K7/M7

TC02-057

DOCKET NO. TC02-057

In the Matter of IN THE MATTER OF THE APPLICATION OF ICG TELECOM GROUP, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
6/10	02	Filed and Docketed;
6/13	02	Weekly Filing;
7/19	02	Revised Tariff;
11/8	02	Surety Bond
12/2	02	Order Granting COA;
12/2	02	Docket Closed.

ORIGINAL TC02-057 ORIGINAL

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June 7, 2002

VIA OVERNIGHT DELIVERY

RECEIVED
JUN 10 2002
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Debra Elofson, Executive Director
South Dakota Public Utilities Commission
500 E. Capitol Avenue
Capitol Building, 1st Floor
Pierre, SD 57501-5070

Re: Application of ICG Telecom Group, Inc.

Dear Ms. Elofson:

Enclosed for filing on behalf of ICG Telecom Group, Inc. ("ICG") are an original and ten (10) copies of ICG's application for a Certificate of Authority to Provide Facilities-Based and Resold Local Exchange Telecommunications Services in South Dakota. Please find enclosed a check for $250.00, made payable to the South Dakota Public Utilities Commission, to cover the requisite filing fee.

Please date-stamp the enclosed extra copy of this letter and return it in the self-addressed, postage-paid envelope attached. Should you have any questions concerning this filing, please do not hesitate to contact Jeanne Stockman at (202) 295-8392.

Very truly yours,

Nancy Killien Spooner
Jeanne W. Stockman

Counsel for ICG Telecom Group, Inc.

Enclosures
cc: Susan Doherty, ICG
Amy Hartzler, ICG (*without enclosures*)

404684v1

TC02-057

BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

RECEIVED
JUN 10 2002
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

Application of	)	
	)	
ICG Telecom Group, Inc.	)	
	)	
	)	Docket No. ______________
For a Certificate of Authority to Provide	)	
Facilities-Based and Resold Local	)	
Exchange Telecommunications Services	)	

APPLICATION FOR CERTIFICATE OF AUTHORITY

ICG Telecom Group, Inc. ("ICG" or "Applicant"), by its undersigned counsel, hereby submits its Application for a Certificate of Authority to provide facilities-based and resold local exchange telecommunications services pursuant to Section 49–31–3 of the South Dakota Codified Laws and the Rules of the Public Utilities Commission. In support of this Application, and pursuant to 20:10:32:03 (Local Exchange) of the Administrative Rules of South Dakota, ICG provides the following information:

1. 20:10:32:03(1). Name, Address, and Telephone Number of Applicant. Applicant's legal name is ICG Telecom Group, Inc. Applicant maintains its principal place of business at:

ICG Telecom Group, Inc.
161 Inverness Drive West
Englewood, Colorado 80112
Telephone: (303) 414-5000
Facsimile: (303) 414-8867

Correspondence or communications pertaining to this Application should be directed to Applicant's attorneys of record:

Nancy Killien Spooner
Jeanne W. Stockman
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW, Suite 300
Washington, DC 20007-5116
Telephone: (202) 424-7500
Facsimile: (202) 424-7643

with a copy to:

Amy Hartzler
Business and Government Affairs
ICG Telecom Group, Inc.
161 Inverness Drive West
Englewood, Colorado 80112
Telephone: (303) 414-5903
Facsimile: (303) 414-5817

2. 20:10:32:03(2) and 20:10:32:03 (9)(a). Name and Business Address of Each Corporate Officer and Director. The officers and directors of ICG are as follows:

Officers:

Randall E. Curran	Chief Executive Officer
Richard E. Fish, Jr.	President
Bernard L. Zuroff	Vice President, General Counsel & Secretary
Robert S. Albery	Assistant Secretary
Vacant	Treasurer

Directors:

Richard E. Fish, Jr.
Bernard L. Zuroff
Walter Threadgill

All officers and directors may be reached at:

ICG Telecom Group, Inc.
161 Inverness Drive West
Englewood, Colorado 80112
Telephone: (303) 414-5000
Facsimile: (303) 414-8867

ICG possesses the managerial and technical qualifications to provide facilities-based and resold local telecommunications services in South Dakota. ICG's officers are well qualified to execute its business plan, to provide its proposed telecommunications services and to operate and maintain ICG's facilities over which such services will be deployed. Descriptions of the telecommunications and managerial experience of Applicant's key personnel are attached hereto as Exhibit 1.

3. 20:10:32:03(3). Name Under Which Applicant Will Provide Services. Applicant will operate in South Dakota under its legal name, ICG Telecom Group, Inc.

4. 20:10:32:03(4). Legal organization.

a. 20:10:32:03(4)(c) and 20:10:32:03(4)(d). State of Organization, Date of Organization, and Authority to Transact Business in South Dakota. ICG is a corporation organized under the laws of the State of Colorado. A copy of Applicant's Certificate of Incorporation and a copy of its authorization to conduct business as a foreign corporation in South Dakota are included as Exhibit 2.

b. 20:10:32:03(4)(a). Location of Principal Office in South Dakota and Registered Agent. Applicant does not currently have an office within South Dakota. ICG's registered agent in South Dakota is:

Corporation Service Company
503 South Pierre Street
Pierre, South Dakota 57501.

c. 20:10:32:03(4)(b) and 20:10:32:03(6). Ownership and Management Interest. ICG is a wholly owned subsidiary of ICG Communications, Inc. ("ICG Communications"), a Delaware corporation whose principal business is telecommunications.

5. 20:10:32:03 (7). Proposed services. ICG seeks authority to provide all forms of facilities-based local exchange telecommunications services to business customers throughout the State of South Dakota. Applicant will offer services that allow its customers to originate and terminate local calls to other customers served by ICG, as well as customers served by all other authorized local exchange carriers. Applicant will also provide switched access services to interexchange carriers, which will allow ICG's customers to originate and terminate intrastate and interstate calls to and from customers of interexchange carriers. Applicant's services will be available on a full-time basis, 24 hours a day, seven days a week. Applicant intends to begin service as soon as possible, depending upon regulatory approval and the execution of applicable interconnection agreements. ICG intends to provide service initially in the service area of Qwest Corporation.

6. ICG intends to provide all authorized forms of facilities-based local exchange services, including, but not limited to: basic exchange services, private branch exchange services, high-speed data, frame relay and Internet-type services, directory assistance, operator service, custom calling features, blocking/unblocking services, directory listings, and emergency calling services.

7. 20:10:32:03 (8). Geographic Area to be Served. ICG proposes to provide facilities-based and resold local exchange service throughout the State of South Dakota and, therefore, seeks statewide authority. At this time, ICG does not seek to terminate any small or rural exemptions existing under Section 251 of the federal Telecommunications Act of 1996. Initially, the geographic area to be served by the Applicant for local exchange service is identical to the entire service area of Qwest Corporation. Applicant's services will be available on a full-time basis, twenty-four (24) hours a day, seven (7) days a week.

8. As stated above, ICG intends to provide service in the existing service areas of Qwest. As a result, ICG refers to Qwest's service area maps and legal descriptions already on file with the Commission and requests a waiver to the requirement that it submit separate service area maps.

9. 20:10:32:03 (11) and 20:10:32:03(13). Financial Qualifications and Tariff. Applicant is financially qualified to provide telecommunications services in the State of South Dakota. ICG Communications, ICG's parent company, has been in the telecommunications business since the mid-1980s and is one of the largest competitive communications companies in the United States. During the recent downturn in capital markets that plagued the competitive telecommunications industry, ICG Communications experienced a liquidity crisis and filed for protection under Chapter 11 of the U.S. Bankruptcy Code on November 14, 2000. As part of a far-reaching effort to improve its financial health, the company significantly restructured its operations, refocused its business strategies, restructured third-party arrangements, and eliminated expenses. Significantly, on May 20, 2002, the U.S. Bankruptcy Court for the District of Delaware ("Bankruptcy Court") confirmed the company's Revised Plan of Reorganization ("Plan"), ratifying the restructured company's financial standing and clearing the path for its emergence from Chapter 11. In anticipation of emerging from bankruptcy as a going concern, ICG has filed the instant Application. Attached as Exhibit 3 are the following documents: (1) the most recent SEC 10-K filing of the parent company, ICG Communications, reflecting its prior financial standing; and (2) *pro forma* financial projections submitted with the Plan to the Bankruptcy Court reflecting ICG Communications' anticipated financial standing upon emergence from Chapter 11 under the Plan.

An illustrative tariff of ICG's services is provided in Exhibit 4.

10. 20:10:32:03(9)(b) and 20:10:32:03(18). Complaint Contact, Regulatory Contact, and Handling of Billing and Customer Service Matters. Questions concerning regulatory issues and the ongoing operations of ICG should be directed to:

Amy Hartzler
Business and Government Affairs
ICG Telecom Group, Inc.
161 Inverness Drive West
Englewood, Colorado 80112
Telephone: (303) 414-5903
Facsimile: (303) 414-5817

Questions concerning technical issues and the service quality of ICG should also be directed to Ms. Hartzler.

11. Customers with service, billing and repair questions or complaints may reach ICG at its 24-hour toll-free customer service number, 888-424-4440, for assistance. The name, address and phone number of ICG's customer service contact is:

Tory Merriman
ICG Communications, Inc.
161 Inverness Drive West
Englewood, Colorado 80112
Telephone: (888) 424-1114
Facsimile: (303) 414-8867

Applicant views customer satisfaction as critical to its success in the competitive market place and will address all service, billing and repair complaints and inquiries promptly. If Applicant is unable to resolve a complaint to a customer's satisfaction, Applicant will advise the customer of its right to file a complaint with the South Dakota Public Utilities Commission.

12. 20:10:32:03(5); 20:10:32:03(17); and 20:10:32:03(20). Current Authority to Provide Service. ICG is currently authorized to provide interexchange service in South Dakota pursuant to the Commission's October 8, 1998 order in Docket No. TC987-108. ICG has authority to provide competitive local exchange telecommunications services in the States of

Alabama, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Washington, and Wisconsin. ICG's affiliates possess authority to provide local exchange telecommunications services in Texas and Virginia.

In addition, ICG is currently in the process of applying for authority to provide telecommunications services nationwide. ICG has not been denied authority to provide telecommunications services in any state.

13. 20:10:32:03 (15). Marketing. ICG will market its services through a combination of print media and point-of-presence advertising in markets where Applicant provides services. Applicant does not intend to engage in telemarketing or multi-level marketing. ICG has not yet developed brochures or other materials to be used in marketing its services in South Dakota. ICG will provide copies of such materials when they become available.

14. ICG will comply with South Dakota law and the Federal Communications Commission's ("FCC") regulations governing changing a customer's primary interexchange carrier. ICG will also comply with the proposed FCC regulations governing changing a customer's local exchange carrier.

15. 20:10:32:03 (14). Cost Support. The services that ICG has proposed herein are competitive services; therefore, ICG has not provided cost support for the rates shown in its tariff.

16. 20:10:32:03(23). Federal Tax Identification Number. Applicant's federal tax identification number is 84-1261063.

17. 20:10:32:03(21). Slamming and Cramming Complaints. There are no complaints against Applicant in any jurisdiction regarding the unauthorized switching of a customer's

telecommunications provider or the act of charging customers for services that have not been ordered.

18. 20:10:32:03(22). Written Request For Waiver. ICG requests a waiver of the local exchange map requirement of Article 20:10:32:03(8). ICG seeks authority to provide service statewide, and its local calling areas will mirror those of the incumbent carriers.

19. 20:10:32:03(10). Customer Access to 911, Operator Service, Interexchange Services Directory Assistance and Telecommunications Relay Service. ICG will comply with all applicable laws and regulations relevant to the provision of these services.

20. 20:10:32:03(12). Interconnection. In anticipation of obtaining authority to provide resold and facilities-based local exchange telecommunications service in South Dakota, ICG has entered into an interconnection agreement with Qwest Corporation. On May 2, 2002, ICG filed a request for Commission approval of that interconnection agreement and it is currently pending in Docket TC02-045.

21. 20:10:32:03(16). Rural Carrier Interconnection. ICG does not currently seek to offer service in the area of a rural telephone company.

22. 20:10:32:03(19). Policies Regarding Customer Billing and Collection. ICG's customers will be billed directly by ICG, or charges will be billed on the customer's telephone bill pursuant to billing and collection agreements established by ICG with the applicable underlying telephone company. ICG's customer service number, 888-424-4440, will be provided on each customer's monthly bill.

23. 20:10:32:03(24). Other information. The entry of ICG into the telecommunications business in South Dakota will serve the public interest by creating greater competition in the interexchange and local exchange marketplaces and permitting customers to achieve increased efficiencies and cost savings. ICG's proposed intrastate services will enhance the services available to consumers and increase consumer choice through innovative, diversified, and reliable service offerings. Consumers will benefit both directly as a result of the competitively priced service options available from ICG and also indirectly as ICG's presence

increases the incentives for other telecommunications providers to operate more efficiently, reduce prices, and offer more innovative services. Approval of this Application, therefore, will serve the public interest.

WHEREFORE, ICG Telecom Group, Inc. requests that the South Dakota Public Utilities Commission grant the requested Application authorizing it to provide facilities-based and resold intrastate local exchange and interexchange telecommunications services in the State of South Dakota.

Respectfully submitted,

Nancy Killien Spooner
Jeanne W. Stockman
SWIDLER BERLIN SHEREFF FRIEDMAN, LLP
3000 K St., N.W., Suite 300
Washington, D.C. 20007–5116
Telephone: (202) 424-7500
Facsimile: (202) 424-7645

Counsel for ICG Telecom Group, Inc.

Dated: June 7, 2002

LIST OF EXHIBITS

EXHIBIT 1	Management Qualifications
EXHIBIT 2	Certificate of Incorporation and Certificate of Authority to Transact Business As a Foreign Corporation
EXHIBIT 3	Financial Statements
EXHIBIT 4	Proposed Tariff
VERIFICATION	

EXHIBIT 1

Management Qualifications

Managerial Qualifications

Randall E. Curran - Chief Executive Officer

Randall E. Curran has been Chief Executive Officer since September 2000. Prior thereto, Mr. Curran was Chairman, President and Chief Executive Officer of Thermadyne Holdings Corporation ("Thermadyne"). From 1995 to 2000, Mr. Curran also held several other executive positions at Thermadyne including Chief Operating Officer and Chief Financial Officer. Prior to joining Thermadyne, Mr. Curran held various finance positions with Clarke Industries, Inc., McGraw-Edision Co., and Arthur Anderson & Co.

Richard Fish- President

Richard E. Fish, Jr., President, has also been Executive Vice President and Chief Financial Officer of ICG Communications, Inc., since December 2000. Prior to this position, Mr. Fish was Senior Vice President of Finance since September 1999. Before joining the Company, Mr. Fish was Director-Access Management with AT&T Corp. from 1998 to 1999. AT&T Corp. acquired Teleport Communications Group, Inc. in 1998 where Mr. Fish was Director-Operations since 1995.

Bernard Zuroff – Vice President, General Counsel and Secretary

Bernard L. Zuroff has been Vice President, General Counsel and Secretary since October 2000. Prior to this position, Mr. Zuroff was Assistant General Counsel and Corporate Attorney since July 1996. Before joining the Company, he had eleven years of experience as an attorney with Gorsch, Kirgis, L.L.C., the Resolution Trust Company and Infotel, Inc.

Robert S. Albery – Assistant Secretary

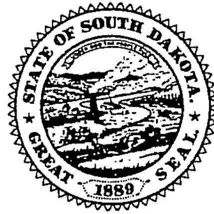
Robert S. Albery is the assistant secretary for ICG Telecom Group, Inc. and vice president – assistant general counsel for ICG Communications, Inc.. Mr. Albery joined ICG in 1998.

EXHIBIT 2

Certificate of Incorporation and

Certificate of Authority to Transact Business As a Foreign Corporation

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 ICG TELECOM GROUP, INC. (CO) 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 under the name of ICG TELECOM GROUP, INC.

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 June 15, 1998.

Joyce Hazeltine

JOYCE HAZELTINE
Secretary of State

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© GOES 340

EXHIBIT 3

Financial Qualifications

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

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

(Commission File Number 1-11965)

ICG COMMUNICATIONS, INC.

(Debtor-in-Possession as of November 14, 2000)
(Exact names of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

84-1342022
(IRS Employer Identification No.)

161 Inverness Drive West
Englewood, Colorado 80112
(Address of principal executive offices)

Registrants' telephone numbers, including area codes: **(888) 424-1144 or (303) 414-5000**

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ✓ No____

The number of outstanding common shares of ICG Communications, Inc. as of May 2, 2002 was 55,244,915.

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ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2001 and March 31, 2002 (Unaudited)

	December 31, 2001	March 31, 2002
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 146,587	$ 97,454
Short-term investments available for sale (note 4)	-	10,684
Trade receivables, net of allowance of $44 million and $28 million at December 31, 2001 and March 31, 2002, respectively	42,365	56,373
Other receivables	559	671
Prepaid expenses and deposits	13,559	17,367
Total current assets	203,070	182,549
Property and equipment, net (note 5)	531,187	520,216
Restricted cash	7,299	7,235
Investments	100	100
Deferred financing costs, net of accumulated amortization of $2 million	3,050	2,869
Deposits	10,459	8,458
Total Assets (note 1)	$ 755,165	$ 721,427

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited), Continued

	December 31, 2001	March 31, 2002
	(in thousands)	
Liabilities and Stockholders' Deficit		
Current liabilities not subject to compromise:		
Accounts payable	$ 8,871	$ 10,046
Accrued liabilities	73,853	60,495
Deferred revenue	9,067	8,654
Total current liabilities not subject to compromise	91,791	79,195
Liabilities subject to compromise (notes 1 and 3)	2,729,590	2,740,616
Long-term liabilities not subject to compromise:		
Capital lease obligations	50,708	50,852
Other long-term liabilities	1,088	60
Total liabilities	2,873,177	2,870,723
Preferred stock, at liquidation value:		
Redeemable preferred stock of subsidiary	449,056	449,056
Mandatorily redeemable preferred securities of ICG Funding	92,336	92,336
8% Series A Convertible Preferred Stock	785,353	785,353
Total preferred stock	1,326,745	1,326,745
Stockholders' deficit:		
Common stock, $0.01 par value, 100,000,000 shares authorized; 53,706,777 shares issued and outstanding	537	537
Additional paid-in capital	922,040	922,040
Accumulated deficit	(4,367,334)	(4,398,618)
Total stockholders' deficit	(3,444,757)	(3,476,041)
Commitments and contingencies (note 8)		
Total Liabilities and Stockholders' Deficit (note 1)	$ 755,165	$ 721,427

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
Three Months Ended March 31, 2001 and 2002 (Unaudited)

	Three months ended March 31,	
	2001	2002
	(in thousands, except per share data)	
Revenue	$ 136,397	$ 112,171
Operating costs and expenses:		
Operating costs	112,562	67,378
Selling, general and administrative expenses	30,696	27,602
Depreciation and amortization	15,989	19,626
Other, net	71	(6)
Total operating costs and expenses	159,318	114,600
Operating loss	(22,921)	(2,429)
Other income (expense):		
Interest expense (contractual interest of $60 million and $63 million not recorded during the three months ended March 31, 2001 and 2002, respectively)	(12,718)	(5,704)
Reorganization expense, net (note 2)	(17,686)	(23,291)
Other income (expense), net	(32)	140
Total other expense, net	(30,436)	(28,855)
Net loss	$ (53,357)	$ (31,284)
Net loss per share – basic and diluted	$ (1.02)	$ (0.58)
Weighted average number of shares outstanding – basic and diluted	52,067	53,707

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Deficit
Three Months Ended March 31, 2002 (Unaudited)
(In Thousands)

	Common Stock		Additional paid-in	Accumulated	Total Stockholders'
	Shares	Amount	capital	deficit	deficit
Balances at January 1, 2002	53,707	$ 537	$ 922,040	$ (4,367,334)	$ (3,444,757)
Net loss	-	-	-	(31,284)	(31,284)
Balances at March 31, 2002	53,707	$ 537	$ 922,040	$ (4,398,618)	$ (3,476,041)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Three Months Ended March 31, 2001 and 2002 (Unaudited)

	Three months ended March 31,	
	2001	2002
	(in thousands)	
Cash flows from operating activities:		
Net loss	$ (53,357)	$ (31,284)
Adjustments to reconcile net loss to net cash used by operating activities before reorganization items:		
Reorganization expense, net	17,686	23,291
Depreciation and amortization	15,989	19,626
Provision for uncollectible accounts	4,363	2,425
Interest capitalized and included in assets under construction	(400)	(132)
Interest expense deferred and included in capital lease obligations	-	1,226
Interest expense included in accumulated amortization of deferred financing costs	2,364	178
Other	71	-
Changes in operating assets and liabilities, excluding the effects of reorganization items, dispositions and noncash transactions:		
Receivables	(22,988)	(16,546)
Prepaid expenses and deposits	(774)	(4,153)
Accounts payable and accrued liabilities	8,585	(13,354)
Deferred revenue	(2,685)	(1,441)
Net cash used by operating activities before reorganization items	(31,146)	(20,164)
Reorganization items:		
Reorganization expense, net	(17,686)	(23,291)
Net gain on disposal of long-lived assets	-	(2,954)
Change in liabilities subject to compromise	(14,235)	15,073
Change in post-petition restructuring accruals	1,423	-
Net cash used by operating activities	(61,644)	(31,336)
Cash flows from investing activities:		
Acquisition of property and equipment	(7,898)	(7,609)
Change in prepaid expenses, accounts payable and accrued liabilities for acquisition of property and equipment	295	(2,232)
Proceeds from disposition of property, equipment and other assets	55	1,363
Proceeds from sales of short-term investments available for sale	3,895	-
Decrease (increase) in restricted cash	(79)	64
Decrease (increase) in long-term deposits	(1,279)	2,001
Purchase of short-term investments	-	(10,684)
Net cash used by investing activities	(5,011)	(17,097)

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited), Continued

	Three months ended March 31,	
	2001	2002
	(in thousands)	
Cash flows from financing activities:		
Payments of debt issuance costs	$ (2)	$ -
Reorganization items:		
Principal payments on capital lease obligations subject to compromise	(1,801)	(700)
Net cash used by financing activities	(1,803)	(700)
Net decrease in cash and cash equivalents	(68,458)	(49,133)
Cash and cash equivalents, beginning of period	196,980	146,587
Cash and cash equivalents end of period	$ 128,522	$ 97,454
Supplemental disclosure of cash flows information of continuing operations:		
Cash paid for interest	$ 4,022	$ 4,800
Cash paid for income taxes	$ -	$ -

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1) Business and Summary of Significant Accounting Policies

(a) Organization and Description of Business

ICG Communications, Inc., a Delaware corporation ("ICG"), and its subsidiaries are collectively referred to as the "Company". Prior to November 14, 2000, the Company's common stock was traded on the NASDAQ National Market ("NASDAQ") stock exchange. However, due to the bankruptcy filings described below, the NASDAQ halted trading of the Company's common stock on November 14, 2000 and delisted the stock on November 18, 2000.

The Company provides voice, data and Internet communication services. Headquartered in Englewood, Colorado, the Company operates an integrated metropolitan and nationwide fiber optic infrastructure to offer:

- Dial-Up Services, including primary rate interface and remote access services, on a wholesale basis to national and regional Internet service providers ("ISP"s).
- Point-to-Point Broadband Service, providing traditional special access service to long-distance and long-haul carriers and medium to large sized corporate customers, as well as switched access and SS7 services.
- Corporate Services, primarily retail voice and data services to businesses.

(b) Basis of Presentation

The accompanying financial statements should be read in conjunction with ICG's Annual Report on Form 10-K for the year ended December 31, 2001, as certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission. The Company's interim financial statements are unaudited, but in the opinion of management, reflect all necessary adjustments, which are of a normal recurring nature. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2002.

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

All significant intercompany accounts and transactions have been eliminated in consolidation. Certain 2001 amounts have been reclassified to conform with the 2002 presentation.

(c) Bankruptcy Proceedings

On November 14, 2000 (the "Petition Date"), ICG and all of its subsidiaries, except certain non-operating entities, filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the Federal District of Delaware in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations. ICG and its subsidiaries who also filed for bankruptcy protection are collectively referred to as the "Debtors." The Debtors are currently operating as debtors-in-possession under the supervision of the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

These consolidated financial statements have been prepared in accordance with AICPA Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Pursuant to SOP 90-7, an objective of financial statements issued by an entity in Chapter 11 is to reflect its financial evolution during the proceeding. For that purpose, the financial statements for periods including and subsequent to filing the Chapter 11 petition should distinguish transactions and

events that are directly associated with the reorganization from the ongoing operations of the business. Expenses and other items not directly related to ongoing operations are reflected separately in the consolidated statement of operations as reorganization expenses (see note 2).

The filing of the Chapter 11 cases by the Debtors (i) automatically stayed actions by creditors and other parties in interest to recover any claim that arose prior to the commencement of the cases, and (ii) served to accelerate, for purposes of allowance, all pre-petition liabilities of the Company, whether or not those liabilities were liquidated or contingent as of the Petition Date. Pre-petition liabilities that are subject to compromise are reflected separately in the consolidated balance sheet (see note 3).

Under the Bankruptcy Code, the Company may elect to assume or reject real estate leases, employment contracts, personal property leases, service contracts, and other unexpired executory pre-petition contracts, subject to Bankruptcy Court approval. The Company cannot presently determine with certainty the ultimate aggregate liability that will result from the filing and settlement of claims relating to such contracts which may be rejected.

On December 19, 2001, the Debtors filed a proposed Plan of Reorganization and a Disclosure Statement in the Bankruptcy Court. The Debtors subsequently filed a First Amended Disclosure Statement on March 1, 2002 and a Second Amended Disclosure Statement on March 26, 2002, which was amended on April 3, 2002. (The Plan of Reorganization and the Disclosure Statement, as amended, are collectively referred to herein as the "Plan.") The Plan contemplates the conversion of the Debtors' existing unsecured debt into common equity in the post-bankruptcy, reorganized Company. The Plan also contemplates the issuance of new senior notes to the Debtors' existing secured lenders, the issuance of a new $25 million senior subordinated term loan which is subordinated to the Debtors' existing secured lenders, the issuance of $40 million in new unsecured convertible notes, and for the cancellation of all equity securities previously issued by the Debtors, including all common stock, preferred stock, options and warrants.

A hearing on the adequacy of the Disclosure Statement was held in the Bankruptcy Court on April 3, 2002, at which time the Bankruptcy Court found the Disclosure Statement adequate and authorized the Company to submit the Plan to the Company's creditors for approval. It is anticipated that a confirmation hearing will be held in the Bankruptcy Court on May 20, 2002. Consummation of the Plan is contingent upon receiving final Bankruptcy Court approval, as well as the approval of certain classes of creditors.

When the Plan is approved, the Company will apply "Fresh Start" reporting in accordance with GAAP and the requirements of SOP 90-7. Under Fresh Start reporting the reorganization value of the Company, which generally represents the going concern value, is determined by the Company with assistance from its financial advisors. Upon the effective date of the confirmation of the Plan, a new capital structure will be established and assets and liabilities, other than deferred taxes, will be stated at their relative fair values. Deferred taxes are determined in conformity with the Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes."

The Company, assisted by its financial advisors, Dresdner Kleinwort & Wasserstein, Inc., evaluated the reorganization value of the Company in connection with the filing of the Plan. The reorganization value of the Company on a going concern basis was estimated to be between $350 million and $500 million. This evaluation of the Company resulted in a range of values for the new common equity of between approximately $102 million and $252 million. This range of reorganization values in the Plan indicates that a fair value adjustment to reduce the value of property and equipment of up to $220 million may be necessary. However, the Plan assumptions may differ from the actual business conditions at the date of emergence from bankruptcy. Therefore, the fair values assigned to assets and liabilities upon emergence from bankruptcy may also be different. The fair value adjustment to property and equipment, if any, will be recorded upon emergence from bankruptcy once the final enterprise value is determined. This value is derived by subtracting the Company's reorganization value from the projected funded debt on the pro forma balance sheet for the Company on the date of

emergence from bankruptcy. The valuation is based on numerous assumptions, including, among other things, the achievement of certain operating results, market values of publicly-traded securities of other similar companies, and general economic and industry conditions.

No assurance can be given, however, that the Company will be successful in reorganizing its affairs within the Chapter 11 bankruptcy proceedings. Because of the ongoing nature of the reorganization cases, the outcome of which is not determinable until finally approved by the creditors and the Bankruptcy Court, the consolidated financial statements contained herein are subject to material uncertainties.

The bankruptcy filing and the severe downturn in the telecommunications industry have had a significant negative effect on the Company's basic operations and its dealings with all third parties including its customers, vendors and employees. Significant amounts of both pre-petition and post-petition billings to customers and costs billed to the Company by vendors are in dispute. Some of these disputes have resulted in litigation as discussed in note 8. As a result, significant judgment is needed in determining the proper presentation and valuation of revenues and costs in the financial statements. The Company expects that negotiations with major customers and vendors to settle disputed amounts could involve a lengthy process. The Company cannot predict the possible outcome of such negotiations.

Accordingly, the consolidated financial statements do not include adjustments to the recorded amounts or classification of assets or liabilities or reflect amounts that may ultimately be required to settle such contingencies or any other contingencies which may be required pursuant to the Company's Chapter 11 proceedings.

The ability of the Company to continue as a going concern is dependent upon, but not limited to, the approval and confirmation of the Plan, access to adequate sources of capital, customer and employee retention, the ability to provide high quality services and the ability to sustain positive results of operations and cash flows sufficient to continue to fund operations. As a result of these and other uncertainties, there is substantial doubt about the Company's ability to continue as a going concern.

(2) Reorganization Expense, Net

In accordance with SOP 90-7 (see note 1), the Company has segregated and classified certain income and expenses as reorganization items. The following reorganization items were incurred during the three months ended March 31, 2001 and 2002, respectively:

	Three Months Ended March 31,	
	2001	2002
	(in thousands)	
Severance and employee retention costs	$ 10,259	$ 312
Legal and professional fees	6,451	3,708
Switch site closure costs	2,093	706
Contract termination expenses	472	21,554
Net gain on disposal of long-lived assets	-	(2,954)
Interest income	(2,628)	(577)
Other	1,039	542
Total	$ 17,686	$ 23,291

The Company is required to reconcile recorded pre-petition liabilities with claims filed by its creditors with the Bankruptcy Court. Differences resulting from that reconciliation process are recorded as adjustments to pre-petition liabilities with an offset for significant items not relating to ongoing operations included in reorganization expense, net. During the three months ended March 31, 2002 the Company recorded an increase in pre-petition liabilities of $21 million for contract termination expenses. Of this, $19 million is

related to a pre-petition contract for system design and implementation. In the first quarter of 2002, in connection with its ongoing reconciliation of outstanding claims, the Company determined that this amount should be recognized as additional pre-petition liability. The Company also renegotiated certain capital leases to reduce the amount of equipment under lease, resulting in a net gain of $3 million in the first quarter of 2002.

