
27	Original	55	Original
28	Original		

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EXPLANATION OF SYMBOLS

A revision of a Tariff Sheet is coded to designate the type of change from the previous revision. These symbols, which appear in the right-hand margin of the page, are used to signify

C - Change in Regulation

D - Discontinued rate or regulation

I - Increased rate

M - Moved from another tariff location

N - New rate or regulation

R - Reduction in a rate or charge

T - Changed in text but no change in rate or regulation

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TARIFF FORMAT

A. Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.

B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th Revised Sheet 14 cancels the 3rd Revised Sheet 14. Because of various suspension periods, deferrals, etc. the Commission follows in their tariff approval process, the most current sheet number on file with the Commission is not always the tariff page in effect.

C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1.
2.1.1.
2.1.1.A.
2.1.1.A.1.
2.1.1.A.1.(a).
2.1.1.A.1.(a).I.
2.1.1.A.1.(a).I.(i).
2.1.1.A.1.(a).I.(i).(1).

D. Check Sheets - When a tariff filing is made with the Commission, an updated check sheet accompanies the tariff filing. The check sheet lists the sheets contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on the check sheet if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the Commission.

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EXPLANATION OF TERMS

ABSO – Adelphia Business Solutions Operations, Inc.

Automatic Location Identification ("ALI") - The name and address associated with the calling party's telephone number (identified by ANI as defined below) is forwarded to the PSAP for display. Additional telephones with the same number as the calling party's (secondary locations, off premises, etc.) will be identified with the address of the telephone number at the main location.

Automatic Number Identification ("ANI) - A system whereby the calling party's telephone number is identified and sent forward with the call record for routing and billing purposes. E911 Service makes use of this system.

Call Initiation - The point in time when the exchange network facility are initially allocated for the establishment of a specific call.

Call Termination - The point in time when the exchange network facility allocated to a specific call is released for reuse by the network.

Commission – New Mexico Public Regulation Commission.

Company – Adelphia Business Solutions Operations, Inc., unless otherwise clearly indicated from the context.

Customer - The person, firm, corporation, or other entity which orders service pursuant to this Tariff and utilizes service provided under Tariff by the Company. A customer is responsible for the payment of charges and for compliance with all terms of the Company's Tariff.

Customer Premises Equipment ("CPE") - Equipment provided by the customer for use with the Company's services. CPE can include a station set, facsimile machine, key system, PBX, or other communication system.

Exchange - An area, consisting of one or more central office districts, within which a call between any two points is a local call.

Final Account - A customer whose service has been disconnected who has outstanding charges still owed to the Company.

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EXPLANATION OF TERMS (Cont'd)

Interruption - The inability to complete calls, either incoming or outgoing or both, due to Company facilities malfunction or human errors.

LATA - Local Access and Transport Area. The area within which the Company provides local and long distance ("intraLATA") service. For call to numbers outside the area ("interLATA") service is provided by long distance companies.

Move - The disconnection of existing equipment at one location and reconnection of the same equipment at a new location in the same building or in a different building on the same premises.

On-Net - Telecommunications services which are transported exclusively over facilities installed by the Company rather than the facilities of another carrier.

Rate Center - A geographic reference point with specific coordinates on a map used for determining mileage when calculating changes.

Toll Call - Any call extending beyond the local exchange of the originating caller which is rated on a toll schedule by the Company.

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APPLICATION OF TARIFF

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Section 1 - APPLICATION OF TARIFF

1.1 Application of Tariff

This Tariff sets forth the service offerings, rates, terms and conditions applicable to switched services provided by Adelphia Business Solutions Operations, Inc., as follows:

The furnishing of interexchange intrastate end-user communications services to customers within the State of New Mexico.

1.1.1 Service Territory

Adelphia Business Solutions Operations, Inc. will provide service within the State of New Mexico.

1.1.2 Availability

Service is available where facilities permit.

Only those services for which rates are provided are currently available. The rates set forth in this Tariff apply only to On-net services.

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GENERAL RULES AND REGULATIONS

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Section 2 - GENERAL RULES AND REGULATIONS

2.1 USE OF FACILITIES AND SERVICE

2.1.1 Obligation of the Company .

In furnishing facilities and service, the Company does not undertake to transmit messages, but furnishes the use of its facilities to its customers for communications. The Company undertakes to furnish communications service pursuant to the terms of this tariff in connection with one-way and/or two-way information transmission between points within the State of New Mexico.

a. The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.

b. The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

The Company's obligation to furnish facilities and service is dependent upon its ability (a) to secure and retain, without unreasonable expense, suitable facilities and rights for the construction and maintenance of the necessary circuits and equipment; (b) to secure and retain, without unreasonable expense, suitable space for its plant and facilities in the building where service is or will be provided to the customer; or (c) to secure reimbursement of all costs where the owner or operator of a building demands relocation or rearrangement of plant and facilities used in providing service therein.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.1 Obligation of the Company (Cont'd)

The Company shall not be required to furnish, or continue to furnish, facilities or service where the circumstances are such that the proposed use of the facilities or service would tend to adversely affect the Company's plant, property or service.

The Company reserves the right to refuse an application for service made by a present or former customer who is indebted to the Company for service previously rendered pursuant to this Tariff until the indebtedness is satisfied.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.2 Limitations on Liability

2.1.2.1 The liability of the Company for damages arising out of the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts or omission, shall be limited to the extension of allowances for interruption as set forth in this tariff. The extension of such allowances for interruption shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages to Customer as a result of any Company service, equipment or facilities, or the acts or omissions or negligence of the Company's employees or agents.

2.1.2.2 The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority; national emergencies, insurrections, riots, wars, unavailability of rights-of-way or materials, or strikes, lock-outs, work stoppages, or other labor difficulties.

Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.2 Limitations on Liability (Cont'd)

2.1.2.3 The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers facilities or equipment used for or with the services the Company offers.

2.1.2.4 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer-provided equipment or facilities.

2.1.2.5 The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal presence, condition, location, or use of any installation so provided. The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this section as a condition precedent to such installations.

Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.2 Limitations on Liability (Cont'd)

2.1.2.6 The Company is not liable for any defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees.

2.1.2.7 The Company is not liable for any claims for loss or damages involving:

(a) Breach in the privacy or security of communications transmitted over the Company's facilities;

(b) Injury to property or injury or death to persons, including claims for payments made under Worker's Compensation law or under any plan for employee disability or death benefits arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected or to be connected to the Company's facilities;

(c) Any representations made by Company employees that do not comport, or that are inconsistent, with the provisions of this tariff;

(d) Any act or omission in connection with the provision of 911, E911 or similar services;

(e) Any noncompletion of calls due to network busy conditions.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.2 Limitations on Liability (Cont'd)

2.1.2.8 The Company shall be indemnified, defended held harmless by the Customer against any claim, loss, or damage arising from Customer's use of services, involving claims for libel, slander, invasion of privacy, or infringement of copyright arising from the Customer's own communications.