(3) Liabilities Subject to Compromise

Pursuant to SOP 90-7 (see note 1), the Company has segregated and classified certain pre-petition obligations as liabilities subject to compromise. Liabilities subject to compromise have been recorded at the allowed claim amount. The following table sets forth the liabilities of the Company subject to compromise as of December 31, 2001 and March 31, 2002, respectively:

	December 31, 2001	March 31, 2002
	(in thousands)	
Unsecured long-term debt	$ 1,968,781	$ 1,968,781
Unsecured creditors	476,243	491,276
Capital lease obligations, secured	166,637	163,305
Capital lease obligations, unsecured	18,881	18,251
Secured long-term debt	85,503	85,503
Priority creditors	13,545	13,500
	$ 2,729,590	$ 2,740,616

Liabilities to unsecured creditors increased primarily due to contract termination expenses recognized during the quarter ended March 31, 2002. Capital lease obligations, secured, decreased as a result of the Company having renegotiated in the first quarter of 2002 certain capital leases to reduce the amount of equipment under lease.

As a result of the Company's bankruptcy proceedings, all prepetition contractual debt payments are suspended and subject to revised payment terms during the bankruptcy process on a case by case basis. As of March 31, 2001, the Company is in default with respect to all of its prepetition debt. All deferred financing costs have been written off, except the $3 million at March 31, 2002 that relates to the fully secured long-term debt (the "Senior Facility") of $85 million. The Company continues to accrue and make interest payments on the Senior Facility, as approved by the Bankruptcy Court. The payment of principal due under the Senior Facility has been stayed by the Bankruptcy Court.

The Plan contemplates the conversion of the Debtors' existing unsecured debt into common equity in the post-bankruptcy, reorganized Company. The Plan also contemplates the issuance of a new $25 million senior subordinated term loan (the proceeds of which would be utilized to pay down the Senior Facility to a balance of $60 million), the restructuring of the Senior Facility with new terms and new notes, and the issuance of $40 million in new unsecured convertible notes.

(4) Short-term Investments

The Company invests in high-grade debt instruments with a maturity greater than three months, but less than one year. At March 31, 2002 short-term investments consist of U.S. Treasury securities that are considered available-for-sale. The estimated fair value of the short-term investments approximates cost.

(5) Property and Equipment

Property and equipment, including assets held under capital leases, is comprised of the following:

	December 31, 2001	March 31, 2002
	(in thousands)	
Land	$ 1,214	$ 1,214
Buildings and improvements	50,358	50,512
Furniture, fixtures and office equipment	33,593	34,178
Machinery and equipment	14,548	17,262
Fiber optic equipment	150,982	168,918
Switch equipment	136,133	155,962
Fiber optic network	90,137	89,170
Site improvements	11,245	11,253
Construction in progress	95,415	63,706
Assets held for sale	8,570	7,209
	592,195	599,384
Less accumulated depreciation	(61,008)	(79,168)
	$ 531,187	$ 520,216

Property and equipment includes $64 million of equipment that has not been placed in service and $7 million of equipment that is being held for sale at March 31, 2002, and, accordingly, is not being depreciated.

During the first quarter of 2002, the Company placed in service $42 million of property and equipment, primarily comprised of fiber optic and switch equipment, which relates primarily to five new circuit switch sites that were completed during the period.

(6) Major Customer

A significant amount of the Company's revenue is derived from long-term contracts with large customers, including one major customer (the "Customer"). Revenue from the Customer accounted for 10% and 26% of total revenue in the three months ended March 31, 2001 and 2002, respectively.

Prior to the bankruptcy filing, the Company and the Customer developed a number of important and mutually valuable business relationships, governed by a plethora of contracts (collectively the "Pre-petition Agreements"). During the pendency of the Chapter 11 cases, both the Company and the Customer asserted various breaches of, and claims under, the Pre-petition Agreements. Following lengthy negotiations, the parties agreed to enter into a settlement resolving all of the claims and issues between the parties (the "Settlement Agreement") in order to continue a cooperative, mutually beneficial relationship and to avoid potentially costly litigation. The Settlement Agreement was approved by the Bankruptcy Court in June 2001.

The Settlement Agreement contemplates the transfer of certain of the Company's assets with a net carrying value at March 31, 2002 of approximately $13 million and a remaining economic life of approximately 2 years. The transfer requires the approval by a major vendor whose approval is contingent upon acceptance of the Plan by the Bankruptcy Court. Further, the transfer requires approval by the secured lenders. Management believes that the release of pre-existing liens on this equipment by the secured lenders is remote. Therefore, the transfer of the assets has not been reflected in the financial statements as of March 31, 2002.

At March 31, 2002 the Company had $145 million of deferred revenue related to an agreement, which was not part of the Settlement Agreement, to provide exclusive service to the Customer over designated portions of the Company's local fiber optic networks (see note 8).

(7) Settlement with SBC Communications, Inc.

In January 2002, SBC Communications, Inc., on behalf of various subsidiaries (collectively "SBC") filed a motion in the Company's Bankruptcy case seeking permission to terminate the services it provides the Company pursuant to its interconnection agreements. SBC contended that the Company owed SBC in excess of $24 million related to past billing, and, as a result, should be entitled to terminate services and pursue an administrative claim for the alleged past due receivable. SBC also filed a motion in January 2002 objecting to the Company's Disclosure Statement on the grounds that it did not adequately provide sufficient information with respect to the Company's ability to pay its alleged obligations to SBC. The Company filed a response to SBC's motions stating that it did not owe a significant portion of the alleged past due amount. Additionally, the Company's response provided that SBC owed the Company more for services the Company provided SBC than the Company owed SBC. The Company retained legal counsel to defend itself against SBC's claims and pursue its counterclaims.

On March 29, 2002 the Company and SBC entered into a settlement agreement regarding wholesale services provided by SBC and the Company to each other pursuant to the interconnection agreements. On April 30, the Bankruptcy Court issued an order approving the terms of the settlement. Pursuant to the terms of the settlement, the Company recorded a net $5 million of non-recurring reciprocal compensation revenue in the three months ended March 31, 2002. As no expenses were directly attributable to the settlement, none were recorded in the three months ended March 31, 2002.

On May 10, 2002, the order became final and non-appealable. Only amounts allegedly owed for the retail services, which are not governed by the interconnection agreements, have yet to be resolved. The Company believes that the ultimate resolution of the remaining items relating to retail services will be immaterial to the Company's operating results.

(8) Commitments and Contingencies

As a result of the Company's filing for bankruptcy protection, all commitments and contingencies could be substantially modified during the Company's bankruptcy restructuring process.

(a) Network Capacity and Construction

At March 31, 2002 the Company had $145 million of deferred revenue, which is included in liabilities subject to compromise, related to an agreement with the Customer to provide exclusive service over designated portions of the Company's local fiber optic networks. The Customer has not yet ordered from the Company, and the Company has not yet delivered, certain equipment and services required by this agreement. The Company is currently negotiating with the Customer to resolve the issue of future services. The Company recognized $2 million of revenue in the three months ended March 31, 2001 and 2002 relating to this agreement. The Company anticipates that the deferred revenue balance will be revalued in connection with Fresh Start based on the expected value of providing future services. The Plan as submitted reflects a deferred revenue balance of $52 million related to this agreement in the projected pro-forma reorganized balance sheet. The actual value of the deferred revenue after application of Fresh Start may differ.

(b) Other Commitments

The Company has entered into various equipment and line purchase agreements with certain of its vendors. Under these agreements, if the Company does not meet a minimum purchase level in any given year, the vendor may discontinue certain discounts, allowances and incentives otherwise provided to the Company. In addition, either the Company or the vendor, upon prior written notice, may terminate the agreements.

(c) ***Litigation***

During the third and fourth quarters of 2000, the Company was served with fourteen lawsuits filed by various shareholders in the Federal District Court for the District of Colorado. All of the suits were consolidated in October 2001 and an amended consolidated complaint was filed in February 2002. The consolidated amended complaint names as defendants the Company's former CEO, J. Shelby Bryan, the Company's former President, William S. Beans, Jr. and the Company's former CFO, Harry R. Herbst. The consolidated amended complaint seeks unspecified damages for alleged violations of Rules 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaints seek class action certification for similarly situated shareholders. At this time, the Company is not a defendant as all claims against the Company have been stayed pursuant to the Company's filing for bankruptcy.

In January 2001, certain shareholders of ICG Funding, a wholly owned subsidiary of the Company, filed an adversary proceeding in the United States Bankruptcy Court against the Company and ICG Funding. In April 2001, the Company and ICG Funding finalized a settlement agreement with the shareholders, which has been approved by the Bankruptcy Court. Under the terms of the settlement, the shareholders received approximately two thirds of the funds in the escrow account and the Company received the remaining one third of the escrowed funds, subject to certain contingencies and holdbacks related to shareholders that did not participate in the settlement.

The Company is a party to certain other litigation that has arisen in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(d) ***Line Cost Disputes***

The Company significantly reduced facilities leased from other local exchange carriers ("LEC"s) throughout the year ended 2001. In addition, these facilities providers changed ICG's billing account numbers ("BANs") throughout the year in an attempt to segregate pre- and post-petition billing activity. Frequently, disconnected services were not reflected on ICG's invoices or not reflected in a timely manner, resulting in inaccurate invoices and significant disputes. The assignment of new BANs frequently resulted in incorrect balances being carried forward on invoices. As a result of these and other types of billing issues, the Company is in negotiations with these providers regarding amounts owed by the Company for leased facilities. The Company believes line cost expenses and related accrued liabilities are properly stated and, where appropriate, adequate reserves provided.

ITEM 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This section and other parts of this Report contain "forward-looking statements" intended to qualify as safe harbors from liability as established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statements include words such as "intends," "anticipates," "expects," "estimates," "plans," "believes" and other similar words. Additionally, statements that describe the Company's future plans, objectives or goals also are forward-looking statements. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results or outcomes to differ materially from those currently anticipated. Factors that could affect actual results include, but are not limited to, the following:

- *The material uncertainty of the Company's ability to continue as a going concern due to the filing for protection under bankruptcy law;*
- *The approval and confirmation of a plan of reorganization;*
- *The significant amount of indebtedness incurred by the Company and the Company's ability to successfully restructure this indebtedness within the bankruptcy proceeding;*
- *The existence of historical operating losses and the possibility of continued operating losses;*
- *The Company's ability to achieve and sustain a level of operating profitability sufficient to fund its business;*
- *The Company's ability to successfully maintain commercial relationships with its critical vendors and suppliers;*
- *The Company's ability to retain its major customers on profitable terms;*
- *The extensive competition the Company will face;*
- *The Company's ability to attract and retain qualified management and employees;*
- *The Company's ability to access capital markets in a timely manner, at reasonable costs and on satisfactory terms and conditions;*
- *Changes in, or the Company's inability to comply with, existing government regulations; and,*
- *General economic conditions and the related impact on demand for the Company's services.*

These forward-looking statements speak only as of the date of this Quarterly Report. The Company does not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Although the Company believes that its plans, intentions and expectations reflected in or suggested by the forward-looking statements made in this Quarterly Report are reasonable, there is no assurance that such plans, intentions or expectations will be achieved.

The results of operations for the three months ended March 31, 2001 and 2002 represent the consolidated operating results of the Company. (See the unaudited consolidated financial statements of the Company for the three months ended March 31, 2002 included elsewhere herein.) The terms "fiscal" and "fiscal year" refer to the Company's fiscal year ending December 31. All dollar amounts are in U.S. dollars.

REORGANIZATION AND EMERGENCE FROM BANKRUPTCY

During the second half of 2000, a series of financial and operational events negatively impacted ICG and its subsidiaries. These events reduced the Company's expected revenue and cash flow generation for the remainder of 2000 and 2001, which in turn jeopardized the Company's ability to comply with its existing senior secured credit facility (the "Senior Facility"). As a result of these and other events, on November 14, 2000 (the "Petition Date") ICG and most of

its subsidiaries (except for certain non-operating entities), filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the Federal Court for the District of Delaware (the "Bankruptcy Court"). The filings were made in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations. The Company and its filing subsidiaries are currently operating as debtors-in-possession under the supervision of the Bankruptcy Court.

Under the Bankruptcy Code, the rights and treatment of pre-petition creditors and shareholders will be substantially altered. As a result of these bankruptcy proceedings, virtually all liabilities, litigation and claims against the Company that were in existence as of the Petition Date are stayed unless the stay is modified or lifted or payment has been otherwise authorized by the Bankruptcy Court. Because of the bankruptcy filings, all of the Company's liabilities incurred prior to the Petition Date, including certain secured debt, are subject to compromise. At this time, it is not possible to predict with certainty the outcome of the Chapter 11 cases in general, the effects of such cases on the Company's business, or the effects on the interests of creditors.

On December 19, 2001, the Company and its debtor subsidiaries filed a proposed Plan of Reorganization and a Disclosure Statement in the Bankruptcy Court. The Company subsequently filed a First Amended Disclosure Statement on March 1, 2002 and a Second Amended Disclosure Statement on March 26, 2002, which was amended on April 3, 2002. (The Plan of Reorganization and the Disclosure Statement, as amended, are collectively referred to herein as the "Plan.")

A hearing on the adequacy of the Disclosure Statement was held in the Bankruptcy Court on April 3, 2002, at which time the Bankruptcy Court found the Disclosure Statement adequate and authorized the Company to submit the Plan to the Company's creditors for approval. It is anticipated that a confirmation hearing will be held in the Bankruptcy Court on May 20, 2002. Consummation of the Plan is contingent upon receiving final Bankruptcy Court approval, as well as the approval of certain classes of creditors.

In general, the Plan provides for the Company's capital restructuring by (i) reducing the Senior Facility by $25 million using the proceeds of a new senior subordinated term loan and exchanging the balance of the Senior Facility (approximately $60 million) into new secured debt (the "Secured Notes") and (ii) converting general unsecured claims (as defined by the Plan), which include the claims of the publicly held unsecured debentures, into approximately 8 million new shares of common stock of the reorganized ICG (the "New Common Shares"). Additionally, the Company intends to issue approximately $40 million of new convertible notes that will be convertible into New Common Shares. Under the Plan, there will be no recovery for holders of existing preferred or common equity securities of the Company, whose interests will be cancelled.

The Company's management, assisted by its financial advisors, Dresdner Kleinwort & Wasserstein, Inc., evaluated the reorganization value of the Company in connection with the filing of the Plan. The reorganization value of the Company on a going concern basis was estimated to be between $350 million and $500 million. This evaluation of the Company resulted in a range of values for the new common equity of between approximately $102 million and $252 million. The Plan as submitted reflects a reorganization value of $413 million, which includes a valuation of the new common equity totaling $165 million.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, uncollectible accounts receivable, long-lived assets, operating costs and accruals, reorganization costs, litigation and contingencies. Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management

believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of its consolidated financial statements.

Long-Lived Assets

The Company provides for the impairment of long-lived assets, including goodwill, pursuant to Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", which requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Such events include, but are not limited to, a significant decrease in the market value of an asset, a significant adverse change in the business climate that could affect the value of an asset or a current period operating or cash flow loss combined with a history of operating or cash flow losses. An impairment loss is recognized when estimated undiscounted future cash flows, before interest, expected to be generated by the asset are less than its carrying value. Measurement of the impairment loss is based on the estimated fair value of the asset, which is generally determined using valuation techniques such as the discounted present value of expected future cash flows, appraisals or other pricing models as appropriate.

The Company recognized impairments of long-lived assets of approximately $1.7 billion and $28 million during the years ended December 31, 2000 and 2001, respectively. The Company expects to recognize a further write-down in the value of long-lived assets of up to $220 million upon emergence from bankruptcy.

Financial Reporting by Entities in Reorganization under the Bankruptcy Code

These consolidated financial statements have been prepared in accordance with AICPA Statement of Position ("SOP") 90-7. Pursuant to SOP 90-7, an objective of financial statements issued by an entity in Chapter 11 is to reflect its financial evolution during the proceeding. For that purpose, the consolidated financial statements for periods including and subsequent to filing the Chapter 11 petition should distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Expenses and other items not directly related to ongoing operations are reflected separately in the consolidated statement of operations as reorganization expenses. Reorganization expenses were $18 million and $23 million, net of a gain of $3 million in 2002, during the three months ended March 31, 2001 and 2002, respectively.

Upon confirmation of the Plan, the Company will apply "Fresh Start" reporting in accordance with generally accepted accounting principles ("GAAP") and the requirements of SOP 90-7 "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Under Fresh Start reporting the reorganization value of the Company, which generally represents the going concern value of the Company, is ultimately determined pursuant to the approval of the Company's Plan by the Company's creditors and the Bankruptcy Court. Upon the effective date of the Plan (hereinafter, the "Effective Date"), a new capital structure will be established and assets and liabilities, other than deferred taxes, will be stated at their relative fair values. Deferred taxes are determined in conformity with SFAS No. 109, "Accounting for Income Taxes."

As of the Effective Date, it is anticipated that approximately $2.5 billion of unsecured creditor and debt liabilities will be discharged for new equity with an estimated value of approximately $160 million. In addition, the existing outstanding preferred and common stock, including warrants and options, will be extinguished. (*See* Liquidity and Capital Resources section.)

COMPANY OVERVIEW

ICG is a facilities-based, nationwide communications provider focused on providing data and voice services to Internet service providers ("ISPs"), telecommunication carriers and corporate customers. ICG is a competitive local exchange carrier ("CLEC") certified in most of the United States, having interconnection agreements with every major local exchange carrier. ICG's facilities support three product offerings: (i) Dial-Up Services, providing wholesale managed modem connection to ISPs and other carriers; (ii) Point-to-Point Broadband, or special access service, providing dedicated broadband connections to other carriers, as well as SS7 and switched access services; and (iii) Corporate Services, providing voice and data services to corporate customers with an emphasis on Dedicated Internet Access ("DIA") services.

- **Dial-Up Services**: The Company provides primary rate interface ("PRI") ports (one and two way) and managed modem services ("IRAS") to many of the largest national ISPs and other telecommunications carriers, as well as to numerous regional ISPs and other communication service companies. Most of these services are on-switch through the Company's owned facilities. Before the related reciprocal compensation, revenue from these services accounted for 39% of the Company's total first quarter 2002 revenue. Associated reciprocal compensation revenue accounted for 16% of the Company's revenue.

- **Point-to-Point Broadband Service**: The Company provides dedicated bandwidth to connect (i) long-haul carriers to local markets, large corporations and other long-haul carrier facilities and (ii) large corporations to their long-distance carrier sites and other corporate locations. Special access sales are focused in areas where ICG maintains local fiber and buildings on-net or in close proximity. Point-to-Point Broadband service also includes switched access and SS7 services. Point-to-Point Broadband service accounted for 27% of the Company's total first quarter 2002 revenue.

- **Corporate Services**: The Company offers Internet access, data and voice service to corporate customers. ICG is well positioned to expand this service with its metropolitan asset base, data network infrastructure, and Internet experience. Corporate Services accounted for 18% of total first quarter 2002 revenue.

To provide its service offerings, ICG combines its 5,542 route miles of metropolitan and regional fiber network infrastructure, nationwide data backbone, data POPs, 25 asynchronous transfer mode ("ATM") switches, numerous private and public Internet peering arrangements and 47 voice and data switches. The Company's data network is supported by a nationwide fiber optic backbone currently operating at OC-12 capacity. The design of the physical network permits the Company to offer flexible, high-speed telecommunications services to its customers.

The metropolitan and regional network infrastructure consists of fiber optic cables and associated advanced electronics and transmission equipment. The Company's network is generally configured in redundant synchronous optical network ("SONET") rings to make the network accessible to the largest concentration of telecommunications intensive business customers within a given market. This network architecture also offers the advantage of uninterrupted service in the event of a fiber cut or equipment failure, thereby resulting in limited outages and increased network reliability in a cost efficient manner.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

Reorganized Capital Structure

Under the Company's proposed Plan, the senior secured financing facility ("Senior Facility") will be restructured with new terms and new notes (the "Secured Notes"), which will be issued to the lenders. The balance due on the Secured Notes will be approximately $60 million. In addition, the Plan is premised upon obtaining $65 million of new exit financing comprised of three components: (i) a $25 million new senior subordinated secured term loan (the "Senior Subordinated Term Loan"), the proceeds of which will be utilized to partially repay the Senior Facility; (ii) the issuance by the Company of $40 million of new unsecured convertible notes (the "Convertible Notes"), the proceeds of which will be utilized by the Company for general working capital and corporate purposes; and (iii) the Secured Notes. (The Senior Subordinated Term Loan, the Convertible Notes and the Secured Notes are collectively referred to as the "Exit Financing".)

As proposed in the Company's Plan, the Senior Subordinated Term Loan will be arranged by Cerberus Capital Management, L.P. ("CCM") and the Convertible Notes will be purchased by a group of institutions with CCM being the predominant investor. Among other terms and conditions, the Senior Subordinated Term Loan (i) shall be subordinated to the Secured Notes, (ii) shall be secured by liens on substantially all assets of the Company, junior to the liens securing the Secured Notes, (iii) shall mature four (4) years from the Effective Date, (iv) shall have no amortization prior to maturity, and (v) shall bear interest at the rate of fourteen percent (14%) per annum, payable monthly in arrears.

Among other terms and conditions, the Convertible Notes shall: (i) be unsecured, (ii) be subordinated to the Secured Notes and the Senior Subordinated Term Loan, (iii) shall be convertible at any time into 2,250,000 new common shares, and (iv) shall be issued with non-detachable shares of preferred stock of the reorganized ICG with an

aggregate liquidation preference of $10,000. The holders of the Convertible Notes will have voting rights equivalent to the voting rights of the holders of the New Common Shares on an as converted basis. In addition, subject to certain percentage ownership requirements, the Convertible Notes will entitle CCM to appoint five (5) directors to the reorganized Company's Board of Directors, W. R. Huff Asset Management Co. L.L.P. to appoint two (2) directors and Morgan Stanley & Co., on behalf of the Company's unsecured creditors, will be entitled to select one board member. The Company's current CEO, Mr. Randall Curran, will serve as Chairman of the Board of Directors. In addition, certain corporate actions will require the approval of a supermajority of the Board.

The proposed Exit Financing is contingent upon the Company consummating its Plan, which will include obtaining the necessary approvals from the Bankruptcy Court and the Company's creditors. The Plan contains the endorsement of the Company's official committee of unsecured creditors and their recommendation that the creditors vote to accept the Plan; however, there is no assurance that the Bankruptcy Court and the Company's creditors will approve of the proposed Plan. Additionally, the Exit Financing remains subject to a number of conditions precedent, including the completion of final documentation, the absence of any material adverse change in the Company's business or financial condition and the absence of any material disruption in the financial markets.

The following table, Condensed Capital Structure, compares the capital structure of the Company as of March 31, 2002, as reported in the Company's interim unaudited financial statements, with the projected pro forma reorganized capital structure of the reorganized ICG upon confirmation of the Plan. Amounts presented below as the Projected Pro Forma elements of the reorganized ICG's capital structure are taken from the Company's Plan that assumes an effective date of confirmation of the Plan of April 30, 2002.

Condensed Capital Structure

	Actual March 31, 2002	Projected Pro Forma Reorganized April 30, 2002
	(in thousands)	
Capital lease obligations:		
Corporate headquarters	$ 50,852	$ 50,902
Other	181,556	47,738
Total capital lease obligations	232,408	98,640
Secured long-term debt		
Senior facility	84,574	—
Secured Notes	—	59,574
Other secured debt	929	24,463
Total secured long-term debt	85,503	84,037
Senior Subordinated Term Loan	—	25,000
Convertible Notes, net of $5 million of debt discount	—	35,000
Unsecured long-term debt	1,968,781	—
Total debt	2,286,692	242,677
Preferred stock	1,326,745	—
Stockholders' equity (deficit)	(3,476,041)	165,000
Total debt and stockholders' equity	$ 137,396	$ 407,677

The Company has received commitment letters for the Exit Financing, however, these commitments remain subject to a number of conditions precedent, including without limitation (i) completion of final documentation and (ii) absence of any material adverse change in the Company's business or material disruption in the financial markets. There can be no assurance that these conditions will be satisfied (or waived), and if not, the Company will not obtain the financing provided thereby.

As stated above, the Plan is premised upon reorganized ICG obtaining the Exit Financing. In the event the Company does not obtain such financing, the Company's ability to execute its Plan and meet future commitments will be materially adversely impacted.

Capital lease obligations primarily include long-term leases for certain fiber facilities and the headquarters building and are projected to total $98.6 million at the Effective Date. The effective interest rate is assumed to average 14.8% per annum for fiber leases and 11.7% per annum for the building.

The Secured Notes are projected to have a principal balance of $60 million outstanding as of the Effective Date. Interest on the Secured Notes will be accrued as a premium over LIBOR or a premium over the bank's prime rate and will be payable monthly in arrears. If outstanding at March 31, 2002 the rate payable is estimated to have been 8.0% per annum. The principal balance of the Secured Notes is projected to begin amortizing in 2003 and will mature in 2005.

The $25 million Senior Subordinated Term Loan will accrue interest at 14% and will be payable monthly in arrears. The Senior Subordinated Term Loan will mature in four years. In addition, warrants to purchase 200,000 New Common shares of the reorganized ICG will be issued in connection with the Senior Subordinated Term Loan. The warrants will have an exercise price equal to the reorganization value assigned to the Company and will expire, if unexercised, on the fifth anniversary of Effective Date.

The $40 million of Convertible Notes will be convertible into 2,250,000 New Common Shares of the reorganized ICG at the Effective Date. This effective conversion price (i.e. $17.78 per share) is 11.1% below the value of the New Common shares as of the Effective Date (i.e. $20.00 per share) representing a $5 million value associated with the conversion rights. Interest will accrue at the rate of 11% per annum compounded quarterly and will be paid in the form of additional Convertible Notes and conversion rights. Payments on Convertible Notes, to the extent not converted, will mature on the seventh anniversary of the Effective Date. The $5 million value of the initial conversion rights associated with the Convertible Notes has been established as debt discount with a corresponding increase to additional paid in capital of stockholders' equity to reflect the impact of such beneficial conversion feature in the accompanying table.

The Secured Notes and the Senior Subordinated Term Loan will require the Company to meet certain financial covenants. The financial covenants will include minimum EBITDA requirements and capital expenditure limitations. The covenants will also require that the Company maintain a minimum cash balance calculated as a ratio to the outstanding balance of the Secured Notes. Certain of these financial covenants will be established based on the Company's projected financial results set forth in the Plan. The Company's Plan, however, is based on the good faith assumptions and projections of management, which are inherently uncertain. Actual results could differ materially from the Company's Plan, which in turn could negatively impact the Company's compliance with the financial covenants.

Additionally, the minimum cash covenant will be established by the secured lenders without reference to the Company's financial projections. Based on the Company's current EBITDA projections, and assuming the Company does not raise additional funds, or cut its projected capital spending, the Company would need to request a modification or waiver with respect to the minimum cash coverage ratio covenant by the fourth quarter of 2003. Management anticipates that the Company's business plan provides sufficient flexibility to reduce spending as appropriate to remain in compliance with this covenant. New sources of capital may also be available beyond that which is currently projected by management. There is no assurance, however, that these objectives can be realized, or that the Company will be able to secure additional capital or alternative financing. In such event, the secured lenders could declare a default and take certain actions that would require the Company to accelerate repayment.

Other secured debt as of the Effective Date consists primarily of notes issued to vendors and taxing authorities and are projected to have a principal balance totaling $24.5 million. Associated interest expense is projected at 7.0% to 10% per annum, payable monthly.

Other Sources of Funding

The Company had cash and cash equivalents of $97 million at March 31, 2002. The Company also had $11 million of short-term investments held as available-for-sale at March 31, 2002.

The Company expects that the demand for telecommunication services will grow and, notwithstanding the current downturn in the general economy and specifically the telecommunications industry, that it will be able to increase its relatively small share of the markets it serves. The Company also believes that as the Company's revenues grow, cash provided by operating activities will increase. The Company anticipates that it will be able to refinance all or a portion of the amounts due at the term of the respective facilities.

Capital Commitments

Capital Expenditures

Capital expenditures are projected to be approximately $98 million in 2002 and $500 million through 2005. An estimated 25% to 35% of the expenditures in 2002 will be incurred to maintain the current functionality of the network infrastructure and information and business support systems, such as software upgrades and replacement of physically obsolete equipment. Capital expenditures, exclusive of amounts required to maintain the current functionality will be driven by customer demand for the Company's services. If customer demand for new services does not meet the expectation of the Plan, capital expenditures will be proportionally reduced.

The Company also has available capacity on its data backbone and in its modem banks. It is the Company's objective to use this capacity to generate future revenue streams.

Assessment of Risks and Uncertainty

Availability of Financing

The Company believes that cash and short-term investments should enable the Company to fund operations into 2004, when the Company plans to refinance the Secured Notes. There can be no assurance, however, that such resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements, or that the Company will achieve or sustain profitability or positive EBITDA in the future, which will allow it to maintain cash reserve or attract capital with which to refinance the Secured Notes.

As stated above, the Plan is premised upon the reorganized ICG obtaining the Exit Financing on the Effective Date. In the event the Company does not obtain such financing, the Company's ability to execute its business plan and meet future commitments will be materially adversely impacted.

Business Environment

The general economic downturn and the severe downturn in the telecommunications industry have resulted in an increased risk to the Company in the form of exposure to credit risk from existing customers, increased churn (especially in Point-to-Point Broadband services) and oversupply of backbone and other services, creating increased pricing pressures.

Due to the impacts of a slowing economy, which has resulted in customers going out of business, filing bankruptcy or looking for opportunities to cut costs, the Company has experienced an acceleration of customers disconnecting services that has resulted in downward pressure on revenue. In addition, customers are taking longer to make buying decisions, lengthening the sales cycle. During the first quarter 2002, $2 million of recurring revenue was eliminated due to customer disconnections.

Management believes that such pressure will continue to negatively impact revenue performance for the first half of 2002 and possibly longer. Approximately 4% of the Company's March, 2002 recurring revenue was earned from customers who had filed for Chapter 11 bankruptcy protection as of April 30, 2002. Other customers of the Company have been adversely affected by overall industry trends and may also be experiencing financial difficulties. The Company anticipates further disconnections due to customers optimizing their existing networks, continued cost cutting efforts, and additional customer bankruptcies or other financial difficulties. There is no assurance that the Company will be able to replace lost revenue with new revenue from sales.

Additional factors that could negatively impact the Company's margins in a slowing economy includes below-cost pricing by some competitors to increase short-term cash flow. In addition, pricing pressure from long-haul providers

could impact pricing of inter-city point-to-point services. However, the Company believes that its margins will be improved by its ability to sell services on its extensive networks that extend beyond the highly competitive routes.

Reciprocal compensation revenue is primarily associated with the Company's Dial-Up revenue and represents compensation from other local exchange carriers ("LEC"s) for local exchange traffic originated on another LEC's facilities and terminated on the Company's facilities. Reciprocal compensation rates are established by interconnection agreements between the parties. In most states in which the Company provides services, regulatory bodies have established lower traffic termination rates than the rates provided under the Company's interconnection agreements. As a result, future rates will likely be lower than the rates under the expiring interconnection agreements. In addition, a 2001 FCC ruling on reciprocal compensation for ISP-bound traffic reduced rates in 2001 and will further reduce rates in January 2002 and June 2003. The ruling also capped the number of minutes that can be billed for ISP-bound traffic. An appeal of the ruling was filed in February 2002 and a decision is expected in mid-2002. Reciprocal compensation represented 13% and 16% of revenue in the three months ended March 31, 2001 and 2002, respectively. The Company believes that the revenue earned from reciprocal compensation will be significantly reduced in future years.

The immense capital investments made in the telecommunications industry have created an oversupply of network infrastructure which, combined with rapid technological advancements that have the potential to reduce operating costs and intense competition from numerous participants in most of the Company's markets, have resulted in significant pricing pressure in each of the Company's main service areas. While the Company believes it is price competitive overall, it cannot predict the extent of further pricing pressures and potential adverse impacts to future operating results.

Loss of significant customer

The Company has substantial business relationships with a few large customers. For the three months ended March 31, 2001, and 2002, the top ten customers accounted for 44% and 55%, respectively, of total revenue. The Company's largest customer accounted for 10% and 26% of total revenue in the three months ended March 31, 2001, and 2002, respectively. In the first quarter of 2002 the companies that individually represented more than 5% of total revenue were Qwest Communications, Inc. and UUNet (a division of WorldCom, Inc.).

Off Balance Sheet Financing

The Company has no off balance sheet financing other than long term commitments for operating leases and rents.

Historical Cash Activities

Net Cash Used By Operating Activities

The Company's operating activities used $62 million and $31 million in the three months ended March 31, 2001 and 2002, respectively. The Company's operating activities before reorganization items used $31 million and $20 million in 2001 and 2002, respectively. Net cash used by operating activities is primarily due to losses from continuing operations and decreases in working capital, offset by non-cash charges such as depreciation and amortization, provision for uncollectible accounts and deferred interest expense.

Operating reorganization items represent primarily non-cash items incurred during the bankruptcy process and are comprised primarily of changes in liabilities subject to compromise and post-petition accruals directly related to the restructuring.

Net Cash Used By Investing Activities

Investing activities used $5 million and $17 million in the three months ended March 31, 2001 and 2002, respectively. Net cash used by investing activities is primarily comprised of cash purchases of property and equipment, buying and selling of short-term investments and fluctuations in long-term deposit balances.

Net Cash Used By Financing Activities

Financing activities used $2 million and $1 million in the three months ended March 31, 2001 and 2002, respectively. Cash used by financing activities in 2001 and 2002 represents primarily principal payments on capital lease obligations that are subject to compromise.

The Company continues to make interest-only payments on the Senior Facility balance as approved by the Bankruptcy Court. The payment of principal due under the Senior Facility has been stayed by the Bankruptcy Court. The Company anticipates that in connection with the Exit Financing proposed in its Plan (see "Reorganized Capital Structure" under "Liquidity and Capital Resources"), the Company will repay $25 million on or about the Effective Date, and the remaining $60 million will be replaced with the Secured Notes.

As of March 31, 2002, the Company had an aggregate accreted value of approximately $2 billion outstanding under the 13 1/2% Senior Discount Notes due 2005, the 12 1/2% Senior Discount Notes due 2006, the 11 5/8% Senior Discount Notes due 2007, the 10% Notes and the 9 7/8% Notes. It is anticipated that this debt will be discharged pursuant to the confirmation of the Company's Plan.

As of March 31, 2002, an aggregate amount of approximately $1.3 billion was outstanding under the 6 3/4% Preferred Securities, the 14% Preferred Stock, the 14 1/4% Preferred Stock and the 8% Series A Convertible Preferred Stock. It is anticipated that the preferred stock will be extinguished pursuant to the confirmation of the Company's Plan.

The proposed Exit Financing is entirely contingent upon the Company consummating its Plan, which will include obtaining the necessary approvals from the Bankruptcy Court and the Company's creditors. The Plan contains the endorsement of the Company's official committee of unsecured creditors and their recommendation that the creditors vote to accept the Plan; however, there is no assurance that the Bankruptcy Court and the Company's creditors will approve of the proposed Plan. Additionally, the Exit Financing remains subject to a number of conditions precedent, including the completion of final documentation, the absence of any material adverse change in the Company's business or financial condition and the absence of any material disruption in the financial markets.

Capital Expenditures

The Company's capital expenditures, which represent assets acquired with cash, were $8 million for the three months ended March 31, 2001 and 2002.

RESULTS OF OPERATIONS

The following table provides a breakdown of revenue, operating costs and selling, general and administrative expenses for the Company for the periods indicated. The table also shows certain revenue, expenses, operating loss, and EBITDA as a percentage of the Company's total revenue.

	Financial Data Three months ended March 31,			
	2001		2002	
	$	%	$	%
	(unaudited) ($ values in thousands)			
Statement of Operations Data:				
Revenue	136,397	100	112,171	100
Operating costs	112,562	83	67,378	60
Selling, general and administrative	30,696	22	27,602	25
Depreciation and amortization	15,989	12	19,626	17
Other, net	71	-	(6)	-
Operating loss	(22,921)	(17)	(2,429)	(2)
Other Data:				
EBITDA (1)	(6,861)	(5)	17,191	15
Net cash used by operating activities	(61,644)		(31,336)	
Net cash used by investing activities	(5,011)		(17,097)	
Net cash used by financing activities	(1,803)		(700)	
Capital expenditures (2)	7,898		7,609	

	Statistical Data (unaudited) (3)				
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001	March 31, 2002
Full time employees	1,476	1,422	1,389	1,368	1,342
Telecom services:					
Access lines in service, in thousands(4)	778	719	789	742	807
Buildings connected:					
On-net	925	881	902	901	911
Hybrid (5)	8,151	7,264	6,315	5,727	5,189
Total buildings connected	9,076	8,145	7,217	6,628	6,100
Operational switches:					
Circuit	44	44	43	43	47
ATM	26	27	26	27	25
Total operational switches	70	71	69	70	72
Operational regional fiber route miles(6):	5,577	5,577	5,542	5,542	5,542
Operational regional fiber strand miles(7):	166,498	166,498	165,847	165,847	165,847
Collocations with ILECs	160	160	148	161	160

(1) EBITDA consists of net income (loss) from continuing operations before interest, income taxes, reorganization expenses, depreciation and amortization, other expenses, net. EBITDA is presented to enhance an understanding of the Company's operating results and is not intended to represent cash flows or results of operations in accordance with GAAP for the periods indicated. EBITDA is not a measurement under GAAP and is not necessarily comparable with similarly titled measures of other companies. Net cash flows from operating, investing and financing activities of continuing operations as determined using GAAP are also presented in Other Data. The following table is a reconciliation of the net loss reported by the Company to EBITDA:

	Three months ended March 31,	
	2000	**2001**
	(in thousands)	
Net loss	$ (53,357)	$ (31,284)
Depreciation and amortization	15,989	19,626
Interest expense	12,718	5,704
Reorganization expenses	17,686	23,291
Other expense (income), net	103	(146)
EBITDA	$ (6,861)	$ 17,191

(2) Capital expenditures include assets acquired with cash, payables, under capital leases, and pursuant to IRU agreements.

(3) Amounts presented are for three-month periods ended, or as of the end of the period presented.

(4) Access lines in service include only provisioned lines generating revenue.

(5) Hybrid buildings connected represent buildings connected to the Company's network via another carrier's facilities.

(6) Regional fiber route miles refers to the number of miles of fiber optic cable, including leased fiber. None of the regional fiber route miles at March 31, 2002 were leased under operating leases.

(7) Regional fiber strand miles refers to the number of regional fiber route miles, including leased fiber, along a telecommunications path multiplied by the number of fiber strands along that path. As of March 31, 2002, the Company had 165,847 regional fiber strand miles, 45,445 of which were leased under operating leases.

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

In general, year-over-year activity was impacted by the Company's efforts to streamline operations and conserve cash subsequent to filing for bankruptcy. The Company put in place initiatives to focus on its most profitable products, reduce operating costs and align its selling, general and administrative expenses with its business plan. As a result, operating costs, including line costs, were reduced 40% from the first quarter of 2001 to the first quarter of 2002, primarily due to a reduction in excess capacity and services in unprofitable markets. During this time operating costs as a percent of revenue decreased from 83% in the first quarter of 2001 to 60% in the first quarter of 2002.

In connection with its efforts to streamline operations, the Company has substantially reduced its workforce. The workforce of 3,160 full-time employees at September 30, 2000 (immediately prior to the bankruptcy filing) was reduced to 2,054 by December 31, 2000. In the first quarter of 2001, the Company further reduced the number of full-time employees 28% to 1,476 at March 31, 2001. By December 31, 2001 the number of full-time employees was reduced to 1,368, and has remained stable since then. However, on May 2, 2002, the Company announced that another reduction in force in the range of 10% to 15% would take place in the second quarter of 2002.

Revenue

	Three Months Ended March 31,			
	2001		2002	
	$	%	$	%
	($ values in thousands)			
Dial-Up	46,593	34	44,222	39
Point-to-Point Broadband	39,536	29	29,961	27
Corporate Services	33,220	24	20,241	18
Reciprocal Compensation	17,048	13	17,747	16
Total Revenue	136,397	100	112,171	100

Total revenue decreased $24 million, or 18%, between the three months ended March 31, 2001 and 2002, respectively. The decrease was due primarily to a $10 million, or 24%, decrease in Point-to-Point Broadband revenue and a $13 million, or 39%, decrease in Corporate Services revenue. Reciprocal Compensation revenue in 2002 includes $5 million from a settlement reached with SBC Communications, Inc. ('SBC")

The general economic downturn and the severe downturn in the telecommunications industry have resulted in an oversupply of network infrastructure. In addition, the slowing economy has resulted in the Company's customers going out of business, filing for bankruptcy protection, and looking for opportunities to cut costs. The effects on the Company include higher levels of customer disconnections and increased pricing pressure on new and existing customer contracts. In addition, customers are taking longer to make buying decisions, lengthening the sales cycle.

Dial-Up revenue is earned by providing PRI ports (one and two way) and managed modem (IRAS) services to ISPs and other communication service companies. Dial-Up revenue decreased 5% from $47 million in 2001 to $44 million in 2002, due primarily to a decrease in the average monthly revenue per customer port in service. Dial-Up revenue's contribution to total revenue rose from 34% in the first quarter of 2001 to 39% in the first quarter of 2002.

Point-to-Point Broadband revenue is generated from service provided to interexchange carriers ("IXC"s) and end-user business customers. This service provides dedicated bandwidth and offers DS1 to OC-192 capacity to connect: (i) long-haul carriers to local markets, large companies and other long-haul carrier facilities; and (ii) large companies to their long distance carrier facilities and other facilities. The decrease in Point-to-Point Broadband revenue was comprised of decreases in special access, switched access and SS7 revenues of 20%, 48% and 39%, respectively, which occurred primarily due to customer churn. Point-to-Point Broadband revenue's contribution to total revenue declined from 29% in the first quarter of 2001 to 27% in the first quarter of 2002.

Corporate Services revenue includes local enhanced telephony (voice) and data (internet access) services to businesses over its fiber optic networks located in major metropolitan areas. The billed line count decreased 44% from the first quarter of 2001 to the first quarter of 2002, while the average monthly revenue per line increased 10%. The decrease in the billed line count is primarily the result of customer churn in the telephony services, as well as

planned transition of customers in certain service areas. Corporate Services revenue's contribution to total revenue declined from 24% in the first quarter of 2001 to 18% in the first quarter of 2002. In addition, the Company entered into an agreement to transfer its long distance revenue stream in the fourth quarter of 2001. These customers generated $2.5 million of revenue in the three months ended March 31, 2001. The lost revenue's impact on EBITDA was not significant.

Reciprocal Compensation revenue is primarily earned pursuant to interconnection agreements with incumbent local exchange carriers ("ILEC"s) for the transport and termination of calls originated by ILEC customers, including Internet bound calls. Reciprocal Compensation revenue remained consistent between the three months ended March 31, 2001 and 2002, generating $17 million and $18 million, respectively. Reciprocal Compensation's contribution to total revenue increased from 13% in 2001 to 16% in 2002. Reciprocal Compensation revenue in 2002 includes $5 million from a settlement reached with SBC. If the revenue from the settlement were to be excluded, Reciprocal Compensation revenue would have decreased 25% to $13 million, or 12% of total revenue. Excluding the effect of the settlement on revenue, average revenue earned per minutes of use ("MOU"s) decreased 15% and MOUs decreased 12%. The Company anticipates that Reciprocal Compensation revenue will decline in the future based on future negotiated rates and expiration of agreements beginning in the first quarter of 2003.

The Company has substantial business relationships with a few large customers. For the three months ended March 31, 2001, and 2002, the top ten customers accounted for 44% and 55%, respectively, of total revenue. The Company's largest customer accounted for 10% and 26% of total revenue in the three months ended March 31, 2001, and 2002, respectively. In 2002 the companies that individually represented more than 5% of total revenue were Qwest Communications, Inc. and UUNet (a division of WorldCom, Inc.).

Operating costs

Operating costs consist primarily of payments to ILECs, other competitive local exchange carriers ("CLEC"s), and long distance carriers for the use of network facilities to support local, special, switched access services, and long distance services as well as internal network operating costs, right of way fees and other operating costs. Internal network operating costs include the cost of engineering and operations personnel dedicated to the operations and maintenance of the network. Total operating costs decreased from $113 million for the three months ended March 31, 2001 to $67 million for the same period in 2002, a 40% decrease. As a percentage of revenue, operating costs also decreased from 83% in the first quarter of 2001 to 60% in the first quarter of 2002. Through the bankruptcy proceedings, the Company has significantly reduced excess capacity and services in unprofitable markets, thereby reducing operating costs.

Selling, general and administrative expenses

Total selling, general and administrative ("SG&A") expenses decreased from $31 million for the three months ended March 31, 2001 to $28 million for the same period in 2001, a 10% decrease. As a percentage of revenue, SG&A expenses increased slightly from 22% for 2001 to 25% for 2002. The average number of full-time employees during the period decreased 19% from 1,688 in 2001 to 1,368 in 2002. The decrease in SG&A costs was due primarily to reduced costs associated with the lower headcount, as well as lower facilities costs as the Company consolidates its locations during the restructuring process. On May 2, 2002, the Company announced that another reduction in force in the range of 10% to 15% would take place in the second quarter of 2002. The resulting reduction in SG&A costs is expected to take place in the second quarter of 2002.

Depreciation and amortization

Depreciation and amortization increased from $16 million for the three months ended March 31, 2001 to $20 million for the same period in 2002, primarily due to increased levels of property and equipment that had been placed in service and was being depreciated. Total property and equipment subject to depreciation was $487 million and $527 million at December 31, 2001 and March 31, 2002, respectively, compared to $338 million and $349 million at December 31, 2000 and March 31, 2001, respectively.

Interest expense

Interest expense decreased from $13 million for the three months ended March 31, 2001 to $6 million for the same period in 2002, primarily due to interest expense eliminated since March 31, 2001 as a result of the Company's rejection of certain capital leases in connection with the bankruptcy process. In addition, interest expense in the three months ended March 31, 2001 included $2 million of deferred financing cost amortization relating to the Debtor-In-Possession Revolving Credit Agreement (the "Credit Agreement"). The Company terminated the Credit Agreement on November 7, 2001 and wrote off the remaining unamortized deferred financing costs to interest expense at that time.

Reorganization expenses

Reorganization expenses increased $5 million from $18 million for the three months ended March 31, 2001 to $23 million for the same period in 2002. Reorganization expenses consist of costs associated with the bankruptcy proceedings that are not directly attributable to the ongoing operations of the Company. As part of its restructuring activities, including reconciliation of pre-petition claims, during the three months ended March 31, 2002 the Company recognized $21 million of contract termination expenses, which have been accrued as unsecured liabilities subject to compromise. The Company also renegotiated certain capital leases to reduce the amount of equipment under lease, resulting in a net gain of $3 million in the first quarter of 2002. In addition, severance and employee retention costs decreased $10 million from the first quarter of 2001 to the same period in 2002. In the first quarter of 2001, the Company reduced the number of its full-time employees from 2,054 at December 31, 2000 to 1,476 at March 31, 2001, which gave rise to these costs. However, no significant workforce reduction occurred in the same period in 2002. On May 2, 2002, the Company announced that another reduction in force in the range of 10% to 15% would take place in the second quarter of 2002.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's financial position and cash flows are subject to a variety of risks in the normal course of business, which include market risks associated with movements in interest rates and equity prices. The Company routinely assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. The Company does not, in the normal course of business, use derivative financial instruments for trading or speculative purposes.

PART II

ITEM 1. LEGAL PROCEEDINGS

On November 14, 2000, the Company and most of its subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code in the Federal District of Delaware (Joint Case Number 00-4238 (PJW)). The Company is currently operating as a debtor-in-possession under the supervision of the Bankruptcy Court. The bankruptcy petition was filed in order to preserve cash and give the Company the opportunity to restructure its debt.

During the third and fourth quarters of 2000, the Company was served with fourteen lawsuits filed by various shareholders in the United States District Court for the District of Colorado (the "District Court"). The complaints sought class action certification for similarly situated shareholders. All of the initial suits named as defendants the Company, the Company's former Chief Executive Officer, J. Shelby Bryan, and the Company's former President, John Kane. Additionally, one of the complaints named the Company's former President, William S. Beans, Jr., as a defendant. (Both Messrs. Bryan and Beans remain on the Company's Board of Directors.) The claims against the Company were stayed pursuant to the Company's filing for bankruptcy.

In October 2001, the District Court consolidated the various actions and appointed lead plaintiffs' counsel. In February 2002, lead plaintiffs' counsel for the various shareholders filed a consolidated amended complaint. In addition to naming Messrs. Bryan and Beans as defendants, the amended complaint names as a defendant the Company's former chief financial officer, Harry R. Herbst. The consolidated amended complaint does not name the Company's former president, John Kane. In addition, the amended complaint does not name the Company as a defendant. The consolidated complaint, however, indicates that, but for the fact that claims against ICG have been stayed pursuant to the Bankruptcy Code, the Company would be named as a defendant. The consolidated amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 and seeks class action certification under Rule 23 of the Federal Rules of Civil Procedure. The complaint seeks unspecified compensatory damages.

The claims against the individual defendants are proceeding and these defendants have retained separate legal counsel to prepare a defense. Under Section 510(b) of the Bankruptcy Code, all pre-petition securities claims against ICG are mandatorily subordinated and will be discharged upon the confirmation of the Plan. Holders of pre-petition equity securities claims will not receive any recovery from the Company under the proposed Plan.

In January 2002, SBC Communications, Inc., on behalf of various subsidiaries (collectively "SBC") filed a motion in the Company's Bankruptcy case seeking permission to terminate the services it provides the Company pursuant to its interconnection agreements. SBC contended that the Company owed SBC in excess of $24 million related to past billing, and, as a result, was entitled to terminate services and pursue an administrative claim for the alleged past due receivable. SBC also filed a motion objecting to the Company's Disclosure Statement on the grounds that it did not adequately provide sufficient information with respect to the Company's ability to pay its alleged obligations to SBC. The Company filed a response to SBC's motions stating that it did not owe a significant portion of the alleged past due amount. Additionally, the Company's response contended that SBC owed the Company considerably more than the Company owed SBC. The Company retained legal counsel to defend itself against SBC's claims and pursue its counterclaims.

On March 29, 2002 the Company and SBC entered into a settlement agreement regarding wholesale services provided by SBC and the Company to each other pursuant to the interconnection agreements. On April 30, the Bankruptcy Court issued an order approving the terms of the settlement. On May 10, 2002, the order became final and non-appealable. Only amounts allegedly owed for the retail services, which are not governed by the interconnection agreements, have yet to be resolved. The Company believes that the ultimate resolution of the remaining items relating to retail services will be immaterial to the Company's operating results.

In January 2001, certain shareholders of ICG Funding, LLC ("ICG Funding") a wholly-owned subsidiary of the Company, filed an adversary proceeding in the United States Bankruptcy Court for the District of Delaware (Case number 00-04238 PJW Jointly Administered, Adversary Proceeding No. 01-000 PJW) against the Company and ICG Funding. The shareholders in this adversary action sought to recover approximately $2.3 million from an escrow account established to fund certain dividend payments to holders of the ICG Funding Exchangeable Preferred Securities. Because ICG Funding filed for bankruptcy protection, ICG Funding did not declare the last dividend that was to have been paid with the remaining proceeds of the escrow account. In April 2001, the Company and ICG Funding finalized a settlement agreement with the shareholders that has been approved by the Bankruptcy Court. Under the terms of the settlement, the shareholders received approximately two-thirds of the funds in the escrow account and the Company received the remaining one-third of the escrowed funds, subject to certain contingencies and holdbacks related to shareholders that did not participate in the settlement.

The Company is a party to certain other litigation that has arisen in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company is not involved in any administrative or judicial proceedings relative to an environmental matter.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Due to the bankruptcy proceedings discussed in note 1 to the Company's unaudited consolidated financial statements for the three months ended March 31, 2002, the Company is currently in default under the 13 ½ % Notes, 12 ½% Notes, 11 5/8% Notes, 10% Notes, 9 7/8% Notes and the Senior Facility. In addition, the Company is in default under the 14 ¼% Preferred Stock, 14% Preferred Stock, 6 ¾% Preferred Securities and 8% Series A Convertible Preferred Stock.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORT ON FORM 8-K

(A) Exhibits.

None.

(B) Report on Form 8-K.

The following reports on Form 8-K were filed by the registrants during the three months ended March 31, 2002:

None.

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, on May 15, 2002.

ICG COMMUNICATIONS, INC.

Date: May 15, 2002

By: /s/Richard E. Fish, Jr.
Richard E. Fish, Jr., Executive Vice President and
Chief Financial Officer (Principal Financial Officer)

Date: May 15, 2002

By: /s/John V. Colgan
John V. Colgan, Senior Vice President and
Controller (Principal Accounting Officer)

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

FORM 10-K

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

For the year ended December 31, 2001

OR

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

(Commission File Number 1-11965)

ICG COMMUNICATIONS, INC.
(Debtor-in-Possession as of November 14, 2000)
(Exact names of registrant as specified in its charter)

Delaware	**84-1342022**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
161 Inverness Drive West	**Not applicable**
Englewood, Colorado 80112	(Address of U.S. agent for service)
(Address of principal executive offices)	

Registrants' telephone numbers, including area codes: **(888) 424-1144 or (303) 414-5000**

Securities registered pursuant to Section 12(b) of the Act:

Title of class
Not applicable

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value (53,706,777 shares outstanding as of April 9, 2002)	OTC Market

Indicate by check mark whether the registrants: (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

As of April 9, 2002 the aggregate market value of ICG Communications, Inc. Common Stock held by non-affiliates (using the closing price of $0 on April 9, 2002) was approximately $0.

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PART I

Unless the context otherwise requires, the term "Company", "ICG" or "Registrant" means the combined business operations of ICG Communications, Inc. and its subsidiaries, including ICG Holdings (Canada) Co. ("Holdings-Canada"), ICG Holdings, Inc. ("Holdings") and ICG Services, Inc. ("ICG Services"). All dollar amounts are in U.S. dollars.

The Business section and other parts of this Report contain "forward-looking statements" intended to qualify as safe harbors from liability as established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statements include words such as "intends," "anticipates," "expects," "estimates," "plans," "believes" and other similar words. Additionally, statements that describe the Company's future plans, objectives or goals also are forward-looking statements. More specifically, as a result of the Company's bankruptcy filing (discussed below), the Company has provided certain business projections or forecasts in this Report. The Company does not anticipate that it will, and disclaims any obligation to, furnish updated projections or forecasts in the future. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results or outcomes to differ materially from those currently anticipated. See "Certain Risk Factors."

ITEM 1. BUSINESS

OVERVIEW

ICG provides voice, data and Internet communication services. Headquartered in Englewood, Colorado, the Company operates an integrated metropolitan and nationwide fiber optic infrastructure offering:

- Dial-Up services including primary rate interface ("PRI") and remote access services ("RAS") (sometimes referred to as "managed modem services") on a wholesale basis to national and regional Internet service providers ("ISPs").

- Point-to-Point Broadband service providing traditional special access service to long distance and long-haul carriers and medium to large-sized corporate customers, as well as switched access and SS7 services.

- Corporate Services, primarily retail voice and data services to businesses with an emphasis on Dedicated Internet Access Services ("DIA")

Services and Customers

Through its Dial-Up business (referred to in previous filings as the "ISP Business"), the Company provides nationwide Internet access services to ISP customers by connecting its 27 major markets and numerous data points of presence ("POPs") to its nationwide data network. ICG's customers include some of the largest national and regional ISPs. As of December 2001, the Company had approximately 610,000 ISP customer ports in service.

ICG also provides Point-to-Point Broadband services to interexchange carriers ("IXCs") and end-user business customers. This service provides dedicated bandwidth and offers DS1 to OC-192 capacity to connect: (i) long-haul carriers to a local market, to large companies and to other long-haul carrier facilities; or (ii) large companies to their long distance carriers and other corporate facilities. Point-to-Point Broadband services are an expanding segment of the telecommunications market.

The Company's Corporate Services revenue category (referred to in previous filings primarily as the "Commercial Business") includes local, long distance, enhanced telephony and data services to businesses over its fiber optic networks located in major metropolitan areas in California, Colorado, Ohio, Texas and parts of the Southeast. As of December 2001, Corporate Services' customers accounted for approximately 131,000 access lines. Corporate Services includes DIA service, launched in August 2001.

Network

To provide its service offerings, ICG combines its metropolitan and regional fiber network infrastructure, 43 voice and data switches, nationwide data backbone, data POPs, 27 asynchronous transfer mode ("ATM") switches and numerous private and public Internet peering arrangements. The Company's data network is supported by an OC-48 capacity nationwide fiber optic backbone currently operating at OC-12 capacity. The design of the physical network permits the Company to offer flexible, high-speed telecommunications services to its customers.

The regional network infrastructure consists of fiber optic cables and associated advanced electronics and transmission equipment. The Company's network is generally configured in redundant synchronous optical network ("SONET") rings to make the network accessible to the largest concentration of telecommunications intensive business customers within a given market. This network architecture also offers the advantage of uninterrupted service in the event of a fiber cut or equipment failure, thereby resulting in limited outages and increased network reliability in a cost efficient manner.

BANKRUPTCY PROCEEDINGS

During the second half of 2000, a series of financial and operational events negatively impacted ICG and its subsidiaries. These events reduced the Company's expected revenue and cash flow generation for the remainder of 2000 and 2001, which in turn jeopardized the Company's ability to comply with its existing senior secured credit facility (the "Senior Facility"). As a result of these and other events, on November 14, 2000 (the "Petition Date") ICG and most of its subsidiaries (except for certain non-operating entities), filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code in the United States District Court for the District of Delaware (the "Bankruptcy Court"). The filings were made in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations. The Company and its filing subsidiaries are currently operating as debtors-in-possession under the supervision of the Bankruptcy Court.

Under the Bankruptcy Code, the rights and treatment of pre-petition creditors and shareholders will be substantially altered. As a result of these bankruptcy proceedings, virtually all liabilities, litigation and claims against the Company that were in existence as of the Petition Date are stayed unless the stay is modified or lifted or payment has been otherwise authorized by the Bankruptcy Court. Because of the bankruptcy filings, all of the Company's liabilities incurred prior to the Petition Date, including certain secured debt, are subject to compromise. At this time, it is not possible to predict with certainty the outcome of the Chapter 11 cases in general, the effects of such cases on the Company's business, or the effects on the interests of creditors and shareholders.

On December 19, 2001, the Company and its debtor subsidiaries filed a proposed Plan of Reorganization and a Disclosure Statement in the Bankruptcy Court. The Company subsequently filed a First Amended Disclosure Statement on March 1, 2002 and a Second Amended Disclosure Statement on March 26, 2002, which was amended on April 3, 2002. (The Plan of Reorganization and the Disclosure Statement, as amended, are collectively referred to herein as the "Plan".) A hearing on the adequacy of the Disclosure Statement was held in the Bankruptcy Court on April 3, 2002, at which time the Bankruptcy Court found the Disclosure Statement adequate and authorized the Company to submit the Plan to the Company's creditors for approval. It is anticipated that a confirmation hearing will be held in the Bankruptcy Court on May 20, 2002. Consummation of the Plan is contingent upon receiving final Bankruptcy Court approval, as well as the approval of certain classes of creditors.

The Plan contains separate classes and proposed recoveries for the holders of claims against interests in ICG Holdings and ICG Services. The Plan does not provide for the substantive consolidation of ICG Holdings and ICG Services. The Plan does, however, provide for the substantive consolidation of ICG Holdings and its subsidiaries, as well as ICG Services and its subsidiaries for purposes of voting, confirmation and distribution of claims proceeds. The Plan contemplates the conversion of the Company's existing unsecured debt into common equity of the post-bankruptcy, reorganized Company.