(a) The Company shall be indemnified, defended and held harmless by the Customer or end user from and against any and all claims, loss, demands, suits, expense, or other action or any liability whatsoever, including attorney fees, whether suffered, made, instituted, or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any Company or Customer equipment or facilities or service provided by the Company.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.2 Limitations on Liability (Cont'd)

2.1.2.8 (Cont'd)

(b) The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere. The Company shall be indemnified, defended and held harmless by the Customer from and against any and all claims, loss, demands, suits, or other action, or any liability whatsoever, including attorney fees, whether suffered, made, instituted or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any equipment or facilities or the service.

(c) The Company assumes no responsibility for the availability or performance of any cable or satellite systems or related facilities under the control of other entities, or for other facilities provided by other entities used for service to the Customer, even if the Company has acted as the Customer's agent in arranging for such facilities or services. Such facilities are provided subject to such degree of protection or nonpreemptibility as may be provided by the other entities.

(d) Any claim of whatever nature against the Company shall be deemed conclusively to have been waived unless presented in writing to the Company within thirty (30) days after the date of the occurrence that gave rise to the claim.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.2 Limitations on Liability (Cont'd)

2.1.2.9 The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

2.1.2.10 The entire liability for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid Company by Customer for the specific services giving rise to the claim. No action or proceeding against the Company shall be commenced more than one year after the service is rendered.

2.1.2.11 THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH HEREIN.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.3 Use of Service

Any service provided under this Tariff may be resold to or shared (jointly used) with other persons at the customer's option. The customer remains solely responsible for all use of service ordered by it or billed to its telephone number(s) pursuant to this Tariff, for determining who is authorized to use its service, and for promptly notifying the Company of any unauthorized use. The customer may advise its customers that a portion of its service is provided by the Company, but the customer shall not represent that the Company jointly participates with the customer in the provision of the service.

2.1.4 Use and Ownership of Equipment

The Company's equipment, apparatus, channels and lines shall be carefully used. Equipment furnished by the Company shall remain its property and shall be returned to the Company whenever requested, within a reasonable period following the request, in good condition, reasonable wear and tear accepted. The customer is required to reimburse the Company for any loss of, or damage to, the facilities or equipment on the customer's premises, including loss or damage caused by agents, employees or independent contractors of the customer through any negligence.

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Section 2 - GENERAL RULES AND REGULATIONS

2.2 MINIMUM PERIOD OF SERVICE

The minimum period of service is one month except as otherwise provided in this Tariff. The customer must pay the regular tariffed rate for the service they subscribe to for the minimum period of service. If a customer disconnects service before the end of the minimum service period, that customer is responsible for paying the regular rates for the remainder of the minimum service period. When the service is moved within the same building, to another building on the same premises, or to a different premises entirely, the period of service at each location is accumulated to calculate if the customer has met the minimum period of service obligation.

If service is terminated before the end of the minimum period of service as a result of condemnation of property, damage to property requiring the premises to be abandoned, or by the death of the customer, the customer is not obligated to pay for service for the remainder of the minimum period.

If service is switched over to a new customer at the same premises after the first month's service, the minimum period of service requirements are assigned to the new customer if the new customer agrees in writing to accept them. For facilities not taken over by the new customer, the original customer is responsible for the remaining payment for the minimum service period in accordance with the terms under which the service was originally furnished.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICES RENDERED

2.3.1 Responsibility for All Charges

Any applicant for facilities or service may be required to sign an application form requesting the Company to furnish the facilities or service in accordance with the rates, charges, rules and regulations from time to time in force and effect. The customer is responsible for all local and toll calls originating from the customer's premises and for all calls charged to the customer's line where any person answering the customer's line agrees to accept such charge.

2.3.2 Deposits

Subject to special provisions as may be set forth below, any applicant or customer whose financial responsibility is not established to the satisfaction of the Company may be required to deposit a sum up to an amount equal to the total of the estimated local service and intrastate toll charges for up to two months for the facilities and service. If the minimum period of service for the requested facilities and service is more than one month, as specified in this Tariff, the customer may also be required to deposit a sum up to an amount equal to the total charges for service for the minimum service period less any connection charge paid by the customer.

The fact that a deposit has been made shall in no way relieve the applicant or customer from complying with the Tariff regulations for the prompt payment of bills on presentation. Each applicant from whom a deposit is collected will be given a certificate of deposit and circular containing the terms and conditions applicable to deposits, in accordance with the Rules and Regulations of the Commission pertaining to customer deposits.

Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICES RENDERED (Cont'd)

2.3.2 Deposits (Cont'd)

a. Interest on Deposits

Simple interest at the rate specified by the Commission shall be credited or paid to the customer while the Company holds the deposit.

b. Inadequate Deposit

If the amount of a deposit is proven to be less than required to meet the requirements specified above, the customer shall be required to pay an additional deposit upon request.

c. Return of Deposit

When a deposit is to be returned, the customer may request that the full amount of the deposit be issued by check. If the customer requests that the full amount be credited to amounts owed the Company, the Company will process the transaction on the billing date and apply the deposit to any amount currently owed to the Company, and return any remaining amount of the deposit to the customer by check.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICES RENDERED (Cont'd)

2.3.3 Payment of Charges

Charges for facilities and service, other than usage charges, are due monthly in advance. All other charges are payable upon request of the Company. Bills are due on the due date shown on the bill and are payable at any business office of the Company, by U.S. Mail, or at any location designated by the Company. If objection is not received by the Company within the applicable statute of limitations, the items and charges appearing thereon shall be determined to be correct and binding upon the customer. A bill will not be deemed correct and binding upon the customer if the Company has records on the basis of which an objection may be considered, or if the customer has in his or her possession such Company records. If objection results in a refund to the customer, such refund will be with interest at the greater of the unadjusted customer deposit rate or the applicable late payment rate, if any, for the service classification under which the customer was billed. Interest will be paid from the date when the customer overpayment was made, adjusted for any changes in the deposit rate or late payment rate, compounded monthly, until the overpayment is refunded. Notwithstanding the foregoing, no interest will be paid by the Company on customer overpayments that are refunded within 30 days after the overpayment is received by the Company.

Where an objection to the bill involves a superseded service order, the items and charges appearing on the bill shall be deemed to be correct and binding upon the customer if a notice of a dispute as to charges is not received by the Company in writing within the applicable statute of limitations.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICES RENDERED (Cont'd)

2.3.4 Return Check Charge

When a check which has been presented to the Company by a customer in payment for charges is returned by the bank, the customer shall be responsible for the payment of a Returned Check Charge of $10.00.

2.3.5 Late Payment Charges

a. Customer bills for telephone service are due on the due date specified on the bill. A customer is in default unless payment is made on or before the due date specified on the bill. If payment is not received by the customer's next billing date, a late payment charge of 1.5% will be applied to all amounts previously billed under this Tariff, excluding one month's local service charge, but including arrears and unpaid late payment charges. Unregulated and 900-related charges are not subject to late payment charges.

b. Late payment charges do not apply to those portions (and only those portions) of unpaid balances that are associated with disputed amounts. Undisputed amounts on the same bill are subject to late payment charges if unpaid and carried forward to the next bill.

c. Late payment charges do not apply to final accounts.

d. Late payment charges do not apply to government agencies of the State of New Mexico. These agencies are required to make payment in accordance with applicable state law.

e. Pursuant to R.103-623, bills can be adjusted for periods of six to twelve preceding months or up to the applicable statute of limitations.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICES RENDERED (Cont'd)

2.3.6 Customer Overpayments

The Company will provide interest on customer overpayments that are not refunded within 30 days of the date the Company receives the overpayment. An overpayment is considered to have occurred when payment in excess of the correct charges for service is made because of erroneous Company billing. The customer will be issued reimbursement for the overpayment, plus interest, or, if agreed to by the customer, credit for the amount will be provided on the next regular Company bill. The rate of interest shall be the greater of the customer deposit interest rate or the Company's applicable Late Payment Charge.