In general, the Plan provides for the Company's capital restructuring by (i) reducing the Senior Facility by $25 million using the proceeds of a new senior subordinated term loan and exchanging the balance of the Senior Facility (approximately $59.6 million) into new secured debt (the "Secured Notes") and (ii) converting general unsecured claims (as defined by the Plan), which include the claims of the holders of the publicly held unsecured debentures issued by ICG

Holdings and ICG Services, into newly issued common stock of the reorganized ICG (the "New Common Shares"). Under the Plan, the Company will issue approximately 8 million new shares. Additionally, the Company intends to issue approximately $40 million of new convertible notes that will be convertible into New Common Shares. Under the Plan, there will be no recovery for holders of existing preferred or common equity securities of the Company, whose interests will be cancelled.

The Plan also provides for separate classes for holders of unsecured claims up to the amount of $5,000, or unsecured claims that are reduced to $5,000 by the election of the holders thereof to reduce all of their unsecured claims in the aggregate to $5,000. These claims will receive a distribution of cash equal to fifty percent (50%) of the amount of such claims.

The Plan contains the endorsement of the Company's official committee of unsecured creditors and their recommendation that the creditors vote to accept the Plan; however, there is no assurance that the Bankruptcy Court and the Company's creditors will approve the proposed Plan. Further, due to the bankruptcy filing and related events, there is no assurance that the carrying amounts of assets will be realized or that liabilities will be liquidated or settled for the amounts recorded. Consequently, there is substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon approval and confirmation of the Plan, adequate sources of capital, customer and employee retention, the ability to provide high quality services and the ability to sustain positive results of operations and cash flows sufficient to continue to operate.

ICG continues to focus on improving its overall profitability and its restructuring process that began in the second half of 2000 and which has resulted in a substantial reduction in operating and capital expenditures. These reductions included reducing the full-time employee count from 2,975 at the end of the second quarter of 2000 to 1,368 as of December 31, 2001. The Company has met with essential vendors in an effort to ensure continued access to required equipment and services. The Company is also executing a customer retention campaign designed to enhance customer relationships throughout the restructuring process and thereafter. ICG anticipates these restructuring efforts will conserve capital, enhance profitability and assist in retaining key customers.

During the pendancy of its Chapter 11 case, the Company has continued to provide on-going services to its customers while implementing a revised strategy intended to meet customer commitments and maximize short-term cash flow. Under the revised strategy, the Company's operations focus on markets where the Company has capacity thereby allowing the Company to add customers for nominal incremental cost and earn a better return on existing assets. In addition, the Company is focusing on product sales that utilize existing infrastructure to reduce capital required in the short-term. In general, the Company will scale its geographic expansion and delivery of new products to better match its network capacity, technical capabilities and capital availability.

INDUSTRY

Industry trends suggest that the Company's primary lines of business will experience substantial revenue growth over the next several years for Point-to-Point Broadband services and DIA services and flat to declining revenue for Dial-Up service and local telecom service to businesses. The Company expects to benefit from the growth trends in Point-to-Point Broadband services and DIA and also expects to benefit from gaining an increased market share for Dial-Up service as providers of this service are consolidating.

Dial-up service competes with broadband services such as cable and DSL for end-users. While Dial-up subscribers are projected to decline in coming years, the ports required to support end-user customers are anticipated to decline at a slower rate because, as end-users spend more time on-line, their ISPs (ICG's customers) require more ports to support their customer base. In addition, there has been, and is expected to continue to be, consolidation among regional ISPs into larger national ISPs that require nationwide network infrastructure such as ICG's. Further, there has been consolidation among the providers of Internet infrastructure as certain providers have either exited the business or have liquidated.

DIA is expected to be a high growth service with revenue projections for T1/T3 services to grow from $14 billion in 2001 to $21 billion in 2006. As industry demand for dedicated Internet service grows, pricing pressure is expected to be more than offset by increased sales volume.

Revenue from Point-to-Point Broadband services, also referred to as local special access or private line service, is forecast to grow from an estimated industry total of approximately $18 billion in 2001 to $46 billion in 2006; a 21% compounded annual growth rate.

Local telecom service to business customers is forecast to have relatively stable industry revenue of approximately $37 billion through 2006. However, competitive local exchange carriers ("CLECs") are expected to take an increasing market share from incumbent providers, estimated to be 20% market share in 2001 to 33% market share in 2006.

Notwithstanding the anticipated long-term growth potential in the telecommunications industry, during 2001 and into 2002 telecom providers have experienced greater churn levels than have happened historically. The general economic downturn and the severe downturn in the telecommunications and Internet industries have resulted in increased risk to the Company in the form of: exposure to credit risk from existing customers; increased churn (especially in Point-to-Point Broadband services); and oversupply of backbone and other services creating increased pricing pressures.

A significant source of revenue for the Company is derived from providing services to other competitive telecommunications companies and ISPs some of which have, or are in the process of, experiencing financial distress including filing for Chapter 11 bankruptcy protection. As a result, the Company's ability to collect receivables or its future operating results could be compromised.

ICG also provides services to long-distance carriers and inter-exchange carriers, primarily Point-to-Point Broadband services. During slow economic periods, the Company's customers have cutback on services, causing reduced demand and network "clean-up" from the Company's carrier customers. During 2001, the Company experienced significant churn in its Point-to-Point services. The Company cannot forecast the duration of continued churn, which industry observers have estimated will continue through the first half of 2002 and possibly longer.

The immense capital investments made in the telecommunications industry have created substantial supply of network infrastructure. Oversupply combined with rapid technological advancements that have the potential to reduce operating costs have resulted in significant pricing pressure in each of the Company's main service areas. While the Company believes it is price competitive overall, Company management cannot predict the extent of further pricing pressures and potential adverse impacts to future operating results.

BUSINESS AND STRATEGY

ICG's business plan is focused on a set of services that combine its core competencies, market outlook and customer and vendor relationships with the ability to leverage its existing capital and network infrastructure. Its product offerings include Dial-Up Internet access, Point-to-Point Broadband and Corporate Services, with an emphasis in growth from DIA going forward. The Company has withdrawn certain products and services and has indefinitely postponed plans to offer certain new products and enter new markets. Moreover, the Company has transitioned all of its DSL customers to other vendors and terminated all contracts with customers using the voice over Internet protocol ("VoIP") product.

Product Offerings

Dial-Up Services (ISP Business)

The Company's Dial-Up services are supported by its nationwide fiber optic backbone that connects to major public and private peering sites with major ISPs and IXCs. The network, in combination with certain leased long-haul assets, carries data traffic associated with the Company's ISP business. The design of the physical network permits the Company to offer flexible, high-speed services to its customers.

The Company targets a variety of data access and transport services to ISP and corporate customers. It is not economically feasible for many ISPs to build and maintain their own networks and consequently they prefer to outsource network facilities management in order to focus internal resources on their core ISP business. To this end, ICG offers PRI and Internet remote access service ("IRAS") to ISPs to manage their Internet access requirements from connection to facilities management responsibilities.

ICG's Dial-Up customers include some of the largest national and regional ISPs. As of December 2001, the Company had approximately 610,000 ISP customer ports providing PRI and remote access services. At an industry average of nine end-users per port, ICG estimates that its systems have the capacity to serve more than 10% of all dial-up Internet subscribers in the United States.

The current economic climate has negatively impacted many business sectors including ISPs, some of which are customers of the Company's Dial-Up services. As a result, certain of the Company's ISP customers have scaled back services ordered from the Company or, in some instances, have filed for bankruptcy protection. However, the vast majority of the Company's Dial-Up access revenue is generated by large ISPs who have greater resources and are expected to maintain their businesses and ability to pay through the current economic downturn. In addition, the Company's largest ISP customers have increased Dial-Up services obtained from ICG since the beginning of 2001.

The value proposition offered by ICG to ISP customers is:

- Outsource network management: ICG's services provide network efficiency for the ISP end-user and allow the ISP to focus on core activities such as marketing, customer acquisition and retention.
- Time-to-market advantage: ICG's nationwide network provides a growing ISP with a national presence in major U.S. markets, which allows the ISP to quickly expand its geographical customer reach.
- Improved capital utilization: As a result of the current industry competition and the capital required to provide quality networks, economies of scale are essential for cost effective pricing. ICG's services enable ISPs to eliminate substantial selling, general and administrative costs associated with complex network management, because ICG aggregates these costs for multiple ISPs.

ICG provides the following Dial-Up services:

PRI

PRI uses ICG's network to route ISP end-user calls from the public switched network to the ISP-owned modem banks. The end-user dials up the ISP and the call is sent through the public network and routed to the ICG switch, which then routes the call to the ISP-owned modem banks or RAS equipment. The RAS equipment is typically collocated at an ICG central office facility. If the ISP is not collocated, a Point-to-Point Broadband connection is required between the ISP's POP and the ICG central office.

PRI is priced per port, per month. The Company's direct costs are mainly for leased DS3 lines that connect the public network to the ICG switch or for leased T1 lines between the ICG switch and an ISP POP that is not collocated.

IRAS

IRAS adds network management services as it "connects, sends and routes" customer data traffic. This service has the capability to send data directly over ICG's network to the Internet, allowing the ISP to outsource its infrastructure and create a national footprint with minimal investment in fixed assets. The Company estimates that approximately 65% of ISP traffic can bypass the ISP.

IRAS is charged per port, per month, typically under multi-year contracts. In January 2002, the Company began offering metered remote access service ("mRAS"), which is a RAS product charged by the hour based on usage. The Company's costs to provide this service are mainly related to the connection charges to the public network, either for a leased DS3 for on-switch traffic or for a leased PRI for off-switch traffic. Costs also include network backbone and backhaul costs to transfer traffic to the ICG hub closest to the ISP POP.

Point-to-Point Broadband

The Company provides the following Point-to-Point Broadband services to a customer base that is comprised primarily of IXCs and large-sized businesses:

Special Access

ICG provides special access services to long distance companies, long-haul providers, ISPs and large end-user business customers. Special access involves providing a dedicated facility used: (i) to connect end-user customers to a long distance carrier's facilities; (ii) to connect a long distance carrier's facilities to the local telephone company's central offices; or (iii) to connect different facilities of the same carrier or one carrier to another within the same local calling area. Special access is offered at DS1, DS3, OC-3, OC-12, OC-48 and OC-192 capacities (with availability depending upon location). ICG offers a time to market advantage over the ILECs, it provides metro fiber with local technical support and is a non-competitive supplier. Special access services are high-margin and a growing business that accounted for approximately 84% of this category's revenues.

Switched Access

Switched access services include interstate and intrastate transport and switching of calls between two carriers or a carrier and an end-user. By using ICG to switch (terminate or originate) a call, it reduces the long distance carrier's local access cost, which is a major operating expense.

SS7

SS7 services are used to connect long distance (including wireless) and local exchange carriers' networks, and the SS7 signals between network elements to provide faster call set-up and more efficient use of network resources.

Corporate Services

After the passage of the Federal Telecommunications Act of 1996, ICG positioned itself as a competitive local exchange carrier ("CLEC") and targeted the small to medium-sized business market. The Company is currently targeting the medium to large-sized business market, which it believes represents a good growth opportunity. While the demand for voice services by businesses has been relatively stable, the demand for data services in commercial applications is expected to increase significantly over the next several years as this customer segment addresses its growing need for data connections, greater bandwidth and the need to outsource network and information technology ("IT") infrastructure. ICG is positioning itself to take advantage of these industry trends. The Company has the ability to leverage its established CLEC customer base and existing voice and data networks to expand its Corporate Services business. The Company continues to add new services and offers fast response times and excellent network performance. It provides the following Corporate Services:

Voice

Competitive local dialtone service consists of basic local exchange lines and trunks with business-related voice line features (e.g. voicemail), local calling, and local toll calling. Under the Company's business strategy, sales of voice services will concentrate on customers with a minimum of 12 lines in areas where the Company has switch capacity. The Company has focused on providing voice services in the following five operating regions in the United States: California, Colorado, Ohio, Texas and parts of the Southeast.

DIA

DIA provides dedicated bandwidth from a customer's premises directly to the Internet at T1 and T3 speeds using ICG's numerous Internet peering arrangements. In order to meet corporate customer needs for Internet connectivity, the Company introduced DIA service in late 2001. The Company plans to emphasize this product going forward, offering full T1 and full or fractional T3 connections. The Company began offering its DIA services in a limited number of markets in 2001 and has now expanded its footprint to 27 markets. ICG is well positioned to penetrate this market by leveraging its existing investment in metropolitan fiber and nationwide backbone capacity.

The Company reduced the types of service and regions in which it would offer voice services as part of the Company's 2001 business plan. As a result, affected customers have been, or are in the process of being, transitioned to other providers. The Company had approximately 230,000 primarily business customer voice lines in service at year-end

2000, which was reduced to approximately 131,000 by year-end 2001. Growth in the Corporate Service business is anticipated to come primarily from expansion of DIA sales and enhanced voice services to generate incremental margin.

SALES, CUSTOMER CARE, MARKETING AND CUSTOMER CONCENTRATION

Sales

Direct Sales

The Company's sales organization includes a direct sales force and third party sales partners. Its direct sales force includes two sales organizations.

ICG's regional sales organization focuses on medium-sized customers and larger or growing businesses within a market and multi-market accounts. The Company's national sales organization focuses on targeted larger and national accounts, and specific enterprise and carrier channels and customer segments.

The national sales organization is made up of approximately 24 national account managers in addition to approximately ten technical and service support personnel. National account managers' responsibilities include new sales, relationship management and contract negotiation. The regional sales team consists of approximately 56 managers and account executives together with a technical consultant and order coordinator for each account executive. This team is responsible for the account from the initial sale through post-installation customer care. The team structure is designed to streamline the order process and assure a positive customer experience. Teams are present in each of the Company's 27 markets. The Company increased it sales force in late 2001 and early 2002.

Other Sales Channels

The direct sales force is complemented by development of alternative sales channels to distribute the increasing number of products and services available to the broadening customer base. These channels include third party sales partners. The Company currently has distribution arrangements with a number of national, regional and local agents and agency firms, whose representatives market a broad range of the Company's services. The alternate distribution channel includes approximately 50 indirect agents in markets throughout the United States.

Customer Care

Once a customer's services have been installed, customer care operations support customer retention and satisfaction. Customer care operations is centralized into two primary centers. The Company's goal continues to be to provide customers with a customer care group that has the ability and resources to respond to and resolve customer questions and issues as they arise. The customer care organization had approximately 116 employees at December 31, 2001. The Company's Network Operations Center ("NOC") provides 24 x 7 surveillance and monitoring of the network to maintain the Company's network reliability and performance.

Marketing

During 2001, the Company's marketing department underwent a reorganization to better align with the sales department in the shared effort of achieving the Company's strategic objectives. Paramount to the reorganization of the marketing department was the division of the department into specific teams dedicated to managing and marketing ICG's product offerings: Point-to-Point Broadband, Corporate Services and Dial-Up services. The individual teams provide the Company with critical knowledge about each product offering set and are accountable for revenue and ICG's ultimate success. During 2001, the Company suspended the majority of advertising and promotions expenditures as a result of the bankruptcy proceedings.

Customer Concentration

The Company has substantial business relationships with a few large customers. For the year ended December 31, 2001, the Company's top ten customers accounted for approximately 52% of its total revenue. The Company's largest

customer for the three and 12 months ended December 31, 2001, accounted for 28% and 18%, respectively, of total revenue. In 2001, the companies that individually represented more than 5% of total 2001 revenue were Qwest Communications, Inc., Cable and Wireless, Inc. and UUNet (a division of WorldCom, Inc.).

NETWORK AND FACILITIES

Regional Network Assets

ICG's regional network assets included 43 voice and data switches in 27 metropolitan service areas ("MSAs"). The Company has approximately 5,540 miles of leased or owned regional and metropolitan fiber comprising 165,850 local fiber strand miles. The majority of the Company's local fiber networks are built in SONET rings that encircle a metropolitan area. This ring architecture is intended to be accessible to the largest concentration of telecommunications intensive business customers within a given market and provides fiber redundancy to ensure uninterrupted service. ICG connects approximately 6,600 buildings to its network through on-net (i.e., connected to the ICG network via ICG-owned fiber) and hybrid (i.e., connected to the ICG network via third-party fiber) applications, of which approximately 900 buildings are connected on-net. In addition, the network is constructed to access long distance carriers as well as end-user telecommunications traffic in a cost efficient manner that lends itself to providing cost-competitive special access and switched access services to long distance companies and long-haul providers.

ICG has considerable assets under various stages of construction, many of which are substantially complete. The majority of these assets are uninstalled transport and switch equipment, software development and new network construction. The Company plans to sell, or return to vendors, 10 switches and to complete the installation of five switches that remained under construction as of December 31, 2001.

Nationwide Network Architecture

ICG's nationwide data backbone includes OC-12 long-haul fiber capacity connecting nine major metropolitan areas. The fiber backbone is connected to 27 ATM switches and numerous POPs with high performance routers. The Company has Internet peering arrangements at seven public sites: MAE East ATM, MAE West (Santa Clara, CA), MAE West ATM, MAE Dallas ATM, PacBell (San Jose, CA), Sprint NAP (Newark, NJ), and Ameritech (Chicago, IL). In addition, the Company has numerous arrangements with private companies such as IXCs and major ISPs, some with multiple locations. The Company also owns and leases dedicated lines throughout the United States. The Company is currently in the process of consolidating numerous data POPs as part of its cost reduction efforts.

The majority of the Company's long-haul capacity is obtained through 20 year indefeasible right of use ("IRU") agreements with Qwest. The Company currently has OC-12 capacity in service connecting: San Jose, Los Angeles, Denver, Dallas, Atlanta, Washington D.C., Newark, Chicago, and Seattle. The Company has the potential to upgrade the current OC-12 routes to OC-48 capacity by placing its additional capacity into service.

COMPETITION

The Company participates in several sectors of the telecommunications service industry, all of which are highly competitive. In addition, numerous competitors, including major telecommunications carriers, have rapidly expanded their network capabilities in order to service the ISP industry.

The Company's competitors in the dial-up Internet access market possess (or will possess) significant network infrastructure enabling them to provide ISPs with capacity and access to the Internet. The Company's primary competitors in this revenue category include Level 3, MCI WorldCom, Genuity and the incumbent local exchange carriers ("ILECs"). While the Company believes that its network and products will enable it to compete in this industry sector, some of the Company's competitors have significantly greater market presence, brand recognition, financial, technical and personnel resources than the Company. There can be no assurance that the Company will be able to compete effectively with these companies.

In the Corporate Services and Point-to-Point Broadband sectors, the Company competes in an environment dominated by the ILECs. The ILECs have long-standing relationships with their customers and provide those customers

with various transmission and switching services. The ILECs also have the potential to subsidize access and switched services with revenue from a variety of businesses and historically have benefited from certain state and federal regulations that have provided the ILECs with advantages over the Company. Among the Company's current competitors in this sector are other CLECs, wireless service providers and private networks built by large end-users. In addition, competitors in this industry sector include IXCs such as AT&T and MCI WorldCom. Potential competitors have also arisen by using different technologies, including cable television companies, utilities, ISPs, ILECs outside their current local service areas, and the local access operations of long distance carriers. Many of the Company's actual and potential competitors have greater financial, technical and marketing resources than the Company.

The Company is aware that consolidation of telecommunications companies, including mergers between certain of the ILECs, between long distance companies and cable television companies, between long distance companies and CLECs, and the formation of strategic alliances within the telecommunications industry, as well as the development of new technologies, could give rise to increased competition. One of the primary purposes of the Federal Telecommunications Act of 1996 (the "Telecommunications Act") is to promote competition, particularly in the local telephone market. Since its enactment, several telecommunications companies have indicated their intention to aggressively expand into many segments of the telecommunications industry, including segments in which the Company participates or expects to participate. This may result in more participants than can ultimately be successful in a given market.

While strong competition currently exists in all sectors of the industry, the Company believes that the demand for voice and data services by business customers provides expanded opportunities for providers such as the Company. There can be no assurance, however, that sufficient demand will exist for the Company's network services in its selected markets, that market prices will not dramatically decline or that the Company will be successful in executing its revised business strategy in time to meet new competitors, or at all.

REGULATORY ACTIVITY

Each of the services within ICG's current product offerings (Dial-Up, Point-to-Point Broadband and Corporate Services) is subject to some form of regulatory oversight from state and/or federal regulatory authorities.

With respect to the Dial-Up services category, the managed modem services are unregulated. However, the PRI component, which is a material offering with respect to the Company's Dial-Up services, incurs traditional regulatory oversight such as restrictions on price discrimination, various service quality standards and associated reciprocal compensation revenue.

The Company's Point-to-Point Broadband service offerings are significantly structured according to the application and collection of interstate and intrastate access charges for telecommunications traffic that originates and terminates on the Company's network. In most cases, both state and federal regulatory authorities regulate the applicable access charges.

Corporate Services, which includes the provisioning of facilities used to carry traditional voice traffic, incurs the greatest amount regulatory oversight. Accordingly, in its offerings related to this specific service category, the Company encounters regulatory frameworks relating, but not limited to reciprocal compensation, resale, interconnection, unbundled network elements ("UNE"), number portability and dialing parity.

General Operational Issues

The Telecommunications Act generally requires Incumbent Local Exchange Carriers (ILECs) to provide interconnection and nondiscriminatory access to their local telecommunications networks and other essential facilities. Such access and interconnections are typically facilitated through written agreements between the parties entitled traffic terminating agreements, which are more commonly known as interconnection agreements. Interconnection agreements are negotiated and enforced on a state-by-state basis. The negotiations involving each agreement are highly complex and often contentious. Where the parties cannot reach agreement, the Company must petition the applicable state regulatory agency to arbitrate the disputed issues. Rulings of that particular agency are subject to judicial review by the appropriate state court and, with respect to certain issues, the Federal District Court.

The Company has executed interconnection agreements with every regional bell operating company ("RBOC") and similar traffic terminating agreements with a number of smaller telecommunications carriers. While the initial terms of some of those agreements have expired, or are due to expire in the near future, the Company maintains an aggressive posture with respect to renegotiating and extending the terms of those agreements.

Reciprocal compensation has historically been an important source of revenue for the Company. In general, reciprocal compensation is the reimbursement of costs incurred by a carrier that terminates telecommunications traffic originated on the network of another carrier. The Company maintains that reciprocal compensation is an appropriate regulatory mechanism, regardless of whether the telecommunications traffic is routed to a conventional end user or an ISP. For the Company's purposes, reciprocal compensation is divided into to discrete elements. The first element relates to costs incurred as a result of the termination of traffic that both originates and terminates within the same local access transport area ("LATA"). The second element, which is comprised of intra-LATA toll traffic, refers to those calls that originate within a specific LATA, but are terminated in a different local calling area in that same LATA.

The Company maintains that it is entitled to receive reciprocal compensation for the transport and termination of Internet bound calls originating on other carrier's telecommunications networks regardless of whether those calls constitute either local or in some cases toll traffic. The Company's position has been affirmed by a number of state utility commissions as a result of the arbitration of certain terms and conditions articulated in various RBOC interconnection agreements. While the Company did in fact prevail in a number of arbitrations, in the interest of gaining certainty with respect to the collection of reciprocal compensation, the Company negotiated voluntary settlement agreements with certain RBOCs that provide for the payment of reciprocal compensation for both traditional voice, as well as Internet bound traffic. These settlement agreements expire at dates ranging from December 2002 to May 2003.

In April 2001, the Federal Communications Commission ("FCC"), in response to an opinion by the U.S. Court of Appeals for the District of Columbia Circuit (the "D.C. Circuit Court"), issued a ruling regarding reciprocal compensation for Internet bound traffic. Assuming that the April 2001 ruling is not overturned on appeal, reciprocal compensation for the termination of ISP traffic will end after a 36-month transition period, which will be approximately mid-2004. Additionally, the FCC order placed limits on the volume of reciprocal compensation eligible traffic, the recovery of reciprocal compensation in new markets entered after April 2001, as well as on the actual applicable rate. An appeal of the FCC order was filed in February 2002 before the D.C. Circuit Court and a decision is expected in mid-2002.

In view of the aforementioned voluntary settlements, the Company believes that the FCC order will not have a material effect on those interconnection agreements that require the payment of reciprocal compensation. However, with respect to those interconnection agreements where the Company has not reached a voluntary settlement, both the Company and the carrier are bound by the FCC order as it relates to the exchange of reciprocal compensation for Internet bound traffic. Thus, while the FCC order will have no material effect on the ability of the Company to collect reciprocal compensation with respect to RBOCs subject to settlement agreements, the Company will be limited in its ability to collect reciprocal compensation as to other RBOCs. Further, in most cases disputes regarding the accuracy of the Company's reciprocal compensation invoices by the originating carrier continue to require a significant allocation of resources by the Company. The Company has historically had to threaten or file legal action in order to compel the RBOCs to pay undisputed portions of the Company's invoices in a timely manner. While such practices by the Company are becoming less common, full and timely payment of legitimate traffic termination charges by the RBOCs remains a problem for the Company. Regardless of the outcome of the appeal of the FCC order, the Company anticipates that reciprocal compensation will be a decreasing source of revenue.

Federal Regulation

As a result of a previous order adopted by the FCC, carriers were classified for regulatory purposes as either dominant (i.e., generally RBOCs) or non-dominant (i.e., generally CLECs). With respect to most issues, the Company qualifies as a facilities-based CLEC. Consequently, the Company benefits from a reduced regulatory compliance burden as compared to the RBOCs. Nevertheless, the Company must still comply with the certain requirements of the Telecommunications Act, such as offering service on a non-discriminatory basis and at reasonable rates. Further, the Company, being classified as a non-dominant carrier, was required as of August 1, 2001 to cancel all tariffs for whatever interstate services that it was providing at that time. The Company complied with that order and subsequent requirements to cancel tariffs for international services. In the absence of these public statements of the Company's terms and conditions for

providing service, the Company believes it is in compliance with the FCC's requirement that all such information be made available at the Company's web site.

Finally, the FCC's non-dominant carrier rules have had no effect on the Company's intra-state tariffs or other functional equivalent rate filings. The Company is not subject to rate-of-return regulation in any jurisdiction, nor is it currently required to obtain FCC authorization for the installation, operation or maintenance of its fiber optic network facilities, which are used to provide various services in the United States.

<u>State Regulation</u>

In general, state public utility commissions have regulatory jurisdiction over the Company with respect to local and other intrastate telecommunications services. To provide intrastate service (particularly local dial tone service), the Company generally must obtain a Certificate of Public Convenience and Necessity ("CPCN") from the state regulatory agency prior to offering service. Additionally, most states require the Company to file tariffs, which articulate the terms and conditions for services that are classified as regulated intrastate services. In some states, the Company may also be subject to various reporting and record-keeping requirements.

Under the Telecommunications Act, state commissions continue to set regulatory requirements, including service quality standards and guidelines, for certificated providers of local and intrastate long distance services. Importantly, state regulatory authorities specify permissible terms and conditions (i.e., price) for interconnection with the RBOCs' telecommunications networks. Moreover, these same authorities regulate the provision of unbundled network elements by the RBOCs and enforce performance measurements and other material standards related to local competition and interconnection. In certain states, the utility commission has the authority to scrutinize the rates charged by CLECs for intrastate long distance and local services. The Company's provision of local dial tone and intrastate switched and dedicated services are classified as intrastate and therefore subject to state regulation.

<u>Local Government Authorizations</u>

Under the Telecommunications Act, municipalities typically obtain jurisdiction under applicable state law to control the Company's access to municipally owned or controlled rights of way and to require the Company to obtain street opening and construction permits to install and expand its fiber-optic network. In addition, many municipalities require the Company to obtain licenses or franchises (which generally have terms of 10 to 20 years) and to pay license or franchise fees, often based on a percentage of gross revenue, in order to provide telecommunications services. However, in certain states, including California and Colorado, current law limits the amount of such fees to be paid to local jurisdictions to actual costs incurred by the municipality for maintaining the public rights of way. Further, there is no assurance that certain cities that currently do not impose fees will not seek to impose fees in the future nor is there any assurance that, following the expiration of existing franchises, the municipality will be obligated to renew a previous agreement or that previously agreed upon fees will remain at their current levels.

The Telecommunications Act requires that local governmental authorities treat telecommunications carriers in a non-discriminatory and competitively neutral manner. The Act also mandates that any compensation received in exchange for access to the public rights of way be just and reasonable. Where a particular municipality has required unreasonable rights of way access fees, the Company has historically taken an aggressive position, up to and including litigation. If any of the Company's existing franchise or license agreements are terminated prior to their expiration dates or are not renewed, and consequently the Company is forced to remove its facilities from the public rights of way, such termination could have a material adverse effect on the Company.

FINANCING ACTIVITIES

<u>2001 Activities</u>

Credit Agreement

On December 4, 2000, the Company finalized its Debtor-in-Possession Revolving Credit Agreement ("Credit Agreement"). The Credit Agreement originally provided for up to $350 million in financing, subject to certain conditions.

This amount was subsequently amended to provide for up to $200 million. The Company terminated the Credit Agreement on November 7, 2001 after it was determined that funds would not be drawn under the Credit Agreement. The Company's $146.6 million cash and cash equivalent balances as of December 31, 2001, are expected to be sufficient to fund operations through the end of the bankruptcy process.

Proposed Refinancing of Senior Facility

On August 12, 1999, ICG Equipment, Inc. and ICG NetAhead, Inc. ("NetAhead") entered into a $200.0 million senior secured financing facility ("Senior Facility") consisting of a $75.0 million term loan, a $100.0 million term loan and a $25.0 million revolving line of credit. The Senior Facility is guaranteed by ICG Services and ICG Mountain View, Inc. and is secured by the assets of ICG Equipment, Inc. and NetAhead. On December 19, 2000, the Bankruptcy Court issued an order directing ICG Services and certain of its subsidiaries to provide adequate protection to the lenders of the Senior Facility in the form of a first priority, post-petition security interest. The Company continues to be subject to certain financial covenants based on results of operations under the Senior Facility. The Company also continues to make interest-only payments on the Senior Facility balance as approved by the Bankruptcy Court. Interest is paid based on the prime rate plus 4.25% on $36 million of the outstanding balance and the prime rate plus 3.875% on the remaining $48.6 million.

Under the Company's proposed Plan, the Senior Facility will be restructured with new terms and new notes (the "Secured Notes") which will be issued to the lenders. The balance due on the Secured Notes will be approximately $59.6 million. The Secured Notes will mature three (3) years from the effective date of the Plan (hereinafter, the "Effective Date"). The Secured Notes will bear interest at a fluctuating rate currently estimated to be 8.0% if is sued at March 31, 2002, payable monthly in arrears. The Secured Notes will also contain new financial covenants that will be established based on the Company's business plan.

Proposed Exit Financing

The Company's Plan, in addition to restructuring and replacing the Senior Facility with the Secured Notes, is premised upon obtaining $65 million of new exit financing comprised of three components: (i) a $25 million new senior subordinated secured term loan (the "Senior Subordinated Term Loan"), the proceeds of which will be used to repay $25 million of the Senior Facility; (ii) the issuance by the Company of $40 million of new unsecured convertible notes (the "Convertible Notes"), the proceeds of which will be utilized by the Company for general working capital and corporate purposes; and (iii) the Secured Notes. (The Senior Subordinated Term Loan, the Convertible Notes and the Secured Notes are collectively referred to as the "Exit Financing".)

As proposed in the Company's Plan, the Senior Subordinated Term Loan will be arranged by Cerberus Capital Management, L.P. ("CCM") and the Convertible Notes will be purchased by a group of institutions with CCM being the predominant investor. Among other terms and conditions, the Senior Subordinated Term Loan (i) shall be subordinated to the Secured Notes, (ii) shall be secured by liens on substantially all assets of the Company, junior to the liens securing the Secured Notes, (iii) shall mature four (4) years from the Effective Date, (iv) shall have no amortization prior to maturity, and (v) shall bear interest at the rate of fourteen percent (14%) per annum, payable monthly in arrears.

Among other terms and conditions, the Convertible Notes shall: (i) be unsecured, (ii) be subordinated to the Secured Notes and the Senior Subordinated Term Loan, (iii) shall be convertible at any time into 2,250,000 New Common shares, and (iv) shall be issued with non-detachable shares of preferred stock of the reorganized ICG with an aggregate liquidation preference of $10,000. The holders of the Convertible Notes will have voting rights equivalent to the voting rights of the holders of the New Common Shares on an as converted basis. In addition, subject to certain percentage ownership requirements, the Convertible Notes will entitle CCM to appoint five (5) directors to the reorganized Company's Board of Directors, W. R. Huff Asset Management Co. L.L.P. will be entitled to appoint two (2) directors and Morgan Stanley & Co., on behalf of the Company's unsecured creditors, will be entitled to select one board member. The Company's current CEO, Mr. Randall Curran, will serve as Chairman of the Board of Directors. In addition, certain corporate actions will require the approval of a supermajority of the Board.

The Secured Notes and the Senior Subordinated Term Loan will require the Company to meet certain financial covenants. The financial covenants will include minimum EBITDA requirements and capital expenditure limitations. The covenants will also require that the Company maintain a minimum cash balance calculated as a ratio of the outstanding

balance of the Secured Notes. Certain of these financial covenants will be established based on the Company's projected financial results set forth in the Plan. The Company's Plan, however, is based on the good faith assumptions and projections of management, which are inherently uncertain. Actual results could differ materially from the Company's Plan, which in turn could negatively impact the Company's compliance with the financial covenants.

Additionally, the minimum cash covenant will be established by the secured lenders without reference to the Company's financial projections. Based on the Company's current EBITDA and capital expenditure projections, and assuming the Company does not raise additional funds, or cut its projected capital spending, the Company would need to request a modification or waiver with respect to the minimum cash covenant by the fourth quarter of 2003. Management anticipates that the Company's business plan provides sufficient flexibility to reduce spending as appropriate to remain in compliance with this covenant. New sources of capital may also be available beyond that which is currently projected by management. There is no assurance, however, that these objectives can be realized, or that the Company will be able to obtain a waiver or alternative financing. In such event, the secured lenders could declare a default and take certain actions that would require the Company to accelerate repayment.

The proposed Exit Financing is entirely contingent upon the Company consummating its Plan, which will include obtaining the necessary approvals from the Bankruptcy Court and the Company's creditors. The Plan contains the endorsement of the Company's official committee of unsecured creditors and their recommendation that the creditors vote to accept the Plan; however, there is no assurance that the Bankruptcy Court and the Company's creditors will approve the proposed Plan. Additionally, the Exit Financing remains subject to a number of conditions precedent, including the completion of final documentation, the absence of any material adverse change in the Company's business or financial condition and the absence of any material disruption in the financial markets. There is no assurance that such conditions will be satisfied.

EMPLOYEES

As of December 31, 2001, the Company employed 1,368 full-time employees. None of the Company's employees are represented by a union. The Company believes that the successful implementation of its business strategy will depend upon its continued ability to attract and retain qualified employees. The Company, however, does not expect to add significant new employees to the organization in the near future. In March 2002, the Company approved a bonus plan for the fiscal year 2002. Payment of bonuses under the plan are contingent on, among other things, the Company's financial performance for 2002. The Company believes that it generally offers compensation packages that are comparable with those of its competitors who are similar in size and capital structure. Due to numerous factors, including the uncertainty facing the Company as a result of filing for bankruptcy, qualified personnel are difficult to recruit and retain and the Company cannot guarantee that it will be able to attract and retain the personnel necessary to implement its revised business strategy.

CERTAIN RISK FACTORS

The Company is subject to a number of significant risks. The current state of the telecommunications industry is inherently high risk, and the Company faces risks specific to its own operations. Certain risks are addressed below as well as in other sections of this Report. These risks include, but are not limited to:

The Company's ability to retain its major customers on profitable terms

As of the fourth quarter 2001, the Company had three customers that accounted for 5% or more of revenue and the loss of any one or more of these customers, absent new customers to replace the operating profit generated, would have a significant impact on the Company's operating results. Further, the uncertainty surrounding the Company's bankruptcy filing could have an adverse impact on the Company's ability to retain its major customers, or attract new customers, particularly if the bankruptcy process is longer than anticipated.

The Company's ability to access capital markets in a timely manner, at reasonable costs and on satisfactory terms and conditions

The terms and conditions of the Exit Financing require repayment of certain debt in 2004 and 2005 that is expected to exceed internally generated funds available to meet these payments. Depending upon actual cash earnings and actual capital expenditures, ICG may need to raise additional funds through public or private debt or equity financing.

Further, the Company may need to raise additional funds to: take advantage of unanticipated opportunities, including expansion or acquisitions of complementary businesses or technologies; develop new products or services; or, respond to unanticipated competitive pressures.

If ICG does not have sufficient cash to fund its growth or contractual cash commitments, it may be required to delay or abandon certain development plans or seek additional capital earlier than anticipated. The Company cannot provide any assurance that additional financing arrangements will be available to it on acceptable terms, or at all. Moreover, ICG's outstanding indebtedness may adversely affect its ability to engage in additional financings. If adequate funds are not available, ICG's business, results of operations and financial condition could be materially adversely affected.

The exit financing will contain certain covenants that will restrict the Company's financial and operational flexibility

Under the terms of the proposed Secured Notes and Senior Subordinated Term Loan, the Company will be required to adhere to a number of affirmative, negative and financial covenants. All of these covenants will impact the Company's flexibility. As an example, the Company's ability to increase indebtedness will be severely limited. Further, the Company will be subject to a number of financial covenants which will, among other things, require it to maintain a minimum cash balance and minimum EBITDA. If actual results differ materially from the Company's Plan, it could impact the Company's ability to comply with the financial covenants. In such an event, absent the Company's ability to secure additional capital or alternative financing, the secured lenders could declare a default requiring the Company to accelerate repayment.

The Company's ability to successfully maintain commercial relationships with its critical vendors and suppliers

The Company relies in part on other companies to provide data communications capacity via leased telecommunications lines. If its suppliers are unable or unwilling to provide or expand their current levels of service to the Company in the future, or are unable to provide these services in a timely manner, ICG's operations could be materially affected. Although leased telecommunications lines are available from several alternative suppliers, there can be no assurance that ICG could obtain substitute services from other providers at reasonable prices or in a timely fashion. ICG is also subject to risks relating to potential disruptions in its suppliers' services, and there are no assurances that such interruptions will not occur in the future. Service interruptions can produce substantial customer dissatisfaction and lead to higher rates of customer churn.

The Company is also dependent on certain third party suppliers of software and hardware components. Although it attempts to maintain a minimum of two vendors for each required product, certain components used by ICG in providing its networking services are currently acquired from only one source, including high performance routers manufactured by Cisco Systems, Inc. ("Cisco"), switches and switch software manufactured by Lucent Technologies ("Lucent") and servers from Sun Microsystems, Inc. ("Sun Microsystems"). The Company has also from time to time experienced delays in the receipt of certain software and hardware components. A failure by a supplier to deliver quality products on a timely basis, or the inability to develop alternative sources if and as required, could result in delays that could materially affect the Company's business, operating results and financial condition.

The Company's ability to attract and retain qualified management and employees

The Company's success depends on the performance of its officers and key employees. In order to pursue its business plan and product development plans, ICG will need to hire, train and retain highly qualified management, technical, sales, marketing and customer care personnel. The Company faces intense competition for qualified personnel, particularly in the areas of software development, network engineering and product management. Moreover, ICG's industry has a high level of employee mobility and aggressive recruiting of skilled personnel. The loss of any of ICG's key personnel or its failure to recruit and retain personnel will harm its business and its ability to compete.

The approval and confirmation of a plan of reorganization

The Plan, as amended on April 3, 2002, contains the endorsement of the Company's official committee of unsecured creditors and their recommendation that all other creditors vote to accept the Plan. This Plan has been submitted to certain creditors for a vote and a confirmation hearing has been set for May 20, 2002. Management believes the Plan will be approved at this time; however, there can be no assurance that the Plan will be approved as submitted or within the expected time frame.

If the Company is unable to obtain the confirmation of the Plan as submitted or if there is a significant delay in obtaining confirmation, it could have a material negative impact on the operations of the Company. It is not possible for the Company to accurately predict what the effect would be as a result of a delay in exiting bankruptcy, although it could result in the Company significantly scaling back its proposed operating plan or being forced into liquidation.

The significant amount of indebtedness incurred by the Company and the Company's ability to successfully restructure this indebtedness within the bankruptcy proceeding

Prior to filing for Chapter 11 protection, the Company incurred a significant amount of indebtedness. In the Company's current business plan, management does not project sufficient operating revenue such that it would be possible to service its existing debt obligations without the restructuring as proposed in the Plan. As such, in the event the Company is unable to restructure its existing indebtedness, it is possible that the Company's creditors would seek liquidation.

The existence of historical operating losses and the possibility of continued operating losses

Since its inception, the Company has incurred substantial net losses and negative cash flows from operating activities. While the Company expects its losses will narrow, it is possible that the Company will continue to incur losses and experience negative operating cash flows in the foreseeable future. Further, there can be no assurance that the Company will achieve or sustain profitability or positive EBITDA in the future or at any time have sufficient resources to make principal and interest payments on the Exit Financing.

The extensive competition and downward pricing pressure

The telecommunications industry is extremely competitive, particularly with regard to price and service. Many of the Company's existing and potential competitors have significantly greater financial, personnel, marketing and other resources than ICG. Competitors may also have established brand names and larger customer bases to better promote their services. The industry is also faced with oversupply for certain services and certain services are considered to have low barriers to entry for new competition. As a result, this competition will place downward pressure on prices for many of the Company's services which may adversely affect operating results. There can be no assurance that sufficient demand will exist for the Company's network services in its selected markets, that prices will not dramatically decline or that the Company can successfully compete in its selected markets.

The development of new technology

The Company faces competition from companies deploying alternative technologies (such as cable and DSL for Dial-Up), and it is possible that these alternative technologies will obtain market share faster than currently anticipated by Company management. Additionally, integrating new technologies into the Company's network may prove difficult and may be subject to delays and cost overruns. Further, technological upgrades to the Company's network may not become available in a timely fashion at a reasonable cost, or at all.

Moreover, the development and introduction of new technologies may reduce the cost of services similar to those the Company provides and could give rise to new competition not currently anticipated. If the Company is not able to deploy superior new technology and if its technology and equipment become obsolete, the Company will be unable to compete effectively.

Changes in, or the Company's inability to comply with, existing government regulations

Communications services are subject to significant regulation at the federal, state and local levels. ICG's business plans require it to exploit new opportunities afforded by recent regulatory changes. The regulatory environment, however, could adversely affect the Company in a number of ways, including:

- Delays in receiving required regulatory approvals or the imposition of onerous conditions for these approvals;
- difficulties in completing and obtaining regulatory approval of interconnection agreements, which provide for the interconnection of ICG networks with existing local telephone companies' networks;
- enactment of new and adverse legislation or regulatory requirements or changes in the interpretation of existing laws or regulations;
- enactment of new and adverse legislation which increases the Company's tax burden or the tax burden of the Company's customer; and
- an accelerated decline in the Company's ability to collect current and past due reciprocal compensation.

Many regulatory proceedings regarding issues that are important to the Company's business are currently underway or are being contemplated by federal and state authorities. Changes in regulations or future regulations adopted by federal, state or local regulators, or other legislative or judicial initiatives relating to the telecommunications industry could cause ICG's pricing and business models to fluctuate or otherwise have a material adverse effect on the Company.

Of particular concern to the Company is the "Internet Freedom and Broadband Deployment Act of 2000" (H.R 1542) which was approved by the House of Representatives in February 2002. The proposed legislation would permit the RBOCs to offer long distance services within their respective regions without meeting the local competition requirements set forth in the Telecommunications Act. Those requirements include the mandate that RBOCs open their networks to competitors through reasonable network interconnection arrangements and access to UNEs. Moreover, the proposed legislation would eliminate the provision that allows new entrants to gain access to fiber-based local loops. While it is uncertain whether H.R. 1542 will be approved by the Senate, the Company believes that the proposed legislation poses a serious threat to local competition and, if passed, would significantly alter ICG's ability to compete in the local telecommunications market.

General economic conditions and the related impact on demand for the Company's services

The national economy, and in particular, the telecommunications industry have been significantly affected by the current economic slowdown. Many of the Company's customers have experienced substantial financial difficulty over the last year, in some cases leading to bankruptcies and liquidations. The financial difficulties of the Company's customers could have a material impact if the Company is unable to collect revenues from these customers. In addition, customers experiencing financial difficulty are less likely to order additional services, and the Company's business plan is predicated upon increasing both the number of customers and the services current customers order.

Additionally, the financial difficulties experienced by the telecommunications industry diminish the Company's ability to obtain additional capital and may adversely affect the willingness of potential customers to move their telecommunications services to an emerging provider such as ICG.

ITEM 2. PROPERTIES

The Company's real estate portfolio includes numerous properties for administrative, warehouse, equipment, collocation and POP sites.

As of December 31, 2001, the Company had 316,200 square feet of leased office, warehouse, and equipment space in the Denver metropolitan area including its corporate headquarters building, and approximately 999,772 square feet of space leased in other areas of the United States. Since November 2000, the Company has reduced its real estate portfolio by approximately 154 sites by rejecting leases through the bankruptcy process, through lease terminations directly with landlords, and through lease expirations. The Company continues to evaluate its real estate needs, and its portfolio of leased

locations will be further reduced in 2002 by rejecting leases through the bankruptcy process and by lease terminations as a result of landlord negotiations.

Effective January 1, 1999, ICG Services purchased the Company's corporate headquarters building, land and improvements (collectively, the "Corporate Headquarters") for approximately $43.4 million. The Corporate Headquarters is approximately 239,749 square feet. ICG Services financed the purchase primarily through a mortgage granted in favor of an affiliate of the seller, which mortgage was secured by a deed of trust encumbering the Corporate Headquarters. Effective May 1, 1999, the Corporate Headquarters was transferred to ICG 161, L.P. ("ICG 161"), a special purpose limited partnership owned 99% by a subsidiary of ICG Services and 1% by an affiliate of the mortgagee and seller, and ICG 161 assumed the loan secured by the mortgage. The partnership agreement for ICG 161 granted to the 1% limited partner an option to acquire all of ICG Services subsidiary's interest in the partnership for a purchase price of $43.1 million, which option was exercisable from January 1, 2004 through January 31, 2012, or earlier if the Company was in default. As a result of the Company's financial difficulties, on June 29, 2001 the Company, with the Bankruptcy Court's approval, sold its partnership interest to the limited partner for approximately $33.1 million in a cashless transaction. Under the terms of the transaction, the new owner agreed to provide additional funding to complete a new parking garage that the Company had initiated but was unable to complete. The garage was completed in February 2002. As a result of the transaction, the Company remains a tenant of the Corporate Headquarters property under a long-term capital lease.

The Company also owns a 30,000 square foot office building located in Englewood, Colorado. This property was financed in part through a mortgage that currently has an outstanding principal amount owing of approximately $929,000. The Company listed this property for sale as of May 2001.

On December 10, 1999, a subsidiary of ICG Services acquired an 8.36 acre parcel of vacant land located adjacent to the Corporate Headquarters for approximately $3.3 million. The Company had planned to use this land in connection with the expansion of its corporate headquarters. As a result of the Company's on-going restructuring, expansion plans with respect to this site have been abandoned and the property has been listed for sale since the fourth quarter 2000.

ITEM 3. LEGAL PROCEEDINGS

On November 14, 2000, the Company and most of its subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code in the Federal District of Delaware (Joint Case Number 00-4238 (PJW)). The Company is currently operating as a debtor-in-possession under the supervision of the Bankruptcy Court. The bankruptcy petition was filed in order to preserve cash and give the Company the opportunity to restructure its debt.

During the third and fourth quarters of 2000, the Company was served with fourteen lawsuits filed by various shareholders in the United States District Court for the District of Colorado (the "District Court"). The complaints sought class action certification for similarly situated shareholders. All of the initial suits named as defendants the Company, the Company's former Chief Executive Officer, J. Shelby Bryan, and the Company's former President, John Kane. Additionally, one of the complaints named the Company's former President, William S. Beans, Jr., as a defendant. (Both Messrs. Bryan and Beans remain on the Company's Board of Directors.) The claims against the Company were stayed pursuant to the Company's filing for bankruptcy.

In October 2001, the District Court consolidated the various actions and appointed lead plaintiffs' counsel. In February 2002, lead plaintiffs' counsel for the various shareholders filed a consolidated amended complaint. In addition to naming Messrs. Bryan and Beans as defendants, the amended complaint names as a defendant the Company's former chief financial officer, Harry R. Herbst. The consolidated amended complaint does not name the Company's former president, John Kane. In addition, the amended complaint does not name the Company as a defendant. The consolidated complaint, however, indicates that, but for the fact that claims against ICG have been stayed pursuant to the Bankruptcy Code, the Company would be named as a defendant. The consolidated amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 and seeks class action certification under Rule 23 of the Federal Rules of Civil Procedure. The complaint seeks unspecified compensatory damages.

The claims against the individual defendants are proceeding and these defendants have retained separate legal counsel to prepare a defense. Under section 510(b) of the Bankruptcy Code, all pre-petition securities claims against ICG are

mandatorily subordinated and will be discharged upon the confirmation of the Plan. Holders of pre-petition equity securities claims will not receive any recovery from the Company under the proposed Plan.

In January 2002, SBC Communications, Inc., on behalf of various subsidiaries (collectively "SBC") filed a motion in the Company's Bankruptcy case seeking permission to terminate the services it provides the Company pursuant to its interconnection agreements. SBC contended that the Company owed SBC in excess of $24 million related to past billing, and, as a result, was entitled to terminate services and pursue an administrative claim for the alleged past due receivable. The Company filed a response to SBC's motions stating that it did not owe a significant portion of the alleged past due amount. Additionally, the Company's response contended that SBC owed the Company considerably more than the Company owed SBC.

On or about March 29, 2002 the Company and SBC entered into a settlement agreement regarding wholesale services provided to the Company pursuant to its interconnection agreements, leaving only amounts allegedly owed for the retail services to be resolved. The terms of the settlement were approved by the Bankruptcy Court on April 3, 2002. The impact of the settlement will be recognized when realization is assured. The Company anticipates that SBC's motions will be amended and/or withdrawn, leaving only amounts allegedly owed for the retail services to be resolved. The Company believes that the settlement and the ultimate resolution of the remaining items relating to retail services will not adversely affect operating results.

In January 2001, certain shareholders of ICG Funding, LLC ("Funding") a wholly-owned subsidiary of the Company, filed an adversary proceeding in the United States Bankruptcy Court for the District of Delaware (Case number 00-04238 PJW Jointly Administered, Adversary Proceeding No. 01-000 PJW) against the Company and Funding. The shareholders in this adversary action sought to recover approximately $2.3 million from an escrow account established to fund certain dividend payments to holders of the Funding Exchangeable Preferred Securities. Because Funding filed for bankruptcy protection, Funding did not declare the last dividend that was to have been paid with the remaining proceeds of the escrow account. In April 2001, the Company and Funding finalized a settlement agreement with the shareholders that has been approved by the Bankruptcy Court. Under the terms of the settlement, the shareholders received approximately two-thirds of the funds in the escrow account and the Company received the remaining one-third of the escrowed funds, subject to certain contingencies and holdbacks related to shareholders that did not participate in the settlement.

The Company is a party to certain other litigation that has arisen in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company is not involved in any administrative or judicial proceedings relative to an environmental matter.

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, 2001.

PART II

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

Under the Company's Plan of Reorganization, interests on account of the existing common shares and existing preferred shares will be classified in Class H-5. Holders of interests on account of the common stock of ICG Services will be classified in Class S-6. Under the Plan, holders of interests in Class H-5 and Class S-6 will not receive or retain any property under the Plan on account of these interests. On the date the Plan becomes effective all of the existing common shares, existing preferred shares and equity securities of ICG will be deemed cancelled and extinguished. Further, holders of Interests in Class H-5 and Class S-6 are not entitled to vote on the Plan, are presumed to receive no distribution and are therefore deemed to reject the Plan. As a result of the Company's proposed reorganization, the Company does not anticipate holding an Annual Meeting of Shareholders during 2002.

ICG Common Stock, $.01 par value per share, was quoted on the NASDAQ National Market (NASDAQ) from March 25, 1997 until November 18, 2000 under the symbol "ICGX" and was previously listed on the American Stock Exchange (AMEX), from August 5, 1996 to March 24, 1997 under the symbol "ICG." Prior to August 5, 1996, Holdings-Canada's common shares had been listed on the AMEX under the symbol "ITR" from January 14, 1993 through February 28, 1996, and under the symbol "ICG" thereafter through August 2, 1996. Holdings-Canada Class A Common Shares (the Class A Shares) ceased trading on the AMEX at the close of trading on August 2, 1996. The Class A Shares, which were listed on the Vancouver Stock Exchange (VSE) under the symbol "IHC.A," ceased trading on the VSE at the close of trading on March 12, 1997. During 1998, all of the remaining Class A Shares outstanding held by third parties were exchanged into shares of ICG Common Stock.

The following table sets forth the high and low closing prices of ICG Common Stock as reported by NASDAQ for the quarterly periods indicated. The NASDAQ halted trading of the Company's common stock on November 14, 2000 and delisted the stock on November 18, 2000. Starting on November 19, 2000, the Company's common stock has been traded on the Over-the-Counter ("OTC") Market.

	NASDAQ National Market	
	High	Low
2000:		
First Quarter	$ 39.25	$ 16.31
Second Quarter	36.75	17.75
Third Quarter	23.25	0.41
Fourth Quarter	delisted	

The Company has never declared or paid dividends on ICG Common Stock and does not intend to pay cash dividends on ICG Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data for the years ended December 31, 1997, 1998, 1999, 2000 and 2001 has been derived from the audited consolidated financial statements of the Company. The Company's audited consolidated balance sheets as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the three-year period ended December 31, 2001 include a going concern opinion. The information set forth below should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included elsewhere in this Annual Report. The Company's development and expansion activities, including acquisitions, during the periods shown below materially affect the comparability of this data from one period to another. *See, "Management's Discussion and Analysis of Financial Condition and Results of Operations."*

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenue(1)	$ 149,358	$ 303,317	$ 479,226	$ 598,283	$ 499,996
Operating costs and expenses:					
Operating costs	147,338	187,260	238,927	440,090	351,973
Selling, general and administrative expenses	118,311	148,701	179,737	199,508	94,155
Bad debt expense	3,573	11,238	60,019	84,457	14,236
Depreciation and amortization	49,836	91,927	174,239	318,771	67,768
Provision for impairment of long-lived assets	5,169	—	31,815	1,701,466	27,943
Other, net	292	4,877	387	4,108	11,949
Total operating costs and expenses	324,519	444,003	685,124	2,748,400	568,024
Operating loss	(175,161)	(140,686)	(205,898)	(2,150,117)	(68,028)
Interest expense	(117,521)	(170,015)	(212,420)	(233,643)	(32,214)
Interest income	21,828	28,401	16,300	22,370	—
Other income (expense), net	(424)	(1,118)	(2,522)	(15,166)	1,028
Loss from continuing operations before reorganization expenses, preferred dividends, discontinued operations, extraordinary gain and cumulative effect of change in accounting principle	(271,278)	(283,418)	(404,540)	(2,376,556)	(99,214)
Reorganization expenses	—	—	—	(53,897)	(13,451)
Income tax expense	—	(90)	(25)	—	—
Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses	(39,019)	(55,183)	(61,897)	(60,043)	—
Loss from continuing operations before extraordinary gain and cumulative effect of change in accounting principle	(310,297)	(338,691)	(466,462)	(2,490,496)	(112,665)
Net income (loss) from discontinued operations	(50,438)	(79,354)	36,789	4,342	—
Extraordinary gain on sales of operations of NETCOM	—	—	195,511	—	—
Cumulative effect of change in accounting principle(1)	—	—	—	(7,363)	—
Net loss	(360,735)	(418,045)	(234,162)	(2,493,517)	(112,665)
Accretion of 8% Series A Convertible Preferred Stock to liquidation value and related dividends	—	—	—	(158,249)	—
Charge for beneficial conversion feature of 8% Series A Convertible Preferred Stock	—	—	—	(159,279)	—
Other comprehensive loss	(1,067)	(263)	—	—	—
Net loss attributable to common stockholders	$ (361,802)	$ (418,308)	$ (234,162)	$ (2,811,045)	$ (112,665)
Loss per share from continuing operations—basic and diluted	$ (7.30)	$ (7.49)	$ (9.90)	$ (49.63)	$ (2.14)
Net loss per share—basic and diluted	$ (8.49)	$ (9.25)	$ (4.97)	$ (56.02)	$ (2.14)
Weighted average number of shares outstanding—basic and diluted(2)	42,508	45,194	47,116	50,184	52,748
Other Data:					
Net cash provided (used) by operating activities	$ (106,761)	$ (100,060)	$ (43,476)	$ 22,483	$ (11,981)
Net cash used by investing activities	(422,585)	(343,561)	(122,412)	(557,619)	(17,519)
Net cash provided (used) by financing activities	308,804	525,601	67,018	528,444	(20,893)
EBITDA(3)	(119,864)	(43,882)	543	(125,772)	39,632
Capital expenditures of continuing operations(4)	261,318	360,980	739,061	973,584	41,463

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(in thousands, except per share data)				
Balance Sheet Data:					
Cash, cash equivalents and short-term investments available for sale	$ 232,855	$ 262,307	$ 125,507	$ 214,713	$ 146,587
Working capital (deficit) of continuing operations	263,674	294,934	(69,960)	279,534	111,279
Property and equipment, net	603,988	908,058	1,527,879	590,500	531,187
Total assets	1,205,331	1,589,647	2,020,621	980,452	755,165
Liabilities subject to compromise	—	—	—	2,870,130	2,729,590
Current portion of long-term debt and capital lease obligations	7,096	4,892	8,886	—	—
Long-term liabilities and capital lease obligations, less current portion	957,508	1,661,944	1,969,249	34,167	51,796
Redeemable preferred securities of subsidiaries	420,171	466,352	519,323	1,366,660	1,326,745
Common stock and additional paid-in capital	534,290	577,940	599,760	882,662	922,577
Accumulated deficit	(791,417)	(1,209,462)	(1,443,624)	(4,254,669)	(4,367,334)
Stockholders' deficit	(256,983)	(631,177)	(843,864)	(3,372,007)	(3,444,757)

(1) During the year ended December 31, 2000, the Company adopted Staff Accounting Bulletin No. 101 (SAB 101), which requires the recognition of installation revenue over the average customer term. This change resulted in a cumulative effect of a change in accounting principle of $7.4 million and an increase in revenue for the year ended December 31, 2000 of approximately $0.9 million.

(2) Weighted average number of shares outstanding for the years ended December 31, 1997 and 1998 represents ICG Common Stock and ICG Holdings—Canada Class A Shares (not owned by the Company) outstanding for the periods from August 5, 1996 through December 31, 1998. During the year ended December 31, 1998, all of the remaining Class A Shares outstanding held by third parties were exchanged into shares of ICG Common Stock. Accordingly, weighted average number of shares outstanding for the year ended December 31, 1999 and thereafter represents ICG Common Stock only.

(3) EBITDA consists of loss from continuing operations before interest, income taxes, reorganization expenses, depreciation and amortization, other expense, net, accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses, and certain nonrecurring charges such as the provision for impairment of long-lived assets and other, net operating costs and expenses, including deferred compensation and net loss (gain) on disposal of long-lived assets. Accordingly, EBITDA is not intended to replace operating (loss), net (loss), cash flow, and other measures of financial performance and liquidity reported in accordance with accounting principles generally accepted in the United Sates. Rather, EBITDA is a measure of operating performance and liquidity that investors may consider in addition to other measures. Management believes that EBITDA is a standard measure of operating performance and liquidity that is commonly reported and widely used by analysts, investors, and other interested parties in the telecommunications industry because it eliminates many differences in financial, capitalization, and tax structures, as well as non-cash and non-operating charges to earnings. EBITDA is used internally by the Company's management to assess on-going operations. However, EBITDA as used in this report may not be comparable to similarly titled measures reported by other companies. Net cash flows from operating, investing and financing activities as determined using GAAP are also presented in Other Data. The following table is a reconciliation of the net loss reported by the Company to EBITDA.