Interest shall be paid from the date when overpayment was made, adjusted for any changes in the deposit rate or late payment rate, and compounded monthly, until the date when the overpayment is refunded. The date when overpayment is considered to have been made will be the date on which the customer's overpayment was originally recorded to the customer's account by the Company.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.4 TELEPHONE SURCHARGES/TAXES

2.4.1 General

In addition to the rates and charges applicable according to the rules and regulations of this Tariff, various surcharges and taxes may apply to the customer's monthly billing statement. The Customer is responsible for payment of any fees (including franchise and right-of-way fees), charges, surcharges and taxes (however designated) (including without limitation sales, use, gross receipts, excise, access or other taxes but excluding taxes on the Company's net income) imposed by any local, state, or federal government on or based upon the provision, sale or use of Network Services. Fees, charges, and taxes imposed by a city, county, or other political subdivision will be collected only from those Customers receiving service within the boundaries of that subdivision.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.5 SUSPENSION OR TERMINATION OF SERVICE

2.5.1 Suspension or Termination for Nonpayment

In the event that any bill rendered or any deposit required is not paid, the Company may suspend service or terminate service until the bill or the required deposit has been paid. If service is suspended or terminated for nonpayment, the customer will be billed a Connection Charge as well as any payment due and any applicable deposits upon reconnection.

a. Termination shall not be made until at least 20 days after written notification has been mailed to the billing address of the customer.

b. Suspension will not be made until at least 8 days after written notification has been mailed to the customer.

Telephone service shall only be suspended during the hours between 8:00 AM and 4:00 PM, Monday through Thursday. It shall not be suspended or terminated for nonpayment on weekends, public holidays, other federal and state holidays proclaimed by the President or the Governor, or on days when the main business office of the Company is not open for business, or during the periods from December 23rd through December 26th or December 30th through January 1st.

Company has a Call Center, through which Customers can reach Company's Customer Service Department 24 hours a day, seven days a week for assistance with all products or billing inquiries, changes or additions to their accounts, trouble reports or service complaints. Company's toll-free telephone number is 1-800-292-2314.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.5 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.5.2 Exceptions to Suspension and Termination

Telephone service shall not be suspended or terminated for:

a. Nonpayment of bills rendered for charges other than telephone service or deposits requested in connection with telephone service;

b. Nonpayment of unregulated or 900-related charges;

c. Nonpayment for service for which a bill has not been rendered;

d. Nonpayment of any billed charge which is in dispute or for the nonpayment of a deposit which is in dispute during the period before a determination of the dispute is made by the Company in accordance with Company's complaint handling procedures. These procedures shall be in accordance with the Commission's Rules and Regulations.

Telephone service may be suspended or terminated for nonpayment of the undisputed portion of a disputed bill or deposit if the customer does not pay the undisputed portion after being asked to do so.

e. Nonpayment of back-billed amounts as outlined in 2.10.12.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.5 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.5.3 Verification of Nonpayment

Telephone service shall not be suspended or terminated for nonpayment of a bill rendered or a required deposit unless:

a. The Company has verified, in a manner approved by the Commission, that payment has not been received at any office of the Company or at any office of an authorized collection agent through the end of the period indicated in the notice, and

b. The Company has checked the customer's account on the day that suspension or termination is to occur to determine whether payment has been posted to the customer's account as of the opening of business on that day.

By: Janet S. Livengood, Esquire, Director of Legal and Regulatory Affairs
DDI Plaza Two
500 Thomas Street, Suite 400
Bridgeville, Pennsylvania 15017
412-221-1888

Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.5 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.5.4 Termination For Cause Other Than Nonpayment

a. General

The Company, after notice in writing to the customer and after having given the customer an appropriate opportunity to respond to such notice, may terminate service and sever the connection(s) from the customer's premises under the following conditions:

1. in the event of prohibited, unlawful or improper use of the facilities or service, or any other violation by the customer of the rules and regulations governing the facilities and service furnished, or

2. if, in the judgment of the Company, any use of the facilities or service by the customer may adversely affect the Company's personnel, plant, property or service. The Company shall have the right to take immediate action, including termination of the service and severing of the connection, without notice to the customer when injury or damage to telephone personnel, plant, property or service is occurring, or is likely to occur, or

3. in the event of unauthorized use, where the customer fails to take reasonable steps to prevent the unauthorized use of the facilities or service received from the Company, or

4. in the event that service is connected for a customer who is indebted to the Company for service or facilities previously furnished, that service may be terminated by the Company unless the customer satisfies the indebtedness within 20 days after written notification.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.5 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.5.4 Termination For Cause Other Than Nonpayment (Cont'd)

b. Prohibited, Unlawful or Improper Use of the Facilities or Service

Prohibited, unlawful or improper use of the facilities or service includes, but is not limited to:

1. The use of facilities or service of the Company without payment of tariff charges;

2. Calling or permitting others to call another person or persons so frequently or at such times of the day or in such manner as to harass, frighten, abuse or torment such other person or persons;

3. The use of profane or obscene language;

4. The use of the service in such a manner such that it interferes with the service of other customers or prevents them from making or receiving calls;

5. The use of a mechanical dialing device or recorded announcement equipment to seize a customer's line, thereby interfering with the customer's use of the service;

6. Permitting fraudulent use.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.5 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.5.4 Termination For Cause Other Than Nonpayment (Cont'd)

c. Abandonment or Unauthorized Use of Facilities

1. If it is determined that facilities have been abandoned, or are being used by unauthorized persons, or that the customer has failed to take reasonable steps to prevent unauthorized use, the Company may terminate telephone service.

2. In the event that telephone service is terminated for abandonment of facilities or unauthorized use and service is subsequently restored to the same customer at the same location:

a. No charge shall apply for the period during which service had been terminated, and

b. Reconnection charges will apply when service is restored. However, no charge shall be made for reconnection if the service was terminated due to an error on the part of the Company.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.5 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.5.5 Emergency Termination of Service

The Company will immediately terminate the service of any customer, on request, when the customer has reasonable belief that the service is being used by an unauthorized person or persons. The Company may require that the request be submitted in writing as a follow-up to a request made by telephone.

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Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.6 AUTOMATIC NUMBER IDENTIFICATION

2.6.1 Regulations

The Company will provide Automatic Number Identification (ANI) associated with an intrastate service, by tariff, to any entity (ANI recipient), only under the following terms and conditions:

a. The ANI recipient or its designated billing agent may use or transmit ANI information to third parties for billing and collection, routing, screening, ensuring network performance, and completion of a telephone subscriber's call or transaction, or for performing a service directly related to the telephone subscriber's original call or transaction, or for performing a service directly related to the telephone subscriber's original call or transaction.

b. The ANI recipient may offer to any telephone subscriber with whom the ANI recipient has an established customer relationship, a product or service that is directly related to products or service previously purchased by the telephone subscriber from the ANI recipient.

c. The ANI recipient or its designated billing agent is prohibited from utilizing ANI information to establish marketing lists or to conduct outgoing marketing calls, except as permitted by the preceding paragraph, unless the ANI recipient obtains the prior written consent of the telephone subscriber permitting the use of ANI information for such purposes. The foregoing provisions notwithstanding, no ANI recipient or its designated billing agent may utilize ANI information if prohibited elsewhere by law.

Section 2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.6 AUTOMATIC NUMBER IDENTIFICATION (Cont'd)

2.6.1 Regulations (Cont'd)

d. The ANI recipient or its designated billing agent is prohibited from reselling, or otherwise disclosing ANI information to any other third party for any use other than those listed in Provision 1, unless the ANI recipient obtains the prior written consent of the subscriber permitting such resale or disclosure.

e. Violation of any of the foregoing terms and conditions by any ANI recipient other than a Telephone Corporation shall result, after a determination through the Commission's complaint process, in suspension of the transmission of ANI by the Telephone Corporation until such time as the Commission receives written confirmation from the ANI recipient that the violations have ceased or have been corrected. If the Commission determines that there have been three or more separate violations in a 24 month period, delivery of ANI to the offending party shall be terminated under terms and conditions determined by the Commission.

2.6.2 Terms and Conditions

Violation of any of the foregoing terms and conditions by a Telephone Corporation may result in Commission prosecution of penalty and enforcement proceedings.

By: Janet S. Livengood, Esquire, Director of Legal and Regulatory Affairs
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412-221-1888

SUPPLEMENTAL SERVICES

By: Janet S. Livengood, Esquire, Director of Legal and Regulatory Affairs
DDI Plaza Two
500 Thomas Street, Suite 400
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412-221-1888

Section 3 - SUPPLEMENTAL SERVICES

3.1 PRIMARY INTEREXCHANGE CARRIER (PIC) OR INTRASTATE TOLL CARRIER CHANGE CHARGE

The customer will incur a charge each time there is a change in the long distance carrier associated with the customer's line after the initial installation of service.

3.2 CALLING CARD SERVICES

Calling Card Service can be used from anywhere in the United States and may terminate in over 200 countries in the world. Calls are originated by dialing 0 + area code and telephone number. The following On – Demand features are available with Calling Card Service:

Audio Text per Minute
Operator Assistance
Speed Dial
Message Store and Forward
Conference Calling

3.3 PREPAID DEBIT CARD SERVICES

Prepaid debit card service is a prepaid long distance calling card service, under which Customers purchase cards in predetermined amounts for long distance usage. Customers access the service by dialing a Company specified access code. As a Customer accesses the service, usage rates and taxes are automatically deducted from the remaining card balance. Customers are notified with a usage remaining message each time a call is placed. Customers will also receive a remainder message when the balance of the card reaches one (1) minute of usage. Calls in progress will be terminated if the balance on the Pre-paid card is insufficient to cover the charges associated with the call. When the card balance reaches zero, the user must purchase another card or have the card recharged pursuant to instructions the Company provides to users purchasing the cards. Calls are billed in initial and additional one (1) minute increments, with any fractional portion of call rounded up to the next highest billing increment.

By: Janet S. Livengood, Esquire, Director of Legal and Regulatory Affairs
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INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES

By: Janet S. Livengood, Esquire, Director of Legal and Regulatory Affairs
DDI Plaza Two
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412-221-1888

Section 4 - INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES

4.1 INTRALATA TOLL USAGE AND MILEAGE CHARGES

Description

Intrastate toll service is furnished for communication between telephones in different local calling areas within a particular LATA in accordance with the regulations and schedules of charges specified in this tariff. The toll service charges specified in this section are in payment for all service furnished between the calling and called telephone, except as otherwise provided in this Tariff.

Intrastate toll calling includes the following types of calls: direct dialed, calling card, collect, 3rd number billed, special toll billing, requests to notify of time and charges, person to person calling and other station to station calls.

4.1.1 Classes of Calls

Service is offered as two classes: station to station calling and person to person calling.

1. Station to Station Service is that service where the person originating the call dials the telephone number desired or gives the Company operator the telephone number of the desired telephone station or system.

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Section 4 - INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.1 INTRALATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.1.1 Classes of Calls (Cont'd)

2. Person to Person Service is that service where the person originating the call specifies to the Company operator a particular person to be reached, a particular mobile unit to be reached, or a particular station, department or office to be reached. The call remains a person to person call when, after the telephone, mobile telephone, or PBX system has been reached and while the connection remains established, the person originating the call requests or agrees to talk to any person other than the person specified, or to any other agreed upon alternate.

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Section 4 - INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.1.2 TIMING OF CALLS

A. Unless otherwise indicated, all calls are timed in one minute increments and all calls which are fractions of a minute are rounded up to the next whole minute.

B. For station to station calls, call timing begins when a connection is established between the calling telephone and the called telephone station.

C. For person to person calls, call timing begins when connection is established between the calling person and the particular person, station or mobile unit specified or an agreed alternate.

D. Call timing ends when the calling station "hangs up," thereby releasing the network connection. If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released either by automatic timing equipment in the telephone network or by the Company operator.

E. Calls originating in one time period as defined in Section 4.3 and terminating in another will be billed the rates in effect at the beginning of each minute.

F. All times refer to local time.

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Section 4 – INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.1.3 REGULATIONS AND COMPUTATION OF MILEAGE

Calls for which rates are mileage sensitive are rated on the airline distance between the originating rate center and the terminating rate center.

A. Originating Rate Center

A customer's primary local exchange number includes an NXX code that is associated with a specific rate center. The originating point of all calls charged to that customer's account shall be the location of the customer's rate center.

B. Terminating Rate Center

The terminating point for all calls shall be the location of the local rate center associated with the called number.

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500 Thomas Street, Suite 400
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412-221-1888

Section 4 – INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.1.3 REGULATIONS AND COMPUTATION OF MILEAGE (Cont'd)

C. Calculation of Mileage

Usage charges for all mileage sensitive products are based on the airline distance between serving wire centers associated with the originating and terminating points of the call. The serving wire centers of a call are determined by the area codes and exchanges of the origination and destination points.

The distance between any two rate centers is determined as follows:

Airline mileage, where mileage is the basis for rating calls, is obtained by using the "V" and "H" coordinates assigned to each rate center and contained in NECA FCC Tariff No. 4 or successor tariffs. To determine the airline distance between any two locations, proceed as follows:

1. Obtain the "V" and "H" coordinates for each location. The "V" coordinate is the first four digits in the "VH" column. The "H" coordinate is the next four digits.

2. Obtain the difference between the "V" coordinates of each of the locations. Obtain the difference between the "H" coordinates.