	Years ended December 31,				
	1997	1998	1999	2000	2001
	(in thousands)				
Loss from continuing operations before discontinued operations, extraordinary gain and cumulative effect of change in accounting principle	$(310,297)	$(338,691)	$(466,462)	$(2,490,496)	$ (112,665)
Reorganization expenses	—	—		53,897	13,451
Income tax expense	—	90	25	—	—
Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses	39,019	55,183	61,897	60,043	—
Interest expense	117,521	170,015	212,420	233,643	32,214
Interest income	(21,828)	(28,401)	(16,300)	(22,370)	—
Other expense (income)	424	1,118	2,522	15,166	(1,028)
Other, net	292	4,877	1,293	1,693	2,412
Loss (gain) on disposal of long-lived assets	—	—	(906)	2,415	9,537
Provision for impairment of long-lived assets	5,169	—	31,815	1,701,466	27,943
Depreciation and amortization	49,836	91,927	174,239	318,771	67,768
EBITDA	$(119,864)	$ (43,882)	$ 543	$ (125,772)	$ 39,632

(4) Capital expenditures of continuing operations include assets acquired under capital leases and through the issuance of debt or warrants and excludes corporate headquarters assets acquired through the issuance of long-term debt or capital lease obligations.

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

This section and other parts of this Report contain "forward-looking statements" intended to qualify as safe harbors from liability as established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statements include words such as "intends," "anticipates," "expects," "estimates," "plans," "believes" and other similar words. Additionally, statements that describe the Company's future plans, objectives or goals also are forward-looking statements. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results or outcomes to differ materially from those currently anticipated. Factors that could affect actual results include, but are not limited to, the following:

- *The material uncertainty of the Company's ability to continue as a going concern due to the filing for protection under bankruptcy law;*
- *The approval and confirmation of a plan of reorganization;*
- *The significant amount of indebtedness incurred by the Company and the Company's ability to successfully restructure this indebtedness within the bankruptcy proceeding;*
- *The existence of historical operating losses and the possibility of continued operating losses;*
- *The Company's ability to achieve and sustain a level of operating profitability sufficient to fund its business;*
- *The Company's ability to successfully maintain commercial relationships with its critical vendors and suppliers;*
- *The Company's ability to retain its major customers on profitable terms;*
- *The extensive competition the Company will face;*
- *The Company's ability to attract and retain qualified management and employees;*
- *The Company's ability to access capital markets in a timely manner, at reasonable costs and on satisfactory terms and conditions;*
- *Changes in, or the Company's inability to comply with, existing government regulations; and,.*
- *General economic conditions and the related impact on demand for the Company's services.*

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and accompanying notes beginning on page F-1 of this annual report. The Company's consolidated financial statements reflect the operations of NETCOM, Network Services and Satellite Services as discontinued for all periods presented. All dollar amounts are in U.S. dollars.

REORGANIZATION AND EMERGENCE FROM BANKRUPTCY

During the second half of 2000, a series of financial and operational events negatively impacted ICG and its subsidiaries. These events reduced the Company's expected revenue and cash flow generation for the remainder of 2000 and 2001, which in turn jeopardized the Company's ability to comply with its existing senior secured credit facility (the "Senior Facility"). As a result of these and other events, on November 14, 2000 (the "Petition Date") ICG and most of its subsidiaries (except for certain non-operating entities), filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code in the Federal Court for the District of Delaware (the "Bankruptcy Court"). The filings were made in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations. The Company and its filing subsidiaries are currently operating as debtors-in-possession under the supervision of the Bankruptcy Court.

Under the Bankruptcy Code, the rights and treatment of pre-petition creditors and shareholders will be substantially altered. As a result of these bankruptcy proceedings, virtually all liabilities, litigation and claims against the Company that were in existence as of the Petition Date are stayed unless the stay is modified or lifted or payment has been otherwise authorized by the Bankruptcy Court. Because of the bankruptcy filings, all of the Company's liabilities incurred prior to the Petition Date, including certain secured debt, are subject to compromise. At this time, it is not possible to predict with certainty the outcome of the Chapter 11 cases in general, the effects of such cases on the Company's business, or the effects on the interests of creditors and shareholders.

On December 19, 2001, the Company and its debtor subsidiaries filed a proposed Plan of Reorganization and a Disclosure Statement in the Bankruptcy Court. The Company subsequently filed a First Amended Disclosure Statement on March 1, 2002 and a Second Amended Disclosure Statement on March 26, 2002, which was amended on April 3, 2002. (The Plan of Reorganization and the Disclosure Statement, as amended, are collectively referred to herein as the "Plan".) A hearing on the adequacy of the Disclosure Statement was held in the Bankruptcy Court on April 3, 2002, at which time the Bankruptcy Court found the Disclosure Statement adequate and authorized the Company to submit the Plan to the Company's creditors for approval. It is anticipated that a confirmation hearing will be held in the Bankruptcy Court on May 20, 2002. Consummation of the Plan is contingent upon receiving final Bankruptcy Court approval, as well as the approval of certain classes of creditors.

The Plan contains separate classes and proposed recoveries for the holders of claims against interests in ICG Holdings and ICG Services. The Plan does not provide for the substantive consolidation of ICG Holdings and ICG Services. The Plan does, however, provide for the substantive consolidation of ICG Holdings together with its subsidiaries, as well as ICG Services together with its subsidiaries, for purposes of voting, confirmation and distribution of claims proceeds. The Plan contemplates the conversion of the Company's existing unsecured debt into common equity of the post-bankruptcy, reorganized Company.

In general, the Plan provides for the Company's capital restructuring by (i) reducing the Senior Facility by $25 million using the proceeds of a new senior subordinated term loan and exchanging the balance of the Senior Facility (approximately $59.6 million) into new secured debt (the "Secured Notes") and (ii) converting general unsecured claims (as defined by the Plan), which include the claims of the publicly held unsecured debentures, into newly issued common stock of the reorganized ICG (the "New Common Shares"). Under the Plan, the Company will issue approximately 8 million new shares. Additionally, the Company intends to issue approximately $40 million of new convertible notes that will be convertible into New Common Shares. Under the Plan, there will be no recovery for holders of existing preferred or common equity securities of the Company, whose interests will be cancelled.

The Company's management, assisted by its financial advisors, Dresdner Kleinwort & Wasserstein, Inc., evaluated the reorganization value of the Company in connection with the filing of the Plan. The reorganization value of the Company on a going concern basis was estimated to be between $350 million and $500 million. This evaluation of the Company resulted in a range of values for the new common equity of between approximately $102 million and $252 million. The Plan as submitted reflects a reorganization value of approximately $413 million, which includes a valuation of the new common equity totaling $165 million.

Upon confirmation of the Plan, the Company will apply "Fresh-Start" reporting in accordance with generally accepted accounting principles ("GAAP") and the requirements of AICPA Statement of Position ("SOP") 90-7 "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Under Fresh Start reporting the reorganization value of the Company, which generally represents the going concern value of the Company, is ultimately determined pursuant to the approval of the Company's Plan by the Company's creditors and confirmation of the Plan by the Bankruptcy Court. Upon the effective date of the Plan (hereinafter, the "Effective Date"), a new capital structure will be established and assets and liabilities, other than deferred taxes, will be stated at their relative fair values. Deferred taxes are determined in conformity with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 109.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally

accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, uncollectible accounts receivable, long-lived assets, operating costs and accruals, reorganization costs, litigation and contingencies. Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition and Accounts Receivable

Revenue for dedicated transport, data, Internet, and the majority of switched services, exclusive of switched access, is generally billed in advance on a fixed rate basis and recognized over the period the services are provided. Switched access revenue, including reciprocal compensation and carrier access, is generally billed on a transactional basis determined by customer usage. The transactional elements of switched access services are billed in arrears and estimates are used to recognize revenue in the period earned. Fees billed in connection with customer installations and other up front charges are recognized ratably over the estimated customer life.

The Company records reciprocal compensation and carrier access revenue in accordance with regulatory authority approval and pursuant to interconnection agreements with incumbent local exchange carriers ("ILECs") and interexchange carriers ("IXCs"). The Company recognizes reciprocal compensation revenue as it is earned, except in those cases where the revenue is under dispute and collection is uncertain. The Company pays reciprocal compensation expense to other local exchange carriers ("LECs") for local exchange traffic it terminates on the LECs' facilities and such costs are recognized as incurred.

Revenue attributable to leases of metropolitan fiber and other infrastructure pursuant to indefeasible rights-of-use agreements ("IRUs") that qualify for sales-type lease accounting, and were entered into prior to June 30, 1999, were recognized at the time of delivery and acceptance of the fiber by the customer. Certain sale and long-term IRU agreements of fiber and capacity entered into after June 30, 1999 are required to be accounted for in the same manner as sales of real estate with property improvements or integral equipment which results in the deferral of revenue recognition over the term of the agreement (currently up to 20 years).

The Company establishes valuation allowances for: i) customer billings if realization of the billing is not assured; ii) billing and service adjustments; and iii) uncollectible accounts receivable. Valuation allowances for billings in dispute or at risk of realization and for billing and service credits are established through a charge to revenue, while valuation allowances for uncollectible accounts receivable are established through a charge to selling, general and administrative expenses. The Company assesses the adequacy of these reserves periodically, evaluating general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the credit worthiness of customers. The Company also assesses the ability of specific customers to meet their financial obligations and establishes specific valuation allowances based on the amount the Company expects to collect from these customers, as considered necessary. If circumstances relating to specific customers change or economic conditions improve or worsen such that past collection experience and assessment of the economic environment are no longer relevant, the estimate of the recoverability of the Company's trade receivables may change.

The Company had, as of December 31, 2001, total accounts receivable outstanding of approximately $86 million and an allowance for uncollectible accounts receivable of approximately $44 million. A substantial amount of the allowance is for accounts receivable that were determined to be uncollectible prior to December 31, 2000, but for which collection efforts have not been exhausted.

Operating Costs and Accrued Liabilities

The Company leases certain network facilities, primarily circuits, from LECs and CLECs to augment its owned infrastructure. The Company issued a significant number of disconnect orders to LECs and CLECs for leased circuits throughout 2001 as a result of the curtailment of the Company's expansions plans, as well as the rationalization of its network. In addition, many of these facilities-providers changed the Company's billing account numbers ("BANs") in an attempt to segregate the Company's pre- and post-Chapter 11 petition billing activity. Disconnected services are frequently not reflected on a timely basis on the Company's invoices, resulting in inaccurate invoices and disputes. In addition, the assignment of new BANs frequently resulted in incorrect balances being carried forward on invoices. As a result of these and other types of billing disputes, the Company is in negotiations or litigation with certain providers. In determining the amount of line cost expenses and related accrued liabilities to reflect in its financial statements, the Company considers the adequacy of documentation of disconnect notices and disputes, as well as compliance with prevailing contractual requirements for submitting such disconnect notices and disputes to the provider of the facilities. Significant judgment is required in estimating the ultimate outcome of the dispute resolution process, as well as any other amounts which may be incurred to conclude the negotiations or settle any litigation. The cost of leased facilities incurred during the year ended December 31, 2001, was approximately $221 million.

Long-Lived Assets

The Company's long-lived assets include property and equipment, in service, under construction or development and held for disposal, as well as goodwill and identifiable intangible assets to be held and used.

Property and equipment in service is stated at historical cost, reduced by provisions to recognize economic impairment in value. Costs associated directly with network construction, service installations and development of business support systems, including employee related costs, and interest expense incurred during the construction period, are capitalized. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of telecommunications networks and acquired bandwidth is 5 to 20 years and 3 to 5 years for furniture fixtures, equipment and other. These useful lives are determined based on historical usage with consideration given to technological changes, trends in the industry and other economic factors that could impact the network architecture and asset utilization. Assets held for disposal or sale are stated at the estimated proceeds from the sale, less costs to sell.

The Company provides for the impairment of long-lived assets, including goodwill, pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", which requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Such events include, but are not limited to, a significant decrease in the market value of an asset, a significant adverse change in the business climate that could affect the value of an asset or a current period operating or cash flow loss combined with a history of operating or cash flow losses. An impairment loss is recognized when estimated undiscounted future cash flows, before interest, expected to be generated by the asset are less than its carrying value. Measurement of the impairment loss is based on the estimated fair value of the asset, which is generally determined using valuation techniques such as the discounted present value of expected future cash flows, appraisals or other pricing models as appropriate.

The Company recognized impairments of long-lived assets of approximately $1.7 billion and $28 million during the years ended December 31, 2000 and 2001, respectively. The Company expects to recognize a further write-down in the value of long-lived assets of up to $220 million upon emergence from bankruptcy.

Financial Reporting by Entities in Reorganization under the Bankruptcy Code

These consolidated financial statements have been prepared for the period from November 14, 2000 through December 31, 2001, in accordance with AICPA Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Pursuant to SOP 90-7, an objective of financial statements issued by an entity in Chapter 11 is to reflect its financial evolution during the proceeding. For that purpose, the consolidated financial statements for periods including and subsequent to filing the Chapter 11 petition should distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Expenses and other items not directly related to ongoing operations are reflected separately in the consolidated statement of operations as

reorganization expenses. Reorganization expenses were approximately $54 million and $13 million, net of a gain of approximately $39 million in 2001, during each of the years ended December 31, 2000 and 2001, respectively.

Upon consummation of the Plan, the Company will apply "Fresh-Start" reporting in accordance with generally accepted accounting principles ("GAAP") and the requirements of SOP 90-7. Under Fresh Start reporting the reorganization value of the Company, which generally represents the going concern value of the Company, is ultimately determined pursuant to the approval of the Company's Plan by the Company's creditors and confirmation of the Plan by the Court. Upon the Effective Date, a new capital structure will be established and assets and liabilities, other than deferred taxes, will be stated at their relative fair values. Deferred taxes are determined in conformity with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 109.

As of the Effective Date, it is anticipated that approximately $2.5 billion of unsecured creditor and debt liabilities will be discharged for new equity with an estimated value of approximately $160 million. In addition, the existing preferred and common stock outstanding, including warrants and options, will be extinguished. (*See* Liquidity and Capital Resources section.)

Income Taxes

As of December 31, 2001, the Company has federal NOL carryforwards of approximately $1.6 billion, which expire in varying amounts through December 31, 2021. Due to the provisions of Internal Revenue Code ("Code") sections 108, 382 and certain other Code and Treasury Regulations, it is anticipated that a major portion of the NOLs will be reduced by cancellation of indebtedness and that a change in ownership will occur as a result of the confirmation of the Company's Plan. If the Plan results in the issuance of new stock and or the cancellation of existing stock as anticipated, the remaining amount of NOLs (if any) that can be utilized in future years will be limited.

COMPANY OVERVIEW

ICG is a facilities-based, nationwide communications provider focused on providing data and voice services to Internet service providers ("ISPs"), telecommunication carriers and corporate customers. The Company has metropolitan fiber in 26 markets, fiber interconnection in five regional markets, voice and data switches in 27 major metropolitan areas and a nationwide IP data network. ICG is a competitive local exchange carrier ("CLEC") certified in most of the United States, having interconnection agreements with every major local exchange carrier. ICG's facilities support three product offerings: (i) Dial-Up Services (referred to in previous filings as "ISP Business"), providing wholesale managed modem connection to ISPs and other carriers; (ii) Point-to-Point Broadband, or special access service, providing dedicated broadband connections to other carriers, as well as SS7 and switched access services; and (iii) Corporate Services (referred to in previous filings as the "Commercial Business"), providing voice and data services to corporate customers with an emphasis on Dedicated Internet Access ("DIA") services.

- **Dial-Up Services**: The Company provides primary rate interface ("PRI") ports (one and two way) and managed modem services ("IRAS") to many of the largest national ISPs and other telecommunications carriers, as well as to numerous regional ISPs and other communication service companies. Most of these services are on-switch through the Company's owned facilities. As of December 31, 2001, before the related reciprocal compensation, revenue from these services accounted for approximately 36% of the Company's total revenue. Associated reciprocal compensation revenue accounted for approximately 13% of the Company's revenue.

- **Point-to-Point Broadband Service**: The Company provides dedicated bandwidth to connect (i) long-haul carriers to local markets, large corporations and other long-haul carrier facilities and (ii) large corporations to their long-distance carrier sites and other corporate locations. Special access sales are focused in areas where ICG maintains local fiber and buildings on-net or in close proximity. Point-to-Point Broadband service also includes switched access and SS7 services. Point-to-Point Broadband service accounted for approximately 30% of the Company's total revenue.

- **Corporate Services**: The Company offers Internet access, data and voice service to corporate customers. The Company's current customer base is located primarily in California, Ohio, Texas, Colorado and parts of the Southeast. ICG is expanding its DIA services to medium and large-sized businesses in its 27 major markets. ICG is

well positioned to expand this service with its metropolitan asset base, data network infrastructure, and Internet experience. Corporate Services accounted for approximately 21% of revenue.

To provide its service offerings, ICG combines its 5,540 route miles of metropolitan and regional fiber network infrastructure, nationwide data backbone, data POPs, 27 asynchronous transfer mode ("ATM") switches, numerous private and public Internet peering arrangements and 43 voice and data switches in 27 markets. The Company's data network is supported by an OC-48 capacity nationwide fiber optic backbone currently operating at OC-12 capacity. The design of the physical network permits the Company to offer flexible, high-speed telecommunications services to its customers.

The metropolitan and regional network infrastructure consists of fiber optic cables and associated advanced electronics and transmission equipment. The Company's network is generally configured in redundant synchronous optical network ("SONET") rings to make the network accessible to the largest concentration of telecommunications intensive business customers within a given market. This network architecture also offers the advantage of uninterrupted service in the event of a fiber cut or equipment failure, thereby resulting in limited outages and increased network reliability in a cost efficient manner.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

Reorganized Capital Structure

On December 19, 2001, the Company and its debtor subsidiaries filed a proposed Plan of Reorganization and a Disclosure Statement in the Bankruptcy Court. The Company subsequently filed a First Amended Disclosure Statement on March 1, 2002 and a Second Amended Disclosure Statement on March 26, 2002, which was amended on April 3, 2002 (the Plan of Reorganization and the Disclosure Statement, as amended, are collectively referred to herein as the "Plan"). A hearing on the adequacy of the Disclosure Statement was held in the Bankruptcy Court on April 3, 2002 at which time the Bankruptcy Court found the Disclosure Statement adequate and authorized the Company to submit the Plan to the Company's creditors for approval. It is anticipated that a confirmation hearing will be held in the Bankruptcy Court on May 20, 2002. Consummation of the Plan is contingent upon receiving final Bankruptcy Court approval, as well as the approval of certain classes of creditors.

On August 12, 1999, ICG Equipment, Inc. and ICG NetAhead, Inc. ("NetAhead") entered into a $200.0 million senior secured financing facility ("Senior Facility") consisting of a $75.0 million term loan, a $100.0 million term loan and a $25.0 million revolving line of credit. The Senior Facility is guaranteed by ICG Services and ICG Mountain View, Inc. and is secured by the assets of ICG Equipment, Inc. and NetAhead. On December 19, 2000, the Bankruptcy Court issued an order directing ICG Services and certain of its subsidiaries to provide adequate protection to the lenders of the Senior Facility in the form of a first priority, post-petition security interest. The Company is also subject to certain financial covenants based on results of operations under the Senior Facility. The Company continues to make interest-only payments on the Senior Facility balance as approved by the Bankruptcy Court. Interest is paid based on the prime rate plus 4.25% on $36 million of the outstanding balance and the prime rate plus 3.875% on the remaining $48.6 million.

Under the Company's proposed Plan, the Senior Facility will be restructured with new terms and new notes (the "Secured Notes"), which will be issued to the lenders. The balance due on the Secured Notes will be approximately $59.6 million. The Secured Notes will mature three (3) years from the Effective Date. The Secured Notes will bear interest at a fluctuating rate, payable monthly in arrears currently estimated to be 8.0% if issued at March 31, 2002. The Secured Notes will also contain new financial covenants that will be established based on the Company's business plan.

The Company's Plan, in addition to restructuring and replacing the Senior Facility with the Secured Notes, is premised upon obtaining $65 million of new exit financing comprised of three components: (i) a $25 million new senior subordinated secured term loan (the "Senior Subordinated Term Loan"), the proceeds of which will be utilized to repay $25 million of the Senior Facility; (ii) the issuance by the Company of $40 million of new unsecured convertible notes (the "Convertible Notes"), the proceeds of which will be utilized by the Company for general working capital and corporate purposes; and (iii) the Secured Notes. (The Senior Subordinated Term Loan, the Convertible Notes and the Secured Notes are collectively referred to as the "Exit Financing".)

As proposed in the Company's Plan, the Senior Subordinated Term Loan will be arranged by Cerberus Capital Management, L.P. ("CCM") and the Convertible Notes will be purchased by a group of institutions with CCM being the predominant investor. Among other terms and conditions, the Senior Subordinated Term Loan (i) shall be subordinated to the Secured Notes, (ii) shall be secured by liens on substantially all assets of the Company, junior to the liens securing the Secured Notes, (iii) shall mature four (4) years from the Effective Date, (iv) shall have no amortization prior to maturity, and (v) shall bear interest at the rate of fourteen percent (14%) per annum, payable monthly in arrears.

Among other terms and conditions, the Convertible Notes shall: (i) be unsecured, (ii) be subordinated to the Secured Notes and the Senior Subordinated Term Loan, (iii) shall be convertible at any time into 2,250,000 new common shares, and (iv) shall be issued with non-detachable shares of preferred stock of the reorganized ICG with an aggregate liquidation preference of $10,000. The holders of the Convertible Notes will have voting rights equivalent to the voting rights of the holders of the New Common Shares on an as converted basis. In addition, subject to certain percentage ownership requirements, the Convertible Notes will entitle CCM to appoint five (5) directors to the reorganized Company's Board of Directors, W. R. Huff Asset Management Co. L.L.P. to appoint two (2) directors and Morgan Stanley & Co., on behalf of the Company's unsecured creditors, will be entitled to select one board member. The Company's current CEO, Mr. Randall Curran, will serve as Chairman of the Board of Directors. In addition, certain corporate actions will require the approval of a supermajority of the Board.

The proposed Exit Financing is entirely contingent upon the Company consummating its Plan, which will include obtaining the necessary approvals from the Bankruptcy Court and the Company's creditors. The Plan contains the endorsement of the Company's official committee of unsecured creditors and their recommendation that the creditors vote to accept the Plan; however, there is no assurance that the Bankruptcy Court and the Company's creditors will approve of the proposed Plan. Additionally, the Exit Financing remains subject to a number of conditions precedent, including the completion of final documentation, the absence of any material adverse change in the Company's business or financial condition and the absence of any material disruption in the financial markets.

The Company's management, assisted by its financial advisors, Dresdner Kleinwort & Wasserstein, Inc., evaluated the reorganization value of the Company in connection with the filing of the Plan. The reorganization value of the Company on a going concern basis was estimated to be between $350 million and $500 million. This evaluation of the Company resulted in a range of values for the new common equity of between approximately $102 million and $252 million. The Plan as submitted reflects a reorganization value of approximately $413 million, which includes a valuation of the new common equity totaling $165 million.

The following table, Condensed Capital Structure, compares the capital structure of the Company as of December 31, 2001, as reported in the Company's audited financial statements, with the projected pro forma reorganized capital structure of the reorganized ICG upon confirmation of the Plan. Amounts presented below as the Projected Pro Forma elements of the reorganized ICG's capital structure are taken from the Company's Plan that assumes an effective date of confirmation of the Plan of April 30, 2002.

Condensed Capital Structure

	Actual December 31, 2001	Projected Pro Forma Reorganized Capital Structure April 30, 2002
	(in thousands)	
Capital lease obligations		
Corporate headquarters	$ 50,708	$ 50,902
Other	185,518	47,738
Total	236,226	98,640
Secured long-term debt		
Senior facility	84,574	—
Secured Notes	—	59,574
Other secured debt	929	24,463
	85,503	84,037
Senior Subordinated Term Loan	—	25,000
Convertible Notes, net of $5 million of debt discount	—	35,000
Unsecured long-term debt	1,968,781	—
Total debt	2,290,510	242,677
Preferred stock	1,326,745	—
Stockholders' equity (deficit)	(3,444,757)	165,000
Total debt and stockholders' equity	$ 172,498	$ 407,677

The Company has received executed commitment letters for the Exit Financing, however, these commitments remain subject to a number of conditions precedent, including without limitation (i) completion of final documentation and (ii) absence of any material adverse change in the Company's business or material disruption in the financial markets. There can be no assurance that these conditions will be satisfied (or waived), and if not, the Company will not obtain the financing provided thereby.

As stated above, the Plan is premised upon reorganized ICG obtaining the Exit Financing. In the event the Company does not obtain such financing, the Company's ability to execute its Plan and meet future commitments will be materially adversely impacted.

Capital lease obligations primarily include long-term leases for certain fiber facilities and the headquarters building and are projected to total $98.6 million at the Effective Date. The effective interest rate is assumed to average 14.8% per annum for fiber leases and 11.7% per annum for the building.

The Secured Notes are projected to have a principal balance of $59.6 million outstanding as of the Effective Date. Interest on the Secured Notes will be accrued as a premium over LIBOR or a premium over the bank's prime rate and is payable monthly in arrears. If outstanding at March 31, 2002 the rate payable is estimated to have been 8.0% per annum. The principal balance of the Secured Notes is projected to begin amortizing in 2003 and will mature in 2005.

The $25 million Senior Subordinated Term Loan accrues interest at 14% which is fixed and payable monthly in arrears. The Senior Subordinated Term Loan matures in four years. In addition, warrants to purchase 200,000 New Common shares of the reorganized ICG will be issued in connection with the Senior Subordinated Term Loan. The warrants will have an exercise price equal to the reorganization value assigned to the Company and will expire, if unexercised, on the fifth anniversary of Effective Date.

The $40 million of Convertible Notes are convertible into 2,250,000 New Common Shares of the reorganized ICG at the Effective Date. This effective conversion price (i.e. $17.78 per share) is 11.1% below the value of the New Common

shares as of the Effective Date (i.e. $20.00 per share) representing a $5 million value associated with the conversion rights. Interest accrues at the rate of 11% per annum compounded quarterly and is paid in the form of additional Convertible Notes and conversion rights. Payments on Convertible Notes, to the extent not converted, mature on the seventh anniversary of the Effective Date. The $5 million value of the initial conversion rights associated with the Convertible Notes has been established as debt discount with a corresponding increase to additional paid in capital of stockholders' equity to reflect the impact of such beneficial conversion feature in the accompanying table.

The Secured Notes and the Senior Subordinated Term Loan will require the Company to meet certain financial covenants. The financial covenants will include minimum EBITDA requirements and capital expenditure limitations. The covenants will also require that the Company maintain a minimum cash balance calculated as a ration to the outstanding balance of the Secured Notes. Certain of these financial covenants will be established based on the Company's projected financial results set forth in the Plan. The Company's Plan, however, is based on the good faith assumptions and projections of management, which are inherently uncertain. Actual results could differ materially from the Company's Plan, which in turn could negatively impact the Company's compliance with the financial covenants.

Additionally, the minimum cash covenant will be established by the secured lenders without reference to the Company's financial projections. Based on the Company's current EBITDA projections, and assuming the Company does not raise additional funds, or cut its projected capital spending, the Company would need to request a modification or waiver with respect to the minimum cash coverage ratio covenant by the fourth quarter of 2003. Management anticipates that the Company's business plan provides sufficient flexibility to reduce spending as appropriate to remain in compliance with this covenant. New sources of capital may also be available beyond that which is currently projected by management. There is no assurance, however, that these objectives can be realized, or that the Company will be able to secure additional capital or alternative financing. In such event, the secured lenders could declare a default and take certain actions that would require the Company to accelerate repayment.

Other debt as of the Effective Date consists primarily of notes issued to vendors and taxing authorities and are projected to have a principal balance totaling $24.5 million. Associated interest expense is projected at 7.0% to 10% per annum, payable monthly.

Other Sources of Funding

The Company had cash and cash equivalents of approximately $147 million as of December 31, 2001 and anticipates having cash and cash equivalents of approximately $99 million on the Effective Date. The change in cash reflects receipt of the Exit Financing, normal operating cash requirements and payment of restructuring fees and commitments at closing.

The Company expects that the demand for telecommunication services will grow and, not withstanding the current downturn in the general economy and specifically the telecommunications industry, that it will be able to increase its relatively small share of the markets it serves. The Company also believes that as the Company's revenues grow, cash provided by operating activities will increase. The Company anticipates that it will be able to refinance all or a portion of the amounts due at the term of the respective facilities.

Capital Commitments

Contractual Cash Commitments

The following table summarizes the Company's contractual cash commitments. The table assumes the Plan will be confirmed by the Court and the creditors and that the final provisions of the Exit Financing will exhibit terms and conditions substantially in agreement with the executed commitments discussed above.

Summary of Contractual Cash Obligations

	Four Months Ended April 30, 2002	Eight Months Ended Dec. 31, 2002	Year Ended Dec. 31, 2002	Two to Three Years	Four to Five Years	After Five Years
			(in thousands)			
Capital lease obligations:						
Corporate headquarters	$ —	$ —	$ —	$ —	$ —	$ 50,902
Other	7,207	2,410	9,617	12,061	7,801	25,466
Total(1)	7,207	2,410	9,617	12,061	7,801	76,368
Secured long-term debt:						
Senior facility	25,000	—	25,000	—	—	—
Mortgage	—	—	—	—	—	—
Secured Notes	—	—	—	11,926	47,648	—
Other secured debt	—	5,719	5,719	12,165	6,066	512
	25,000	5,719	30,719	24,091	53,714	512
Senior Subordinated Term Loan	—	—	—	—	25,000	—
Convertible Notes, net of $5 million of debt discount	—	—	—	—	—	40,000
Total	—	—	—	—	25,000	40,000
Total Capital Leases and Debt	32,207	8,129	40,336	36,152	86,515	116,880
Other Obligations:						
Restructuring fees and commitments(2)	25,466	—	25,466	—	—	—
Operating leases and rents	6,864	13,729	20,593	32,668	28,424	56,251
Maintenance and other contracts	873	1,746	2,619	200	400	—
Total	33,203	15,475	48,678	32,868	28,824	56,251
Total Contractual Cash Obligations	$ 65,410	$ 23,604	$ 89,014	$ 69,020	$ 115,339	$ 173,131

(1) Excludes the imputed interest component of the capital leases.