3. Square each difference obtained in step b., above.

4. Add the square of the "V" difference and the "H" difference obtained in step c., above.

5. Divide the sum of the square by 10. Round to the next higher whole number if any fraction is obtained.

By: Janet S. Livengood, Esquire, Director of Legal and Regulatory Affairs
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Section 4 – INTRALATA / INTERLATA TOLL USAGE AND MILEAGE CHARGES (Cont'd)

4.1.3 REGULATIONS AND COMPUTATION OF MILEAGE (Cont'd)

C. Calculation of Mileage (Cont'd)

6. Obtain the square root of the whole number result obtained above. Round to the next higher whole number if any fraction is obtained. This is the airline mileage.

Formula:

$$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

4.1.4 INTRALATA CALL CHARGES

Rates are based on the duration of the call as measured according to Section 4.2 above, time of day rate period of the call as described in Section 4.3 and, for intrastate toll calls, the airline mileage between points of the call as described in Section 4.4. In addition, where live or automated operator assistance is required for call completion or billing, a per call service applies.

Charges for all classes of calls may be to the calling station, to the called station when the called party agrees to accept the charges, to an authorized telephone number which is not the called station or the calling station (3rd number billing), or to an authorized calling card.

By: Janet S. Livengood, Esquire, Director of Legal and Regulatory Affairs
DDI Plaza Two
500 Thomas Street, Suite 400
Bridgeville, Pennsylvania 15017
412-221-1888

ORIGINAL

DOCUMENT (S)

RECEIVED

TORN AND/OR STAINED

BEST IMAGE (S)

POSSIBLE

VERIFICATION

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF ALLEGHENY

I, John B. Glicksman, being duly sworn, declare that I am the Vice President and Assistant Secretary of Adelphia Business Solutions Operations, Inc., that I am authorized to make this Verification on behalf of Adelphia Business Solutions Operations, Inc., the Applicant, in the subject proceeding; that I have read the foregoing Application and any exhibits, documents and statements thereto attached; and that same are true and correct to the best of my knowledge, information or belief.

John B. Glicksman
Vice President and Assistant Secretary

Subscribed and sworn to before me on the 2nd day of Feb, 2000.

My Commission Expires:

Signature of Notary Public

Rose Myl

Name of Notary Public (Typed or Printed)

Notarial Seal
Rose Myl, Notary Public
Bridgeville Boro, Allegheny County
My Commission Expires Sept. 4, 2003
Member, Pennsylvania Association of Notaries

AP 800 $$ HYPERION TELECOMM INC 00389004

INVOICE NUMBER	AMOUNT	DISCOUNT	NET AMOUNT
111999-25000	250.00	.00	250.00
IN PAYMENT OF ADELPHIA BUSINESS SOLUTIONS			
TOTALS	250.00	.00	250.00

TC00-009

PLEASE DETACH BEFORE DEPOSITING

FIRST UNION NATIONAL BANK
OF FLORIDA
PENSACOLA, FL 32534

63-1012
632

389004

Adelphia

ADELPHIA COMMUNICATIONS CORP.
1 NORTH MAIN STREET
COUDERSPORT, PA 16915

DATE	CHECK NO.	NET AMOUNT
11/26/99	00389004	**********250.00

PAY
****
****
TWO HUNDRED FIFTY AND 00/100 DOLLARS

TO THE ORDER OF
SOUTH DAKOTA UTILITIES COMMISSI
CAPITAL BLDG.
1ST FLOOR
500 E. CAPITOL STREET
PIERRE SD 57501-5070

AUTHORIZED SIGNATURE

⑈389004⑈ ⑆063210125⑆ 2079940000351⑈

START

OF

RETAKE

ORIGINAL

DOCUMENT (S)

RECEIVED

TORN AND/OR STAINED

BEST IMAGE (S)

POSSIBLE

VERIFICATION

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF ALLEGHENY

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John B. Glicksman
Vice President and Assistant Secretary

Subscribed and sworn to before me on the 2nd day of Feb 2000

My Commission Expires

Signature of Notary Public

Rose Myl

Name of Notary Public (Typed or Printed)

AP-800 $$ HYPERION TELECOMM INC 00389004

INVOICE NUMBER	AMOUNT	DISCOUNT	NET AMOUNT
111999-25000	250.00	.00	250.00
IN PAYMENT OF ADELPHIA BUSINESS SOLUTIONS			
TOTALS	250.00	.00	250.00

TC00-009

PLEASE DETACH BEFORE DEPOSITING

Adelphia

ADELPHIA COMMUNICATIONS CORP.
1 NORTH MAIN STREET
COUDERSPORT, PA 16915

FIRST UNION NATIONAL BANK
OF FLORIDA
PENSACOLA, FL 32534

63-1012
632

389004

PAY	DATE	CHECK NO.	NET AMOUNT
	11/26/99	00389004	**********250.00

****
****
TWO HUNDRED FIFTY AND 00/100 DOLLARS

TO THE ORDER OF

SOUTH DAKOTA UTILITIES COMMISSI
CAPITAL BLDG.
1ST FLOOR
500 E. CAPITOL STREET
PIERRE SD 57501-5070

AUTHORIZED SIGNATURE

⑈389004⑈ ⑆063210125⑆ 207994000035 1⑈

South Dakota Public Utilities Commission

WEEKLY FILINGS

For the Period of February 3, 2000 through February 9, 2000

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing.
Phone: 605-773-3705 Fax: 605-773-3809

CONSUMER COMPLAINTS

CT00-032 In the Matter of the Complaint filed by Margie Gertsen, Watertown, South Dakota, against OLS, Inc. Regarding Switching Telecommunications Services Through Deceptive Tactics.

The Complainant indicates that a telemarketer identified himself as a representative of her long distance company wanting to combine her billing. As a result of that call her service was switched. The Complainant requests that something be done so this does not continue to happen.

Staff Analyst: Leni Healy
Staff Attorney: Karen Cremer
Date Filed: 02/04/00
Intervention Deadline: NA

CT00-033 In the Matter of the Complaint filed by Dale Hilgemann, Aberdeen, South Dakota, against OLS, Inc. Regarding Switching Telecommunications Services Through Deceptive Practices.

The Complainant indicates that his long distance service was switched without authorization. The Complainant requests that all charges be removed, and there be an imposition of fines and penalties.

Staff Analyst: Leni Healy
Staff Attorney: Karen Cremer
Date Filed: 02/04/00
Intervention Deadline: NA

CT00-034 In the Matter of the Complaint filed by Kathleen C. Glynn, Watertown, South Dakota, against OLS, Inc. Regarding Switching Telecommunications Services Through Deceptive Tactics.

The Complainant claims she was contacted by a telemarketer to switch her long distance service. The Complainant indicates that she requested information in writing and did not agree to switch service. For a resolution, the Complainant requests that her account be closed, all charges be removed and there be an imposition of appropriate laws.

Staff Analyst: Leni Healy
Staff Attorney: Karen Cremer
Date Filed: 02/02/00
Intervention Deadline: NA

CT00-035 In the Matter of the Complaint filed by Gordon Wilkerson, Manager, on behalf of Sioux Falls Stockyards Co., Sioux Falls, South Dakota, against FirsTel Business Systems Regarding Billing Dispute.