(2) Includes the estimated settlement of Administrative (Professional fees), Convenience and Priority Claims and cash disbursed with the affirmation of certain executory contracts (as these terms are defined in the Plan).

Capital Expenditures

Capital expenditures are projected to be approximately $98 million in 2002 and $500 million through 2005. An estimated 25% to 35% of the expenditures in 2002 will be incurred to maintain the current functionality of the network infrastructure and information and business support systems, such as software upgrades, replacement of physically obsolete equipment, etc. Capital expenditures, exclusive of amounts required to maintain the current functionality will be driven by customer demand for the Company's services. If customer demand for new services does not meet the expectation of the Plan, capital expenditures will be proportionally reduced. The Company has approximately $95 million of construction and development in process as of December 31, 2001. This includes 5 switch sites that are substantially complete and which management anticipates will be generating revenue in the second half of 2002.

The Company also has available capacity on its data backbone and in its modem banks. It is the Company's objective to use the capacity to support future revenue streams.

Assessment of Risks and Uncertainty

Availability of Financing

The Company believes that cash and short-term investments should enable the Company to fund operations into 2004 when the Company plans to refinance the Secured Note. There can be no assurance, however, that such resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements, or that the Company will achieve or sustain profitability or positive EBITDA in the future, which will allow it to maintain cash reserve or attract capital with which to refinance the Secured Notes.

As stated above, the Plan is premised upon the reorganized ICG obtaining the Exit Financing on the Effective Date. In the event the Company does not obtain such financing, the Company's ability to execute the Plan and meet future commitments will be materially adversely impacted.

Sustaining Positive Cash Flow

The general economic downturn and the severe downturn in the telecommunications industry have resulted in an increased risk to the Company in the form of: exposure to credit risk from existing customers; increased churn (especially in Point-to-Point Broadband services); and oversupply of backbone and other services, creating increased pricing pressures.

Due to the impacts of a slowing economy, which has resulted in customers going out of business, filing bankruptcy, or looking for opportunities to cut costs, the Company has experienced an acceleration of customers disconnecting services that has resulted in downward pressure on revenue performance. In addition, customers are taking longer to make buying decisions, lengthening the sales cycle. During the fourth quarter 2001, recurring revenue of approximately $3 million was eliminated due to customer disconnects.

Management believes that such pressure will continue to negatively impact revenue performance for the first half of 2002 and possibly longer. Approximately 5.0% of the Company's monthly recurring revenue at December 31, 2001 was represented by customers the Company believes may be experiencing financial difficulties. The Company cannot predict how much of that revenue will be lost to disconnections. In addition, the Company anticipates further disconnections by other customers due to optimizing their existing networks, continued cost cutting efforts, and additional customer bankruptcies or other customer financial difficulties. There is no assurance that the Company will be able to replace lost revenue with new revenue from sales.

Factors that could negatively impact the Company's margins in a slowing economy includes below-cost pricing by some competitors to increase short-term cash flow. In addition, pricing pressure from long-haul providers could impact pricing of inter-city point-to-point services. However, the Company believes that its margins will be improved by its ability to sell services on its extensive networks that extend beyond these types of highly competitive routes onto its metropolitan facilities.

Reciprocal compensation revenue is primarily associated with the Company's Dial-Up revenue that represents compensation from LECs for local exchange traffic originated on another LEC's facilities and terminated on the Company's facilities. Reciprocal compensation rates are established by interconnection agreements between the parties based on regulatory and judicial rulings in each of the states. Further, several significant settlement agreements were renegotiated in 2000 and 2001. (*See* "Regulatory Activity".) In most states in which the Company provides services, regulatory bodies have established lower traffic termination rates than the rates provided under the Company's agreements and, as a result, the rates, while reasonable in light of the regulatory environment, are lower than the rates under the expiring agreements. In addition, a 2001 FCC ruling on reciprocal compensation for ISP-bound traffic reduced rates in 2001 and will further reduce rates in January 2002 and June 2003. The ruling also capped the number of minutes that can be billed for ISP-bound traffic. Reciprocal compensation represented approximately 30%, 23% and 13% of revenue in each of the years in the three year period ended December 31, 2001. The Company believes that the revenue earned from reciprocal compensation will be significantly reduced in future years.

The immense capital investments made in the telecommunications industry have created substantial supply of network infrastructure. Oversupply combined with rapid technological advancements that have the potential to reduce

operating costs and intense competition from numerous participants in most of the Company's markets have resulted in significant pricing pressure in each of the Company's main service areas. While the Company believes it is price competitive overall, it cannot predict the extent of further pricing pressures and potential adverse impacts to future operating results.

Loss of significant customer

Several customers account for a significant portion of our revenue.

The Company has substantial business relationships with a few large customers. For the year ended December 31, 2001, the top ten customers accounted for approximately 52% of total revenue. The Company's largest customer for the three and 12 months ended December 31, 2001, accounted for 28% and 18%, respectively of total revenue. In 2001 the companies that individually represented more than 5% of total revenue, were Qwest Communications, Inc., Cable and Wireless, Inc. and UUNet (a division of WorldCom, Inc.).

Off Balance Sheet Financing

The Company has no off balance sheet financing other than long term commitments for operating leases and rents as shown in the Summary of Contractual Cash Commitments.

Historical Cash Activities

Net Cash Provided (Used) By Operating Activities

The Company's operating activities before reorganization items provided approximately $74 million and $142 million in 2001 and 2000, respectively, and used $44 million in 1999. Net cash provided (used) by operating activities is primarily due to losses from continuing operations, working capital items and non-cash expenses, such as depreciation and amortization, deferred interest expense, provision for impairment of long-lived assets, accretion and preferred dividends on subsidiary preferred securities.

In 2001, this source of cash is the result of a net loss before reorganization items of approximately $99 million offset by non-cash charges of approximately $137 million and cash provided by working capital of $37 million.

In 2000, non-cash charges such as depreciation and amortization and the impairment of long-lived assets substantially offset the net loss. Working capital, excluding deferred revenue, provided $44 million of cash and deferred revenue provided $169 million of cash.

Reorganization items are primarily non-cash charges derived from the bankruptcy process.

In 1999, net cash used by operating activities of $44 million included an increase in receivables of approximately $121 million, which offset non-cash expenses and other changes in working capital.

Net Cash Used By Investing Activities

Investing activities used $122.4 million, $557.6 million, and $17.5 million during each of the years in the three year period ended December 31, 2001, respectively. Net cash used by investing activities includes cash expended for the acquisition of property, equipment and other assets of $530 million, $596 million, and $44 million, which is net of the change in prepaid expenses, accounts payable and accrued liabilities related to the acquisition of property and equipment, for each of the years in the three year period ended December 31, 2001, respectively.

During 1999, the Company used $29 million for the purchase of long-term investments and $6 million to purchase the minority interest of two of the Company's subsidiaries. Offsetting the expenditures of investing activities for 1999 are the net proceeds from the sales of NETCOM, Network Services and Satellite Services combined of $405 million, including $30 million in proceeds from the sale of common stock of MindSpring, which the Company received as partial consideration for the sale of the domestic operations of NETCOM, and proceeds from the sales of short-term investments available for sale of $30 million.

Offsetting the expenditures for investing activities for 2000 are the proceeds from the sale of short-term investments and marketable securities of $33 million. Offsetting the expenditures for investing activities in 2001 are the proceeds from the sale of short-term investments and marketable securities of $20 million and decrease in restricted cash of $3 million due to settlement of liabilities subject to compromise.

The Company acquired assets under capital leases and IRU agreements of approximately $144 million, $231 million and $51 million during each of the years in the three year period ended December 31, 2001 respectively, including the capital lease for the Company's headquarters building in 2001.

Net Cash Provided (Used) By Financing Activities

Financing activities provided $67.0 million, $528.4 million during 1999 and 2000 and used $20.9 million in 2001. Due to the Company's ongoing bankruptcy proceedings, the Company's financing activities in 2001 were minimal. Management of the Company has determined that the Company has adequate cash and short-term investments to provide for operations during the reorganization period. Accordingly, the Company terminated its Debtor-in-Possession Revolving Credit Agreement on November 7, 2001 without ever having drawn any amounts under this agreement. All prepetition contractual debt and capital lease payments were suspended and subject to revised payment terms on a specific case basis. The Company ceased accreting the discounts or accruing interest on all unsecured debt subject to compromise as of the Petition Date. The Company continued to accrue and make interest payments on all fully secured long-term debt and capital lease obligations. During 2001, the Company made principal payments on capital leases of $17.5 million. In addition, the Company made $1.3 million in preferred stock dividend payments in 2001 as part of a settlement approved by the Bankruptcy Court.

Net cash provided by financing activities in 1999 and 2000 includes the Senior Facility completed in August 1999, and the 8% Series A Convertible Preferred Stock issued in April 2000. Historically, the funds to finance the Company's business acquisitions, capital expenditures, working capital requirements and operating losses have been obtained through public and private offerings of the Company and Holdings-Canada common shares, convertible subordinated notes, convertible preferred shares of Holdings-Canada, capital lease financings and various working capital sources, including credit facilities, in addition to the private placement of the securities previously mentioned and other securities offerings. Net cash provided by financing activities for 1999 and 2000 also includes proceeds from the issuance of common stock in conjunction with the exercise of options and warrants and the Company's employee stock purchase plan, offset by principal payments on long-term debt, capital leases and IRU agreements and payments of preferred dividends on preferred securities of subsidiaries.

On August 12, 1999, ICG Equipment and NetAhead entered into a $200.0 million senior secured financing facility ("Senior Facility") consisting of a $75.0 million term loan, a $100.0 million term loan and a $25.0 million revolving line of credit. During 1999 and 2000, the Company borrowed approximately $80.0 million and $95.0 million, respectively, under the loans at variable interest rates.

During 2000, the Company received net proceeds of $707.7 million from the issuance of the 8% Series A Convertible Preferred Stock. These proceeds were used to fund the Company's operating and expansion activities. Due to the bankruptcy proceedings, the Company has fully written off the offering costs and fully accreted the discount associated with the 8% Series A Convertible Preferred Stock totaling $118.1 million.

On December 4, 2000, the Company finalized its Debtor-in-Possession Revolving Credit Agreement with Chase Manhattan Bank (the "Credit Agreement"). The Credit Agreement originally provided for up to $350 million in financing, which was subsequently amended to $200 million. On November 7, 2001 the Company terminated the Credit Agreement because it expects that it will have adequate cash and short-term investments to fund operations during the bankruptcy process.

As a result of the Company's liquidity problems, the Company's directors did not declare a dividend on the 6 $^{3}/_{4}$% Preferred Securities that was otherwise payable on November 15, 2000. In addition, the Company has not declared dividends on the 14%, 14 $^{1}/_{4}$% Preferred Stock and the 8% Series A Convertible Preferred Stock.

Capital Expenditures

The Company's capital expenditures of continuing operations (including assets acquired under capital leases) were $739.1 million, $973.6 million and $41.5 million for 1999, 2000 and 2001, respectively.

Capital expenditures of continuing operations in 2001 excludes corporate headquarters assets acquired through capital lease obligations.

RESULTS OF OPERATIONS

The following table provides certain statement of operations data and certain other financial data for the Company for the periods indicated. The table also presents revenue, operating costs and expenses, operating loss and EBITDA as a percentage of the Company's revenue.

	Years Ended December 31,					
	1999		2000		2001	
	$	%	$	%	$	%
	($ values in thousands)					
Statement of Operations Data:						
Revenue	479,226	100	598,283	100	499,996	100
Operating costs	238,927	50	440,090	74	351,973	70
Selling, general and administrative	179,737	38	199,508	33	94,155	19
Bad debt expense	60,019	12	84,457	14	14,236	3
Depreciation and amortization	174,239	36	318,771	53	67,768	14
Provision for impairment of long-lived assets	31,815	7	1,701,466	284	27,943	6
Other, net	387	—	4,108	1	11,949	2
Operating loss	(205,898)	(43)	(2,150,117)	(359)	(68,028)	(14)
Other Data:						
Net cash provided (used) by operating activities	(43,476)		122,483		(11,981)	
Net cash used by investing activities	(122,412)		(557,619)		(17,519)	
Net cash provided (used) by financing activities	67,018		528,444		(20,893)	
EBITDA(1)	543	—	(125,772)	(21)	39,632	8
Capital expenditures of continuing operations(2)	739,061		973,584		41,463	
Capital expenditures of discontinued operations(2)	12,264		—		—	

(1) See note 3 under "*Selected Financial Data*" for the definition of EBITDA and a reconciliation to net loss from continuing operations.

(2) See note 4 under "*Selected Financial Data*" for the definitions of capital expenditures of continuing operations and capital expenditures of discontinued operations.

LONG-LIVED ASSET IMPAIRMENT

As a result of adverse changes in the capital markets, specifically as related to the availability of capital to finance competitive local exchange carrier's growth, downward trends in certain segments of the economy, particularly with respect to expected growth of demand in technology and telecommunications segments, the Company's Chapter 11 filing and the subsequent deterioration in the value of the Company's operating assets, the Company undertook an extensive analysis of its business plan during the fourth quarter of 2000 and the first quarter of 2001. As a result, the Company prepared a detailed business plan that gave appropriate consideration to the environmental factors noted above.

SFAS No. 121 requires that assets to be held and used are measured for impairment on the basis of undiscounted future cash flows before interest determined at the lowest level for which there are identifiable cash flows. Due to the Company's inability to allocate significant amounts of central support costs to the various markets, the impairment analysis was performed on a Company-wide basis. This analysis indicated that there was a shortfall of cash flows compared to the carrying value of the Company's long-lived tangible and intangible assets and that an impairment had occurred. For purposes of calculating the amount of the impairment, the Company segregated its long-lived assets into three categories:

intangible assets, consisting primarily of goodwill; tangible assets to be disposed of; and, tangible assets to be utilized in ongoing operations.

As a result of the analysis of shortfalls of cash flows to carrying values of assets noted above, all intangibles, consisting primarily of goodwill relating to the Company's acquisitions under the purchase method of accounting, were written off as of December 31, 2000, resulting in an impairment charge of approximately $80 million.

Additionally, the Company determined that certain assets not utilized under the Company's business plan be held for disposal or sale. The fair value of assets held for sale is based on current appraisals or purchase offers, less cost to sell. Assets held for sale are comprised primarily of 1) assets that were under construction in late 2000 and for which the incremental capital required to place the asset in service for revenue generation was not available, and 2) assets in service that were not required to meet expected future customer demand as defined in the business plan. During 2001, asset sales valued at $4 million were completed. An impairment of approximately $124 million and $28 million was reflected in the financial statements as of December 31, 2000 and December 31, 2001, respectively, to reduce these assets to their fair value of approximately $41 million and $8 million in 2000 and 2001, respectively. These assets have not been segregated as current assets in the accompanying consolidated financial statements and are included in property and equipment.

The fair value of tangible assets to be utilized in ongoing operations was determined to be $550 million at December 31, 2000. This value was derived primarily from the discounted cash flows from future operations; however, the Company also took into consideration several other valuation techniques, including asset appraisal and current market capitalization.

In order to reduce tangible assets to be used in ongoing operations to the fair value of $550 million, the Company recorded an impairment charge as of December 31, 2000 of approximately $1,500 million. No adjustment was made to recorded depreciation during the year ended December 31, 2000.

The book value of the impaired assets became the new cost basis of the assets. This amount is being depreciated over the remaining estimated useful life of the assets.

The Company, during the year ended December 31, 1999, also recorded a provision for impairment of long-lived assets of $32 million, which relates to the impairment of software and other capitalized costs associated with Telecom Services' billing and provisioning system projects under development. The provision for impairment of long-lived assets was based on management's decision to abandon the billing and provisioning systems under development and to select new vendors for these systems, which vendors were expected to provide the Company with billing and provisioning solutions with improved functionality and earlier delivery dates at significantly lower costs. The Company's billing and provisioning systems under development were either not operational or were serving minimal customers at the time management determined the carrying value of the underlying assets was not recoverable.

YEAR 2001 COMPARED TO YEAR 2000

A series of financial and operational events negatively impacted ICG during the second half of 2000. These events reduced the Company's expected revenue and cash flow generation resulting ultimately in the Company's filing for protection under Chapter 11 of the Bankruptcy Code. The Company, upon filing, immediately discontinued it expansion plans, ceasing the construction of facilities and the installation of leased facilities to support the expansion.

Initiatives were put in place to conserve cash and focus on predictable profitable operations. The headcount was reduced from 3,160 as of September 30, 2000 to 1,476 at March 31, 2001 and further to 1,368 by year end. This reduction in force included a reduction in the sales organization. Operating costs, including line costs expenses, were reduced to $85 million for the quarter ended June 30, 2001 from $136 million for the quarter ended December 31, 2000.

The Company met with key customers and vendors. A customer retention campaign designed to enhance customer relationships was initiated. Sales efforts were focused on selling services which could be provided with nominal incremental cost, utilizing existing infrastructure to reduce the deployment of capital.

These efforts allowed the Company to maintain service to customers while conserving cash resources. The cash, cash equivalents and short-term investments balances stabilized at approximately $140 million ($142 million as of March 31, 2001 and $147 million at December 31, 2001).

In late 2001 the Company commenced the roll out of new products, and in late 2001 and early 2002 the size of the direct sales force was doubled and the sales partner program initiated.

Revenue

	Year Ended December 31,			
	2000		2001	
	$	%	$	%
	($ values in thousands)			
Dial-Up	154,343	26	179,277	36
Point-to-Point Broadband	176,499	29	151,585	30
Corporate Services	128,378	22	105,400	21
Reciprocal Compensation	139,063	23	63,734	13
Total Revenue	598,283	100	499,996	100

Total revenue decreased 16% to $500 million in 2001 compared to 2000. Dial-Up revenues increased significantly to account for 36% of the revenue generated in 2001. The contribution of reciprocal compensation as a percent of total revenue decreased from 23% in 2000 to 13% in 2001.

Dial-Up revenue increased 16% to $179.3 million in 2001 from $154.3 million in 2000. The increase is primarily attributable to a 2% increase in the average number of customer access ports and a significant reduction in service credits issued to customers in 2001, offset by a reduction in the average revenue per port due to product mix and price reductions. The Company issued approximately $30 million of service credit to customers in the third and fourth quarters of 2000. Service levels significantly improved in early 2001.

Point-to-Point Broadband revenue, which includes switched access and SS7 revenues, decreased 14% to $151.6 million in 2001 from $176.5 million in 2000. The decrease is due primarily to a reduction of $12.1 million in switched access revenues due to reduced customer demand and a reduction of $11.5 million of revenue recognized in 2000 on a fiber optic lease agreement with a major interexchange carrier that did not recur in 2001. Switched access and SS7 services provided approximately 16% of the revenues in this revenue category in 2001.

Corporate Services revenue decreased 18% to $105.4 million in 2001 from $128.4 million in 2000. The decrease is primarily attributable to a 21% decrease in the average number of access lines, many of which were resale lines that generated a higher than average revenue per line but low margins, and a reduction in revenue due to the transitioning of long distance services to another carrier in late 2001.

Reciprocal compensation revenue declined 54% from $139.1 million in 2000 to $63.7 million in 2001. Reciprocal compensation revenue is primarily earned under interconnection agreements with ILECs for terminating local traffic but also includes revenue from transport and termination of other traffic for the ILECs. Reciprocal compensation is charged based on a rate per minute of use (MOU). Reciprocal compensation MOU decreased approximately 9% in 2001 from 2000 as the number of ports and access lines decreased, and the average rate per MOU declined approximately 52%. In 2000, the Company negotiated new interconnection agreements with several ILECs. These agreements assured the recognition and receipt of compensation for terminating ISP traffic but at rates lower than the Company had historically received. The Company anticipates that due to changes in the regulatory environment, reciprocal compensation revenue earned after 2003 will be significantly reduced.

Operating costs

Total operating costs decreased 20% from $440.1 million in 2000 to $352.0 million in 2001. Operating costs decreased as a percentage of revenue from 74% in 2000 to 70% in 2001. Operating costs consist primarily of payments to ILECs, other CLECs and long distance carriers for the use of network facilities to support Dial-Up, Voice, Point-to-Point Broadband, Switched access and long distance services as well as internal network operating costs, right of way fees and other operating costs. Internal network operating costs include the cost of engineering and operations personnel dedicated to the operations and maintenance of the network. Operating costs have decreased as a percentage of revenue primarily due to termination of circuits that were not generating revenue.

Selling, general and administrative expenses (SG&A)

Total SG&A expenses decreased from $199.5 million in 2000 to $94.2 million in 2001, a 53% decrease. SG&A expenses as a percentage of revenue decreased from 33% in 2000 to 19% in 2001. The decrease in SG&A is attributable to decreases in salaries and benefits, travel and entertainment, marketing, professional fees as well as other expenses as a result of the Company's restructuring process which commenced in the second half of 2000. These reductions included reducing the full-time employee count from 2,054 at December 31, 2000 to 1,368 at December 31, 2001 with the majority of the headcount reductions taking place in the first quarter of 2001.

Bad debt expense

Bad debt expense decreased 83% from $84.5 million in 2000 to $14.2 million in 2001. The Company recorded a provision for uncollectible accounts in 2000 of approximately $29 million and $53 million in the third and fourth quarters of 2000, respectively. Of those amounts, approximately $6 million and $13 million related to reciprocal compensation for the third and fourth quarters of 2000, respectively. This increase in the provision in 2000 was attributable to (i) customers in the ISP and Internet space that were unable to pay for service, (ii) the resolution of billing disputes, (iii) customers that stopped or deferred payments for services as the Company entered bankruptcy and (iv) reduction in the resources that the Company could afford to expend to enforce the payment of reciprocal compensation under the interconnection agreements. The decrease in the provision for uncollectible accounts in 2001 was attributable to significant improvement in the collection of current billings and past due accounts as well an improvement in customers' reactions to ICG's reorganization and satisfactory settlements of account balances with major customers.

Depreciation and amortization

Depreciation and amortization decreased 79% from $318.8 million in 2000 to $67.8 million in 2001. The decrease is primarily due to the $1.7 billion impairment charge to reduce tangible and intangible assets to their fair value at as of December 31, 2000. The net book value of the tangible assets in service became the new cost basis for depreciation as of December 31, 2000.

Provision for impairment of long-lived assets

(See Long-Lived Asset Impairment.)

Loss on disposal of long-lived assets

The Company recorded a loss of $2.4 million in 2000 and a loss of $9.5 million in 2001 for the disposal of long-lived assets. The Company recognized a $7 million loss on the sale of its headquarters building in mid 2001.

Other, net

Other, net operating costs and expenses increased from $1.7 million in 2000 to $2.4 million in 2001. Other, net operating costs and expenses consists primarily of $1.3 million and $2.4 million of deferred compensation from an arrangement with its former chief executive officer in 2000 and 2001, respectively.

Interest expense

Interest expense decreased from $233.6 million in 2000 to $32.2 million in 2001. The decrease in interest expense is a result of the Company's bankruptcy filing. Interest was not accrued or paid and discounts were not accreted on all Prepetition debt subject to compromise. Contractual interest that was not recorded due to the bankruptcy proceedings totaled $30.3 million for the period from the Petition Date through December 31, 2000 and $249.3 million in 2001. Included in interest expense for 2000 was $175.8 million of noncash interest. Additionally, interest expense is net of interest capitalized related to construction in progress of $7.0 million and $1.2 million during 2000 and 2001, respectively. The Company continued to accrue and make payments on all fully collateralized long-term debt and capital lease obligations not subject to compromise.

Interest income

Interest income decreased from $23.8 million in 2000 to $6.7 million in 2001. Interest income earned as a result of the bankruptcy filing of $1.4 million and $6.7 million in 2000 and 2001, respectively, was classified as reorganization expenses in accordance with the requirements of SOP 90-7. The decrease in total income is attributable to the decrease in cash, cash equivalents and short-term investments resulting from the use of the Company's cash balances in connection with its reorganization under the bankruptcy proceedings and from generally lower interest rates and yields on its invested cash.

Other expense, net, including realized gains and losses on marketable trading securities costs

Other expense, net decreased from $15.2 million of expense in 2000 to $1.0 million of income in 2001. Other expense, net in 2001 consists primarily of a net gain on the sale of investments. The 2000 amount relates primarily to the loss on the investment in Teligent, partially offset by a gain on a litigation settlement.

Reorganization expenses

Reorganization expenses associated with the Company's reorganization of $13.5 million and $53.9 million in 2001 and 2000, respectively, consist of costs associated with the bankruptcy proceedings that are not directly attributable to the on-going operations of the Company. In 2001, such costs include a gain on settlement with major customers of $39.2 million and interest income earned as a result of the bankruptcy filing of $6.7 million offset by severance and employee retention costs of $13.2 million, estimated loss on equipment returned to vendors of $10.3 million, legal and professional fees of $16.5 million, switch site closure costs of $5.2 million, line cost termination expenses of $9.3 million and $4.9 million of other costs. In 2000, these costs include $36.5 million for the write-off of deferred financing and offering costs, $9.6 million for severance and employee retention costs, $6.3 million in professional fees, $2.3 million in lease cancellation charges and $0.6 million of other costs, offset by $1.4 million of interest income earned as a result of the bankruptcy filing.

Accretion and preferred dividends on preferred securities of subsidiaries

Accretion of costs and preferred dividends on preferred securities of subsidiaries decreased from $60.0 million in 2000 to $0 in 2001. The decrease is due to the bankruptcy proceedings. The accretion of the preferred dividends and amortization of offering costs on all preferred securities ceased as of the Petition Date. The Company fully accreted the discount and fully wrote-off the offering costs totaling $9.7 million associated with the preferred stock subsequent to the Petition Date. Such amounts are included in reorganization expenses in the accompanying consolidated statement of operations. Accretion and preferred dividends on preferred securities of subsidiaries recorded through the Petition Date for the year ended December 31, 2000 consist of the accretion of issuance costs, discount and preferred security dividend

accruals for the $6^{3}/_{4}$% Preferred Securities, the 14% Preferred Stock and the $14\ ^{1}/_{4}$% Preferred Stock. Pursuant to the Company's Plan of Reorganization, the Company's preferred securities will be deemed to be cancelled and extinguished on the Effective Date.

Net income from discontinued operations

Net income from discontinued operations was $4.3 million in 2000. Net income from discontinued operations for 2000 primarily consists of adjustments to the gain (loss) on disposal of Network and Satellite Services in 1999. There were no discontinued operations in 2001.

Cumulative effect of change in accounting principle

Cumulative effect of change in accounting principle for revenue from installation services of $7.4 million for 2000 is due to the change in accounting as a result of the adoption of SAB 101 on October 1, 2000 applied retroactively from January 1, 2000.

Accretion and dividends of 8% Series A Convertible Preferred Stock to liquidation value and related dividends

Accretion and dividends of 8% Series A Convertible Preferred Stock to liquidation value and related dividends is comprised of the dividends and the accretion to liquidation value of the 8% Series A Convertible Preferred Stock of $158.2 million during 2000. The decrease is due to the bankruptcy proceedings. Recording of the accretion and related dividends ceased as of the Petition Date. Pursuant to the Plan, the Company's preferred securities will be deemed to be cancelled and extinguished on the Effective Date.

Charge for beneficial conversion feature of 8% Series A Convertible Preferred Stock

Charge for beneficial conversion of 8% Series A Convertible Preferred Stock during 2000 relates to the charge to additional paid-in capital of $159.3 million of the proceeds of the 8% Series A Convertible Preferred Stock which is the intrinsic value of the beneficial conversion feature of the convertible preferred securities. The beneficial conversion feature was recognized immediately as a return to the preferred shareholders during 2000 as the 8% Series A Convertible Preferred Stock is immediately convertible into shares of ICG common stock.

YEAR 2000 COMPARED TO YEAR 1999

Revenue

	Year Ended December 31,			
	1999		2000	
	$	%	$	%
	($ values in thousands)			
Dial-Up	$ 62,381	13	154,343	26
Point-to-Point Broadband	161,850	34	176,499	29
Corporate Services	112,490	23	128,378	22
Reciprocal Compensation	142,505	30	139,063	23
Total Revenue	$ 479,226	100	598,283	100

Total revenue increased 25% to $598.3 million in 2000 compared with 1999. Dial-Up revenues increased significantly to account for 26% of the revenue generated in 2000. The contribution of reciprocal compensation as a percent of total revenue declined from 30% in 1999 to 23% in 2000 due primarily to growth in other revenue sources.

Dial-Up revenue increased 147% to $154.3 million in 2000 from $62.4 million in 1999. The increase in revenue is primarily attributable to growth in customer access ports in service of more than 100% as well as an increase in revenue received per port of more than 10%. The increase in revenue per port is due to a higher percentage of Internet remote access service ("IRAS") ports in 2000. The increase in revenue was partially offset by approximately $30 million in service credits issued to certain IRAS customers in the third and fourth quarters of 2000. The credits were issued as a result of network

performance problems that affected those customers' service. In addition, the Company did not recognize approximately $5.5 million of Dial-Up revenue otherwise earned due to concerns regarding the ultimate collection of billings for such service.

Point-to-Point Broadband revenue, which includes switched access and SS7 revenues, increased 9% to $176.5 million in 2000 from $161.9 million in 1999. The increase is primarily due to a 20% increase in Point-to-Point Broadband service revenue from growth in facilities and services provided, partially offset by a 24% decrease in switched access and SS7 revenue. Switched access and SS7 services generated approximately 20% of the revenues in this revenue category in 2000. Switched access revenue decreased primarily due to the expected attrition of switched access customers.

Corporate Services revenue increased 14% from $112.5 million in 1999 to $128.4 million in 2000. The increase is attributable to an increase of approximately 25% in the number of access lines offset by a decrease in revenue per line. The decrease in revenue per line is primarily the result of a decline in long distance revenue.

Reciprocal compensation revenue declined slightly from $142.5 million in 1999 to $139.1 million in 2000. Reciprocal compensation revenue is primarily earned under interconnection agreements with ILECs for terminating local traffic but also includes revenue from transport and termination of other traffic for the ILECs. Reciprocal compensation is charged based on a rate per minute of use (MOU). Reciprocal compensation MOU increased approximately 50% in 2000 from 1999 as the number of ports and access lines increased, which was offset by a decline in the average rate per MOU of approximately 30%. In 2000, the Company negotiated new interconnection agreements with several ILECs. These agreements assured the recognition and receipt of compensation for terminating ISP traffic but at rates lower than the Company had historically received. The Company anticipates that due to changes in the regulatory environment, reciprocal compensation revenue earned after 2003 will not be significant.