On February 8, 2000, the Commission received a complaint regarding a billing dispute against FirsTel Business Systems. The Sioux Falls Livestock Market received a letter from FirsTel informing it that, based on a recent audit, it had not been charged a monthly dial tone charge for three lines at the business. FirsTel billed the complainant for the three lines retroactively for the past six months. The complainant alleges it was quoted a price from FirsTel when the business was solicited and it has paid that amount. The complainant is requesting that FirsTel cancel its bill for past services in the amount of $1,133.76 and to cooperate with U S WEST to have their service transferred back to U S WEST.

Staff Analyst: Michele Farris
Staff Attorney: Camron Hoseck
Date Filed: 02/08/00
Intervention Date: NA

TC00-006 In the Matter of the Application of NewPath Holdings, Inc. for a Certificate of Authority to Provide Telecommunications Services, Including Local Exchange Services, in South Dakota.

NewPath Holdings, Inc. is seeking a Certificate of Authority to provide resold and facilities-based local exchange (subject to rural safeguards) and interexchange telecommunications services in South Dakota. Initially, NewPath intends to provide data services only.

Staff Analyst: Keith Senger
Staff Attorney: Camron Hoseck
Date Filed: 02/03/00
Intervention Date: 02/25/00

TC00-007 In the Matter of Qwest Communications, Inc.

Commission Staff filed a Motion To Assess Fines and Statutory Penalties against Qwest Communications, Inc. The basis for this Motion is the number of complaints which have recently been filed against Qwest Communications, Inc. which are alleged to represent a pattern of inadequate service in South Dakota, of reckless disregard for South Dakota law and a disregard for the rights of South Dakota consumers. Staff moves the Commission to assess fines and penalties in accordance with SDCL 49-31-93, 49-31-94, impose other remedies and assess costs associated with processing the complaints.

Staff Attorneys: Camron Hoseck and Karen Cremer
Date Filed: 02/04/00
Intervention Deadline: NA

TC00-008 In the Matter of the Application of United Communications HUB, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

United Communications HUB, Inc. (United) seeks a Certificate of Authority to provide resold intrastate interexchange telecommunications services. United intends to offer 1+, 800, travel card, and dedicated interexchange services throughout South Dakota.

Staff Analyst: Heather Forney
Staff Attorney: Camron Hoseck
Date Filed: 02/08/00
Intervention Date: 02/25/2000

TC00-009 In the Matter of the Application of Adelphia Business Solutions Operations, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

Adelphia Business Solutions Operations, Inc. seeks a Certificate of Authority to provide resold and facilities based interexchange telecommunications services in South Dakota. Adelphia intends to offer 1+ direct dial, toll free, travel card and prepaid calling card services.

Staff Analyst: Keith Senger
Staff Attorney: Camron Hoseck
Date Filed: 02/09/00
Intervention Date: 02/25/00

TC00-010 In the Matter of the Application of UKI Communications, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

UKI Communications, Inc. (UKI) seeks a Certificate of Authority to provide resold long distance telecommunications services. UKI intends to offer 1+ and Travel Card services throughout South Dakota.

Staff Analyst: Heather Forney
Staff Attorney: Karen Cremer
Date Filed: 02/09/00
Intervention Date: 02/25/00

TC00-011 In the Matter of the Filing by U S WEST Communications, Inc. of a Notice o Intent to file a 271 Application

On February 8, 2000, U S WEST Communications, Inc. filed with the Commission its Notice of Intent to File Section 271 Application and Motion for Alternative Procedure to Manage the Section 271 Process. U S WEST is asking the Commission to (1) allow it to file the Multi-State Master Test Plan with the Commission for its consideration and adoption in early second quarter 2000; and (2) to create a procedure that will allow the parties to consider all aspects of Section 271 in a timely manner.

All Staff
Date Filed: 02/08/00
Intervention: NA

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You may subscribe or unsubscribe to the PUC mailing lists at http://www.state.ut.us/puc/

TC00-009

Adelphia
BUSINESS SOLUTIONS

RECEIVED
MAY 15 2000
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

VIA OVERNIGHT MAIL

May 12, 2000

South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

Attn: Keith Senger, Utility Analyst

Re: Adelphia Business Solutions Operations, Inc.
~~SD PUC Docket TC00-009~~
Application for Certificate of Authority to Provide Local Exchange Telecommunications Services

Dear Mr. Senger:

Pursuant to your correspondence dated April 17, 2000, Applicant hereby responds to the Data Request:

1. Attached please find the revised Indemnity Bond naming the Public Utilities Commission of the State of South Dakota and the consumers of the South Dakota as obligees.

2. With regard to the financial requirements contained in ARSD 20:10:24:02(08) and ARSD 20:10:32:03(11), Adelphia Business Solutions Operations, Inc. (ABSO) hereby requests a waiver from this requirement. ABSO is a newly formed entity. As such, ABSO does not possess the requisite financial documents and reports requested by the Commission. In light of the fact the ABSO is a wholly owned subsidiary of Adelphia Business Solutions, Inc., Applicant has attached copies of those financial documents in order to provide the Commission with information regarding where ABSO will obtain financial support at the outset of operations.

3. With regard to Item 14 of the Data Request of March 2, 2000, ABSO hereby requests a waiver from providing cost supports required under ARSD 20:10:24:02(12) and ARSD 20:10:32:03(14). All services ABSO intends to offer are competitive services. As such no cost supports are not required.

4. With regard to changes to Tariff No. 2: Item 16 – references to interstate have been removed from the tariff, specifically the section on Jurisdictional Report Requirements; Item 17 – the definitions for End User and Interexchange Carrier are identical to the definitions found in US West's Access tariff; and Item 20 – this section has been removed.

I am attaching a copy of this correspondence. Kindly date stamp the correspondence and return to me in the envelope provided. Should you have any questions, please contact the undersigned. Thank you for your continued courtesies and cooperation in this matter.

Sincerely,

Joelle Blaho-Sinclair

Joelle Blaho-Sinclair
Manager of Legal & Regulatory Affairs
PH: 412/220-5717
FAX: 412/220-5162

Enclosure (s)

cc: John B. Glicksman

RECEIVED
MAY 15 2000
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

INDEMNITY BOND
To the
PEOPLE OF THE STATE OF SOUTH DAKOTA

Bond No. 1623170

We, Adelphia Business Solutions Operations, Inc. the principal and applicant for a CERTIFICATE OF AUTHORITY to resell long distance telecommunications services within the State of South Dakota, and The Hanover Insurance Company as an admitted surety insurer, bind ourselves unto the Public Utilities Commission of the State of South Dakota and the consumers of South Dakota as Obligee, in the sum of $25,000.00.

The conditions of the obligation are such that the principal, having been granted such CERTIFICATE OF AUTHORITY subject to the provision that said principal purchases this Indemnity Bond, and if said principal shall in all respects fully and faithfully comply with all applicable provisions of South Dakota State Law, and reimburse customers of principal for any prepayment or deposits they have made which may be unable or unwilling to return to said customers as a result of insolvency or other business failure, then this obligation shall be void, discharged and forever exonerated, otherwise to remain in full force and effect.

This bond shall take effect as of the date heron and shall remain in force and effect until the surety is released from liability by the written order of the Public Utilities Commission, provided that the surety may cancel this Bond and be relieved of further liability hereunder by delivering thirty (30) days written notice to the Public Utilities Commission. Such cancellation shall not affect any liability incurred or accrued hereunder prior to the termination of said thirty (30) day period.

Dated this 24th day of March, 2000.

To be effective this 1st day of April, 2000.

Adelphia Business Solutions Operations, Inc.

By: _____

The Hanover Insurance Company

By: _____
Shirley A. Harkins, Attorney-In-Fact

This Power of Attorney may not be used to execute any bond with an inception date after 2-4-2002

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY

POWERS OF ATTORNEY
CERTIFIED COPY

KNOW ALL MEN BY THESE PRESENTS: That THE HANOVER INSURANCE COMPANY and MASSACHUSETTS BAY INSURANCE COMPANY, both being corporations organized and existing under the laws of the State of New Hampshire do hereby constitute and appoint William G. Franey, Kenneth W. Roberts, John R. Muha, II, Brenda L. Patterson, Shirley A. Harkins, Michael S. Olive,

Jeri L. Murrow and/or David R. Summerall

Capitol Heights, MD and each is a true and lawful Attorney(s)-in-fact to sign, execute, seal, acknowledge and deliver for, and on its behalf, and as its act and deed, at any place within the United States, or, if the following line be filled in, only within the area therein designated

any and all bonds, recognizances, undertakings, contracts of indemnity or other writings obligatory in the nature thereof, as follows:

- Any such obligations in the United States, in any amount -

And said companies hereby ratify and confirm all and whatsoever said Attorney(s)-in-fact may lawfully do in the premises by virtue of these presents. These appointments are made under and by authority of the following Resolution passed by the Board of Directors of said Companies which Resolutions are still in effect:

"RESOLVED, That the President or any Vice President, in conjunction with any Assistant Vice President, be and they are hereby authorized and empowered to appoint Attorneys-in-fact of the Company, in its name and as its acts, to execute and acknowledge for and on its behalf as Surety any and all bonds, recognizances, contracts of indemnity, waivers of citation and all other writings obligatory in the nature thereof, with power to attach thereto the seal of the Company. Any such writings so executed by such Attorneys-in-fact shall be as binding upon the Company as if they had been duly executed and acknowledged by the regularly elected officers of the Company in their own proper persons." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 - Massachusetts Bay Insurance Company)

IN WITNESS WHEREOF, THE HANOVER INSURANCE COMPANY AND MASSACHUSETTS BAY INSURANCE COMPANY have caused these presents to be sealed with their respective corporate seals, duly attested by a Vice President and an Assistant Vice President, this 4th day of February, 1994.

THE HANOVER INSURANCE COMPANY

(Seal) 1972

Vice President

Assistant Vice President

MASSACHUSETTS BAY INSURANCE COMPANY

(Seal) 1994

Vice President

Assistant Vice President

THE COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF WORCESTER) ss.

On this 4th day of February, 1994, before me came the above named Vice President and Assistant Vice President of The Hanover Insurance Company and Massachusetts Bay Insurance Company, to me personally known to be the individuals and officers described herein, and acknowledged that the seals affixed to the preceding instrument are the corporate seals of The Hanover Insurance Company and Massachusetts Bay Insurance Company, respectively, and that the said corporate seals and their signatures as officers were duly affixed and subscribed to said instrument by the authority and directions of said Corporations.

(Seal) COMMONWEALTH OF MASSACHUSETTS NOTARY PUBLIC

Notary Public

My Commission Expires November 26, 2004

I, the undersigned, Assistant Vice President of The Hanover Insurance Company and Massachusetts Bay Insurance Company, hereby certify that the above and foregoing is a full, true and correct copy of the Original Power of Attorney issued by said Companies, and do hereby further certify that the said Powers of Attorney are still in force and effect.

This Certificate may be signed by facsimile under and by authority of the following resolution of the Board of Directors of The Hanover Insurance Company and Massachusetts Bay Insurance Company.

"RESOLVED, That any and all Powers of Attorney and Certified Copies of such Powers of Attorney and certification in respect thereto, granted and executed by the President or any Vice President in conjunction with any Assistant Vice President of the Company, shall be binding on the Company to the same extent as if all signatures therein were manually affixed, even though one or more of any such signatures thereon may be facsimile." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 - Massachusetts Bay Insurance Company)

GIVEN under my hand and the seals of said Companies, at Worcester, Massachusetts, this 24th day of March 20 00

THE HANOVER INSURANCE COMPANY

MASSACHUSETTS BAY INSURANCE COMPANY

Adelphia
BUSINESS SOLUTIONS

May 25, 2000

VIA OVERNIGHT MAIL

South Dakota Utilities Commission
500 East Capitol Avenue
Capitol Building, 1st Floor
Pierre, SD 57501-5070

RE: Adelphia Business Solutions Operations, Inc. Change of Address and Contact Person

Dear Sir or Madam:

Please accept this correspondence as notice of change of address and contact person for Adelphia Business Solutions Operations, Inc.

John B. Glicksman
Vice President and General Counsel
Adelphia Business Solutions
121 Champion Way
Canonsburg, PA 15317

Please date stamp the enclosed extra copy of this correspondence and return it in the self-addressed, postage prepaid envelope provided. If you have any questions, or require any further documentation, please do not hesitate to contact me at (724) 743-9716.

Thank you for your professional and courteous assistance in this regard.

Very truly yours,

Lorraine Halloran

Lorraine S. Halloran
Legal and Regulatory Administrator

cc: John B. Glicksman, Esquire
Joelle Blaho-Sinclair, Esquire

RECEIVED
MAY 26 2000
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

121 Champion Way
Canonsburg, PA 15317

Phone 724-743-9885
Fax 724-743-9502
Toll Free 888-743-2203

Adelphia
BUSINESS SOLUTIONS

VIA OVERNIGHT MAIL

RECEIVED
JUN 30 2000
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

June 28, 2000

South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

Attn: Keith Senger, Utility Analyst

Re: Adelphia Business Solutions Operations, Inc.
SDPUC Dockets TC00-009 & TC00-013

Dear Mr. Senger:

Pursuant to the Commission's discovery request, attached please find the Bond submitted on behalf of Adelphia Business Solutions Operations, Inc. in the above matter.

I have enclosed a copy of this correspondence and self-addressed stamped envelope. Kindly date stamp the letter and return to me in the envelope provided. Should you have any questions, please contact the undersigned. Thank you for your courtesies and cooperation in this matter.

Sincerely,

Joelle Blaho-Sinclair
Manager of Legal & Regulatory Affairs

Enclosures (1)

121 Champion Way
Canonsburg, PA 15317

Phone 724-743-9888
Fax 724-743-9592
Toll Free 888-745-2233

TC00-004+013

INDEMNITY BOND
To the
PEOPLE OF THE STATE OF SOUTH DAKOTA

Bond No. 1623170

We, Adelphia Business Solutions Operations, Inc. the principal and applicant for a CERTIFICATE OF AUTHORITY to provide inter-exchange and local exchange telecommunications services within the State of South Dakota, and The Hanover Insurance Company as an admitted surety insurer, bind ourselves unto the Public Utilities Commission of the State of South Dakota and the consumers of South Dakota as Obligee, in the sum of $25,000.00.

The conditions of the obligation are such that the principal, having been granted such CERTIFICATE OF AUTHORITY subject to the provision that said principal purchases this Indemnity Bond, and if said principal shall in all respects fully and faithfully comply with all applicable provisions of South Dakota State Law, and reimburse customers of principal for any prepayment or deposits they have made which may be unable or unwilling to return to said customers as a result of insolvency or other business failure, then this obligation shall be void, discharged and forever exonerated, otherwise to remain in full force and effect.

This bond shall take effect as of the date heron and shall remain in force and effect until the surety is released from liability by the written order of the Public Utilities Commission, provided that the surety may cancel this Bond and be relieved of further liability hereunder by delivering thirty (30) days written notice to the Public Utilities Commission. Such cancellation shall not affect any liability incurred or accrued hereunder prior to the termination of said thirty (30) day period.

Dated this 24th day of March, 2000.

To be effective this 1st day of April, 2000.

Original Bond is in Delaine's bottom desk drawer.

Adelphia Business Solutions Operations, Inc.

By: _____

The Hanover Insurance Company

By _____
Shirley A. Harkins, Attorney-In-Fact

This Power of Attorney may not be used to execute any bond with an inception date after 2/4/2002

THE HANOVER INSURANCE COMPANY
MASSACHUSETTS BAY INSURANCE COMPANY

POWERS OF ATTORNEY
CERTIFIED COPY

KNOW ALL MEN BY THESE PRESENTS: That THE HANOVER INSURANCE COMPANY and MASSACHUSETTS BAY INSURANCE COMPANY, both being corporations organized and existing under the laws of the State of New Hampshire do hereby constitute and appoint **William G. Franey, Kenneth W. Roberts, John R. Muha, II, Brenda L. Patterson, Shirley A. Harkins, Michael S. Olive,**

Jeri L. Murrow and/or David R. Summerall

of **Capitol Heights, MD** and **each** is a true and lawful Attorney(s)-in-fact to sign, execute, seal, acknowledge and deliver for, and on its behalf, and as its act and deed, at any place within the United States, or, if the following line be filled in, only within the area therein designated

any and all bonds, recognizances, undertakings, contracts of indemnity or other writings obligatory in the nature thereof, as follows:

- Any such obligations in the United States,
In any amount -

And said companies hereby ratify and confirm all and whatsoever said Attorney(s)-in-fact may lawfully do in the premises by virtue of these presents.

These appointments are made under and by authority of the following Resolution passed by the Board of Directors of said Companies which resolutions are still in effect:

"RESOLVED, That the President or any Vice President, in conjunction with any Assistant Vice President, be and they are hereby authorized and empowered to appoint Attorneys-in-fact of the Company, in its name and as its acts, to execute and acknowledge for and on its behalf as Surety any and all bonds, recognizances, contracts of indemnity, waivers of citation and all other writings obligatory in the nature thereof, with power to attach thereto the seal of the Company. Any such writings so executed by such Attorneys-in-fact shall be as binding upon the Company as if they had been duly executed and acknowledged by the regularly elected officers of the Company in their own proper persons." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 - Massachusetts Bay Insurance Company)

IN WITNESS WHEREOF, THE HANOVER INSURANCE COMPANY AND MASSACHUSETTS BAY INSURANCE COMPANY have caused these presents to be sealed with their respective corporate seals, duly attested by a Vice President and an Assistant Vice President, this 4th day of February, 1998.

THE HANOVER INSURANCE COMPANY

(Seal) 1972

Vice President

Assistant Vice President

MASSACHUSETTS BAY INSURANCE COMPANY

Vice President

Assistant Vice President

THE COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF WORCESTER) ss.

On this 4th day of February, 1998, before me came the above named Vice President and Assistant Vice President of The Hanover Insurance Company and Massachusetts Bay Insurance Company, to me personally known to be the individuals and officers described herein, and acknowledged that the seals affixed to the preceding instrument are the corporate seals of The Hanover Insurance Company and Massachusetts Bay Insurance Company, respectively, and that the said corporate seals and their signatures as officers were duly affixed and subscribed to said instrument by the authority and direction of said Corporations.

(Seal)

Notary Public

My Commission Expires November 26, 2004

I, the undersigned Assistant Vice President of The Hanover Insurance Company and Massachusetts Bay Insurance Company, hereby certify that the above and foregoing is a full, true and correct copy of the Original Power of Attorney issued by said Companies, and do hereby further certify that the said Powers of Attorney are still in force and effect.

This Certificate may be signed by facsimile under and by authority of the following resolution of the Board of Directors of The Hanover Insurance Company and Massachusetts Bay Insurance Company.

"RESOLVED, That any and all Powers of Attorney and Certified Copies of such Powers of Attorney and certification in respect thereto, granted and executed by the President or any Vice President in conjunction with any Assistant Vice President of the Company, shall be binding on the Company to the same extent as if all signatures therein were manually affixed, even though one or more of any such signatures thereon may be facsimile." (Adopted October 7, 1981 - The Hanover Insurance Company; Adopted April 14, 1982 - Massachusetts Bay Insurance Company)

GIVEN under my hand and the seals of said Companies, at Worcester, Massachusetts, this 24th day of March, 2000

THE HANOVER INSURANCE COMPANY

MASSACHUSETTS BAY INSURANCE COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF ADELPHIA BUSINESS SOLUTIONS OPERATIONS, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA	ORDER GRANTING CERTIFICATE OF AUTHORITY TC00-009

On February 9, 2000, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from Adelphia Business Solutions Operations, Inc. (Adelphia).

Adelphia proposes to offer 1+ direct dialing, travel card, international calling, toll free services and prepaid calling card services. A proposed tariff was filed by Adelphia. The Commission has classified long distance service as fully competitive.

On February 10, 2000, the Commission electronically transmitted notice of the filing and the intervention deadline of February 25, 2000, to interested individuals and entities. No petitions to intervene or comments were filed and at its July 13, 2000, meeting, the Commission considered Adelphia's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to a continuous $25,000 surety bond. Commission Staff further recommended a waiver of ARSD 20:10:24:02(8).

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that Adelphia has met the legal requirements established for the granting of a certificate of authority. Adelphia has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive ARSD 20:10:24:02(8). The Commission approves Adelphia's application for a certificate of authority, subject to a continuous $25,000 surety bond. As the Commission's final decision in this matter, it is therefore

ORDERED, that Adelphia's application for a certificate of authority is hereby granted, subject to a continuous $25,000 surety bond. It is

FURTHER ORDERED, that the Commission finds good cause to waive ARSD 20:10:24:02(8). It is

FURTHER ORDERED, that Adelphia shall file informational copies of tariff changes with the Commission as the changes occur.