Operating costs

Total operating costs increased from $238.9 million in 1999 to $440.1 million in 2000, an 84% increase. Operating costs increased as a percentage of revenue from 50% in 1999 to 74% in 2000. Operating costs consist primarily of payments to ILECs, other CLECs, and long distance carriers for the use of network facilities to support Dial-Up, voice, Point-to-Point Broadband, switched access and long distance services as well as internal network operating costs, right of way fees and other operating costs. Internal network operating costs include the cost of engineering and operations personnel dedicated to the operations and maintenance of the network. Operating costs have increased as a percentage of revenue due to the amount of service credits issued to IRAS customers, as noted above, and as a result of the number of lines leased in 2000. ICG incurred incremental costs associated with the advanced deployment of leased lines in expansion cities to accommodate customer requirements, resulting in an increase in operating expenses as a percent of revenue. Those lines were provisioned using either ILEC or other CLEC capacity to meet customer demand. The Company is in the process of terminating circuits that are not generating revenue and, as a result, has experienced a significant reduction in operating costs in 2001.

Selling, general and administrative expenses (SG&A)

Total SG&A expenses increased from $179.7 million in 1999 to $199.5 million in 2000, an 11% increase. SG&A expenses as a percentage of revenue decreased from 38% in 1999 to 33% in 2000. The increase in SG&A is attributable to increases in salaries and benefits and other expenses incurred to support the rapid expansion the Company was experiencing in the first three quarters of 2000. Average full-time employees ("FTE") did not change significantly in 2000 from 1999. The number of FTEs reached 3,160 at the end of the third quarter of 2000 before decreasing to 2,054 as of the end of the year. The increase in salaries and benefits is primarily attributable to the compensation plan implemented in late 1999 and early 2000. The compensation plan was designed to allow the Company to attract high quality talent required to support the Company's growth and to increase retention. SG&A expenses have been significantly reduced in 2001.

Bad debt expense

The provision for 1999 included approximately $45 million to recognize as uncollectible, revenue earned under interconnection agreements deemed uncollectible as a result of unfavorable regulatory rulings. The Company recorded a provision for uncollectible accounts in 2000 of approximately $29 million and $53 million in the third and fourth quarters of 2000, respectively. Of those amounts, approximately $6 million and $13 million related to reciprocal compensation for the third and fourth quarters of 2000, respectively. This increase in the provision in 2000 was attributable to (i) customers in the

ISP and Internet space that were unable to pay for service, (ii) the resolution of billing disputes, (iii) customers that stopped or deferred payments for services as the Company entered bankruptcy and (iv) reduction in the resources which the Company could afford to expend to enforce the payment of reciprocal compensation under the interconnection agreements.

Depreciation and amortization

Depreciation and amortization increased from $174.2 million in 1999 to $318.8 million in 2000. The increase is primarily due to increased investment in depreciable assets resulting from the expansion of the Company's networks and services in the last half of 1999 and first half of 2000, as well as a reduction in the overall weighted-average useful life of depreciable assets in service. ICG recently invested a larger portion of its plant and equipment in assets with shorter lives such as routers and computers.

Other, net

Other, net operating costs and expenses increased from $0.4 million in 1999 to $4.1 million in 2000. Other, net operating costs and expenses consists of $1.3 million of deferred compensation from an arrangement with its former chief executive officer in 1999 and 2000. In addition, the Company recorded a gain of $0.9 million in 1999 and a loss of $2.8 million in 2000 for the disposal of miscellaneous long-lived assets.

Interest expense

Interest expense increased from $212.4 million in 1999 to $233.6 million in 2000. The increase in interest expense is due to the increase in debt balances under the Senior Facility and Senior discount notes through the Petition Date. Interest on debt subject to compromise ceased to accrue as of the Petition Date. Contractual interest that was not recorded due to the bankruptcy proceedings totaled $30.3 million for the period from the Petition Date through December 31, 2000. Included in interest expense for 1999 and 2000 was $197.2 million and $175.8 million of noncash interest, respectively. Additionally, interest expense is net of interest capitalized related to construction in progress of $9.0 million and $7.0 million during 1999 and 2000, respectively.

Interest income

Interest income increased from $16.3 million in 1999 to $23.8 million in 2000. Interest income of $1.4 million earned in 2000 as a result of the bankruptcy filing was classified as reorganization expenses. The increase is attributable to the increase in cash, cash equivalents and short-term investments resulting from the cash proceeds to the Company of the 8% Series A Convertible Preferred Stock. The amount of interest income attributable to increased cash balances during the bankruptcy proceedings was not material.

Other expense, net, including realized gains and losses on marketable trading securities costs

Other expense, net increased from $2.5 million in 1999 to $15.2 million in 2000. The 2000 amount primarily relates to the loss on the investment in Teligent, partially offset by a gain on litigation settlement. Other expense, net in 1999 consists of litigation settlement costs offset by a gain on the sale of the common stock of MindSpring.

Reorganization expenses

Reorganization expenses of $53.9 million in 2000 consist of costs associated with the bankruptcy proceedings that are not directly attributable to the on-going operations of the Company. Such costs include $36.5 million for the write-off of deferred financing and offering costs, $9.6 million for severance and employee retention costs, $6.3 million in professional fees, $2.3 million in lease cancellation charges and $0.6 million of other costs, offset by $1.4 million of interest income earned as a result of the Company's bankruptcy filing.

Accretion and preferred dividends on preferred securities of subsidiaries

Accretion of costs and preferred dividends on preferred securities of subsidiaries decreased from $61.9 million in 1999 to $60.0 million in 2000. The decrease is due primarily to the bankruptcy proceedings. The accretion of the preferred

dividends and amortization of offering costs on all preferred securities which ceased as of the Petition Date. The Company fully accreted the discount and fully wrote-off the offering costs associated with the preferred stock subsequent to the Petition Date. Such amounts are included in reorganization expenses in the accompanying consolidated statement of operations. Accretion and preferred dividends on preferred securities of subsidiaries recorded during 1999 and through the Petition Date for the year ended December 31, 2000 consist of the accretion of issuance costs and the accrual of the preferred securities associated with the 6 3/4% Exchangeable Limited Liability Company Preferred Securities Mandatorily Redeemable 2009 (the "6 3/4% Preferred Securities"), the 14% Exchangeable Preferred Stock Mandatorily Redeemable 2008 and the 14 1/4% Exchangeable Preferred Stock Mandatorily Redeemable 2009.

Net income from discontinued operations

Net income from discontinued operations was $36.8 million and $4.3 million in 1999 and 2000, respectively. Net income for 1999 consists of the net income and gain from the sale of Satellite Services, partially offset by the net loss from operations and loss on disposal of Network Services. Net income from discontinued operations for 2000 primarily consists of adjustments to the gain (loss) on disposal of Network and Satellite Services.

Extraordinary gain on the sales of operations of NETCOM

The Company reported an extraordinary gain on the sales of operations of NETCOM during 1999 of $195.5 million, net of income taxes of $2.0 million. Offsetting the gain on the sales is approximately $16.6 million of net losses of operations of NETCOM from November 3, 1998 through the dates of the sales and $34.7 million of deferred sales proceeds from the sale of certain of the domestic operating assets and liabilities of NETCOM to MindSpring. The deferred proceeds were recognized on a periodic basis over the term of the Company's network capacity agreement with MindSpring.

Cumulative effect of change in accounting principle

Cumulative effect of change in accounting principle for revenue from installation services of $7.4 million for 2000 is due to the change in accounting as a result of the adoption of SAB 101 on October 1, 2000 applied retroactively from January 1, 2000.

Accretion and dividends of 8% Series A Convertible Preferred Stock to liquidation value and related dividends

Accretion and dividends of 8% Series A Convertible Preferred Stock to liquidation value and related dividends is comprised of the dividends and the accretion to liquidation value of the 8% Series A Convertible Preferred Stock of $158.2 million during 2000.

Charge for beneficial conversion feature of 8% Series A Convertible Preferred Stock

Charge for beneficial conversion of 8% Series A Convertible Preferred Stock during 2000 relates to the charge to additional paid-in capital of $159.3 million of the proceeds of the 8% Series A Convertible Preferred Stock which is the intrinsic value of the beneficial conversion feature of the convertible preferred securities. The beneficial conversion feature was recognized immediately as a return to the preferred shareholders during 2000 as the 8% Series A Convertible Preferred Stock is immediately convertible into shares of ICG common stock.

QUARTERLY RESULTS

The following table presents selected unaudited operating results for three-month quarterly periods during the years ended December 31, 2000 and 2001. The Company believes that all necessary adjustments have been included in the amounts stated below to present fairly the quarterly results when read in conjunction with the Company's consolidated financial statements and related footnotes included elsewhere in this Annual Report. Results of operations for any particular quarter are not necessarily indicative of results of operations for a full year or predictive of future periods.

Operating loss for the fourth quarter of 2001 was significantly higher than the preceding quarters in 2001 due primarily to recording the provision for impairment of long-lived assets of $27.9 million and deferred compensation of $2.4 million in this quarter. This was partially offset by a reduction in operating costs and selling, general and administrative

expenses in the fourth quarter as compared to preceding quarters. The Company recorded net income of $25.8 million in the third quarter of 2001 as compared to net losses in each of the other quarters due to the recording of a gain on settlement with major customers and vendors of $36.3 million in the third quarter of 2001.

Revenue for the third and fourth quarters of 2000 was lower, and operating loss higher, due primarily to service credits issued for network service problems, increases in the provision for uncollectible accounts, the non-recognition of revenue from certain ISP customers and the asset impairment. Service credits issued to IRAS customers totaled approximately $17 million and $13 million in the third and fourth quarters of 2000, respectively. The Company recorded a provision for uncollectible accounts of approximately $29 million and $53 million in the third and fourth quarters of 2000, respectively. Of those amounts, approximately $6 million and $13 million related to reciprocal compensation for the third and fourth quarters of 2000, respectively. In addition, during the fourth quarter of 2000, the Company did not recognize approximately $5.5 million of Dial-Up revenue due to concerns regarding the ultimate collection of billings. Finally, the Company recorded an impairment of long-lived assets of $1.7 billion during the fourth quarter of 2000.

The following table summarizes the Company's unaudited quarterly results of operations and statistical data for 2000 and 2001, respectively:

	2000				2001			
	Three Months Ended				Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
	(in thousands, except per share amounts and statistical data)							
Statement of Operations Data:								
Revenue(1)	$ 157,408	$ 174,704	$ 145,257	$ 120,914	$ 136,397	$ 121,252	$124,071	$118,276
Operating loss	(45,614)	(51,826)	(159,113)	(1,893,564)	(22,921)	(13,787)	(4,561)	(26,759)
Income (loss) from continuing operations	(121,450)	(124,612)	(237,246)	(2,007,188)	(53,357)	(33,321)	25,764	(51,751)
Net income from discontinued operations	—	736	—	3,606	—	—	—	—
Net income (loss)	(121,450)	(123,876)	(237,246)	(2,010,945)	(53,357)	(33,321)	25,764	(51,751)
Net income (loss) attributable to common stockholders	$ (121,450)	$ (297,617)	$ (254,520)	$ (2,137,458)	$ (53,357)	$ (33,321)	$ 25,764	$ (51,751)
Income (loss) per share from continuing operations — basic and diluted	$ (2.52)	$ (2.56)	$ (4.58)	$ (39.97)	$ (1.02)	$ (.64)	$ .48	$ (.96)
Weighted average number of shares outstanding — basic and diluted	48,189	48,723	51,782	50,184	52,067	52,118	53,158	53,629
Other Data:								
Net cash provided (used) by operating activities	$ (7,234)	$ 110,313	$ 36,084	$ (16,680)	$ (61,644)	$ 24,290	$ 3,940	$ 1,433
Net cash provided (used) by investing activities	(121,468)	(253,990)	(186,516)	4,355	(5,011)	(1,536)	2,033	(13,005)
Net cash provided (used) by financing activities	66,207	599,036	(129,412)	(7,387)	(1,803)	(15,980)	(1,822)	(1,288)
EBITDA(2)	19,417	22,438	(57,637)	(109,990)	(6,861)	9,969	15,648	20,876
Capital expenditures of continuing operations(3)	214,907	347,461	319,209	92,007	7,898	8,778	6,357	18,430
Statistical Data(4):								
Full time employees	2,930	2,975	3,160	2,054	1,476	1,422	1,389	1,368
Telecom services:								
Access lines in service, in thousands(5)	905	1,113	1,074	950	778	719	789	742
Buildings connected:								
On-net	1,046	924	936	925	925	881	902	901
Hybrid	7,746	8,228	8,584	8,659	8,151	7,264	6,315	5,727
Total buildings connected	8,792	9,152	9,520	9,584	9,076	8,145	7,217	6,628
Operational switches:								
Circuit	35	43	47	47	44	44	43	43
ATM	24	24	24	26	26	27	26	27
Frame relay	16	—	—	—				
Total operational switches	75	67	71	73	70	71	69	70
Regional fiber route miles(6):								
Operational	4,807	4,767	4,816	5,577	5,577	5,577	5,542	5,542
Under construction	—	495	508	—	—	—	—	—
Regional fiber strand miles(7):								
Operational	177,103	184,064	192,422	166,498	166,498	166,498	165,847	165,847
Under construction	—	12,254	14,891	—	—	—	—	—
Collocations with ILECs	183	188	188	160	160	160	148	161

(1) On October 10, 2000, the Company adopted SAB 101, *Revenue Recognition in Financial Statements*. As required by GAAP, the Company has reflected the effects of the change in accounting principle as if such change had been adopted as of January 1, 2000. This resulted in the following changes in revenue amounts previously in the Company's 2000 quarterly reports on Forms 10-Q: an increase to revenue of approximately $0.1 million for the first quarter, a decrease to revenue of approximately $1.0 million for the second quarter and an increase to revenue of approximately $0.5 million for the third quarter.

(2) See note 3 under "*Selected Financial Data*" for the definition of EBITDA.

(3) See note 4 under "*Selected Financial Data*" for the definitions of capital expenditures of continuing operations.

(4) Amounts presented are for three-month periods ended, or as of the end of the period presented.

(5) Access lines in service include lines provisioned through the Company's switch and through resale and other agreements with various local exchange carriers. Through December 31, 2000, access lines provisioned include internal and other non-revenue generating access lines. Starting with March 31, 2001, access lines in service include only provisioned lines generating revenue. As of December 31, 2000 the provisioned lines generating revenue were approximately 940,000.

(6) Regional fiber route miles refer to the number of miles of regional fiber optic cable, including leased fiber. As of December 31, 2001, the Company had 5,542 regional fiber route miles. Regional fiber route miles under construction represent fiber under construction that is expected to be operational within six months.

(7) Regional fiber strand miles refer to the number of regional fiber route miles, including leased fiber, along a telecommunications path multiplied by the number of fiber strands along that path. As of December 31, 2001, the Company had 165,847 regional fiber strand miles, of which 45,445 regional fiber strand miles were leased under operating leases. Regional fiber strand miles under construction represent fiber under construction that is expected to be operational within six months.

NET OPERATING LOSS CARRYFORWARDS

As of December 31, 2001, the Company had federal net operating loss ("NOL") carryforwards of approximately $1.56 billion, which expire in varying amounts through 2021. Due to the provisions of Internal Revenue Code ("Code") sections 108, 382 and certain other Code and Treasury Regulations, it is anticipated the major portion of the NOLs will be reduced by cancellation of indebtedness and that a change in ownership will occur as a result of the Plan. If the Plan results in the issuance of new stock and or the cancellation of existing stock, the remaining amount NOLs (if any) will be limited on the amount that can be utilized each year.

NEW ACCOUNTING STANDARDS

In June 2001, the FASB issued SFAS No.141, "Business Combinations" and SFAS No.142, "Goodwill and Other Intangible Assets". SFAS 141 requires companies to reflect intangible assets apart from goodwill and supercedes previous guidance related to business combinations. SFAS 142 eliminates amortization of goodwill and amortization of all intangible assets with indefinite useful lives. However, SFAS 142 also requires annual impairment testing of goodwill and indefinite-lived intangible assets. These statements are required to be adopted by the Company on January 1, 2002 and is effective for any acquisition entered into after July 1, 2001. Adoption of this pronouncement as of December 31, 2001 would not have a material effect on current or future financial results.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement deals with the costs of closing facilities and removing assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the underlying asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. SFAS No. 143 is effective starting in 2003. Adoption of this pronouncement as of December 31, 2001 would not have a material impact on current or future financial results.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Assets to be Disposed of" and certain provisions of APB Opinion 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (i) can be distinguished from the rest of the entity and (ii) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective starting in 2002. Adoption of this pronouncement as of December 31, 2001 would not have a material impact on current or future financial results.

RECIPROCAL COMPENSATION

The Company records reciprocal compensation and carrier access revenue in accordance with regulatory authority approval and pursuant to interconnection agreements with incumbent local exchange carriers ("ILECs") for the transport and termination of traffic originated by ILEC customers, including Internet traffic. Disputed billings are not recognized as revenue until realization is assured.

Due to changes in the regulatory environment and as a means of gaining certainty with respect to the continued collection of reciprocal compensation revenue in the first half of 2000, the Company negotiated voluntary settlement agreements with certain of its ILEC customers that provide for the payment of reciprocal compensation for terminating Internet bound traffic, but at rates lower than the Company had historically received. The Company anticipates that due to changes in the regulatory environment, reciprocal compensation revenue earned after 2003 will not be significant.

The Company has, as of December 31, 2001, a net receivable of approximately $14 million for reciprocal compensation revenue. Approximately $9 million has been acknowledged as due by certain LECs, but payment is being withheld pending resolution of line cost disputes. The Company received cash of approximately $61 million during the year ended December 31, 2001, from certain ILECs for terminating local and toll traffic.

The Company has recognized revenue of approximately $143 million, $139 million and $64 million in each of the three years ended December 31, 2001, respectively, for terminating local and toll traffic. Revenue for the year ended December 31, 1999 includes approximately $22 million for the tandem switching and common transport rate elements. ICG ceased, effective July 1, 1999, recognition of these rate elements as revenue until cash receipts were either received or the uncertainty of receipt had been removed (such as the execution of a binding agreement).

The Company has as of December 31, 2001 a net receivable balance of carrier access revenue of approximately $3 million. Approximately $22 million of carrier access revenue was recognized during the year ended December 31, 2001.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's financial position and cash flows are subject to a variety of risks in the normal course of business, which include market risks associated with movements in interest rates and equity prices. The Company routinely assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. The Company does not, in the normal course of business, use derivative financial instruments for trading or speculative purposes.

INTEREST RATE RISK

The Company's exposure to market risk associated with changes in interest rates relates primarily to the Company's investments in marketable securities and its Senior Facility and Credit Agreement.

The Company invests primarily in high-grade, short-term investments that consist of money market instruments, commercial paper, certificates of deposit, government obligations and corporate bonds, all of which are considered to be available for sale. As of December 31, 2001, the Company had approximately $146.6 million in cash, cash equivalents and

short-term investments available for sale, at a weighted average fixed interest rate of 4%. A hypothetical 40 basis point fluctuation in market rates of interest would not cause a material change in the fair value of the Company's investment in marketable securities at December 31, 2001, and accordingly, would not cause a material impact on the Company's financial position, results of operations or cash flows.

On August 12, 1999, the Company entered into the Senior Facility, consisting of two term loans and a revolving line of credit. All components of the Senior Facility bear variable annual rates of interest, based on the change in the prime rate. No additional borrowings are available under the Senior Facility. The Company is continuing to make interest only payments which are affected by fluctuations in the prime rate. As of December 31, 2001, the Company had $84.6 million outstanding under the Senior Facility. A hypothetical change in annual interest rate of 1% per annum would result in a change in interest expense of approximately $846,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company appear on page F-1 of this Annual Report. The financial statement schedule required under Regulation S-X is filed pursuant to Item 14 of this Annual Report, and appears on page S-1 of this Annual Report.

Selected quarterly financial data required under this Item is included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

DIRECTORS AND OFFICERS OF ICG COMMUNICATIONS, INC.

Set forth below are the names and certain information about the directors of the Company as of April 9, 2002:

Name	Age	Position
William J. Laggett(1)(3)(5)	72	Vice-Chairman of the Board of Directors
William S. Beans, Jr.(1)	36	Director
J. Shelby Bryan(1)	56	Director
John U. Moorhead II(1)(2)(3)(5)	49	Director
Leontis Teryazos(1)(2)(3)(4)(5)	59	Director
Walter Threadgill(1)(2)(3)(4)(5)	56	Director

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(1) Upon approval of the Company's Plan of Reorganization the current directors will be removed and replaced by new directors appointed by Cerberus Capital Management, L.P. and certain other members of the Creditors' Committee.

(2) Member of Audit Committee.

(3) Member of Compensation Committee.

(4) Member of Stock Option Committee.

(5) Member of Special Executive Committee.

William J. Laggett has been Vice-Chairman of the Board of Directors since June 1999. Prior to such time, he was Chairman of the Board of Directors from June 1995 and a Director from January 1995. Mr. Laggett was the President of Centel Cellular Company from 1988 until his retirement in 1993. From 1970 to 1988, Mr. Laggett held a variety of management positions with Centel Corporation, including Group Vice President-Products Group, President-Centel Services, and Senior Vice President-Centel Corporation. Prior to joining Centel, Mr. Laggett worked for New York Telephone Company.

William S. Beans, Jr. has been a Director since April 2000. Mr. Beans also served as President and Chief Operating Officer from January 2000 to December 2000. Prior thereto, Mr. Beans was Executive Vice President and President of Network Services from June 1999 to April 2000. Before joining the Company, Mr. Beans held several positions in Teleport Communications Group, Inc., a division of AT&T Local Services. He was National Vice President—Operations from November 1997 until June 1999, Vice President Customer Care/Customer Service from October 1995 to November 1997 and Vice President of Network Development from September 1993 to October 1995.

J. Shelby Bryan has been a Director since May 1995. Prior thereto, he served as President, Chief Executive Officer and Director from May 1995 through August 22, 2000 and as Chairman of the Board of Directors and Chief Executive Officer from June 1999 through August 22, 2000. Mr. Bryan has over 20 years of experience in the telecommunications industry, primarily in the cellular business. He co-founded Millicom International Cellular S.A., a publicly owned corporation providing cellular service internationally, served as its President and Chief Executive Officer from 1985 to 1994 and served as a Director through May 1998.

John U. Moorhead II has been a Director since June 1998 and is Managing Director of C.E. Unterberg Towbin. From 1991 until April 2001 Mr. Moorhead was Managing Director of VM Equity Partners a firm he co-founded. Prior to founding VM Equity Partners, Mr. Moorhead worked for eight years as a senior executive in investment banking, first at EF Hutton and then at Lehman Brothers where he was Senior Vice President and Director of the New Business Group of Lehman Brothers' investment banking division from 1987 to 1990. Mr. Moorhead serves on the Board of Directors of SEMX Inc., a NASDAQ National Market company that provides specialty materials and services to the microelectronic and semiconductor industries.

Leontis Teryazos has been a Director of ICG since June 1995. Mr. Teryazos is President of Letmic Management Inc., a financial advisory firm that specializes in working with early stage telecommunications and health care companies. Mr. Teryazos also serves on the Board of Directors of Aurelium Biopharma, Inc., and QR Canada Capital Inc. (QRI/CDNX), a publicly traded Canadian Venture Capital company. Mr. Teryazos is also President and CEO of QR Canada Capital Inc. Mr. Teryazos is also head of Letmic Management Reg'd, a Montreal real estate developer. Mr. Teryazos is a graduate of Cornell University in 1965 and the Taft School, Watertown, Connecticut in 1961.

Walter Threadgill has been a Director since December 1997 and is the Managing General Partner of Atlantic Coastal Ventures, L.P. Mr. Threadgill also serves on the Board of Directors of Aveda Systems, Inc. and previously served on the Board of Directors of Ravisent Technologies, Inc. Previously, Mr. Threadgill was the President and Chief Executive Officer of Multimedia Broadcast Investment Corporation. He has held positions as Divisional Vice President of Fiduciary Trust Company in New York and as Senior Vice President and Chief Operating Officer of United National Bank in Washington, D.C. Mr. Threadgill chaired the Presidential Small Business Advisory Committee and served the National Association of Investment Companies as Director, Treasurer and Legislative Committee Chairman. Mr. Threadgill is a member of the Federal Communications Bar Association.

EXECUTIVE OFFICERS OF ICG COMMUNICATIONS, INC.

The current executive officers of the Company are as follows:

Name	Age	Position
Randall E. Curran	47	Chief Executive Officer
Richard E. Fish, Jr.	36	Executive Vice President and Chief Financial Officer
Michael D. Kallet	48	Executive Vice President— Operations and Chief Technology Officer
Bernard L. Zuroff	46	Executive Vice President, General Counsel and Secretary

Randall E. Curran has been Chief Executive Officer since September 2000. Prior thereto, Mr. Curran was Chairman, President and Chief Executive Officer of Thermadyne Holdings Corporation ("Thermadyne"). From 1995 to 2000, Mr. Curran also held several other executive positions at Thermadyne including Chief Operating Officer and Chief Financial Officer. Prior to joining Thermadyne, Mr. Curran held various finance positions with Cooper Industries, Inc., McGraw-Edison Co., and Arthur Andersen & Co.

Richard E. Fish, Jr. has been Executive Vice President and Chief Financial Officer since December 2000. Prior to this position, Mr. Fish was Senior Vice President of Finance since September 1999. Before joining the Company, Mr. Fish was Director-Access Management with AT&T Corp. from 1998 to 1999. AT&T Corp. acquired Teleport Communications Group, Inc. in 1998 where Mr. Fish was Director-Operations since 1995.

Michael D. Kallet has been Executive Vice President — Operations and Chief Technology Officer since December 2000 and was Executive Vice President, Products and Strategic Development since July 1999. Prior thereto, he was Senior Vice President of Products and Services from December 1995. He has been General Manager and Chief Operations Officer of ICG NetAhead, Inc., a subsidiary of the Company, since February 1999. Prior to joining the Company, he held several positions in the technology industry, including positions at IBM, Computer Support Corporation, Walker Interactive and Software Publishing Corporation (Harvard Graphics).

Bernard L. Zuroff has been Executive Vice President, General Counsel and Secretary since October 2000. Prior to this position, Mr. Zuroff was Assistant General Counsel and Corporate Attorney since July 1996. Before joining the Company, he had eleven years of experience as an attorney with Gorsuch Kirgis, L.L.C., the Resolution Trust Company and Infotel, Inc.

There are no family relationships between any current director or officer or any other current director or officer.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers to file with the Securities Exchange Commission reports regarding their ownership and changes in ownership of our stock. ICG believes that during 2001 its directors and executive officers complied with all Section 16(a) filing requirements.

ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE OFFICER COMPENSATION

The following table provides certain summary information concerning compensation paid or accrued by the Company and its subsidiaries for the fiscal years ended December 31, 2001, 2000 and 1999. Included are: the Company's Chief Executive Officer during the fiscal year ended December 31, 2001; together with the other executive officers; and two individuals who were not serving as executive officers at the end of fiscal year 2001 (the "Named Officers").

Summary Compensation Table

		Annual Compensation			Long-term Compensation	
Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Underlying Options	All Other Compensation ($)
Randall E. Curran	2001	900,000	900,000[1]	391,734[2]	-	-
Chief Executive Officer	2000	225,000	-	18,786[3]	-	-
	1999	-	-	-	-	-
Richard E. Fish, Jr.	2001	258,462	241,000[4]	17,100[5]	-	-
Executive Vice President	2000	168,654	80,630[6]	19,563[7]	60,000	-
– Chief Financial Officer	1999	47,115	11,514[8]	3,668[9]	30,000	-
Michael D. Kallet	2001	350,000	466,000[10]	17,275[11]	-	1,610[12]
Executive Vice President	2000	283,924[13]	207,020[14]	88,068[15]	88,905	30,092[16]
– Operations and Chief Technology Officer	1999	240,154[17]	136,838	19,288[18]	55,000	-
Bernard L. Zuroff	2001	210,769	118,000[19]	17,100[20]	-	-
Executive Vice President	2000	140,000	51,837[21]	16,928[22]	33,300	-
– General Counsel	1999	111,950[23]	27,640[24]	8,416[25]	3,300	-
John V. Colgan	2001	193,654	137,792[26]	14,100[27]	-	-
Sr. Vice President–	2000	171,923	79,070[28]	21,648[29]	56,750	23,961[30]
Finance and Controller	1999	149,519	34,989[31]	17,064[32]	5,000	-
Williams S. Beans, Jr.	2001	-	-	-	-	736,762[33]
Former President and	2000	467,981[34]	326,193[35]	103,454[36]	100,000	7,173[37]
Chief Operating Officer	1999	134,615	46,875	164,394[38]	750,000	2,625[39]
Harry R. Herbst	2001	-	-	-	-	450,777[40]
Former Chief Financial	2000	359,615	241,635[41]	35,683[42]	9,066	169,337[43]
Officer	1999	325,000	195,692	16,853[44]	90,000	-

(1) Consists of amounts for 2001 incentive bonus which was paid in 2002.
(2) Consists of $6,111 for car allowance; $383,887 for taxable relocation expenses and $1,736 of non-taxable relocation expenses.
(3) Consists of Mr. Curran's housing, travel and car allowances as provided for in his employment agreement.
(4) Consists of $160,000 for retention bonus and $81,000 for 2001 incentive bonus which was paid in 2002.
(5) Consists of $12,000 for car allowance and $5,100 for Company contributions to 401(k) plan.

(6) Consists of $40,630 incentive bonus and $40,000 retention bonus.
(7) Consists of $6,000 for car allowance, $13,563 for Company contributions to 401(k) plan and 401(k) Wraparound Deferred Compensation Plan.
(8) Consists of $1,514 incentive bonus and $10,000 sign-on bonus.
(9) Consists of $1,268 for car allowance and $2,400 for Company contributions to 401(k) plan.
(10) Consists of $340,000 for retention bonus and $126,000 for 2001 incentive bonus which was paid in 2002.
(11) Consists of $12,000 for car allowance, $1,563 for relocation expenses and $3,712 for Company contributions to 401(k) plan.
(12) Consists of executive life insurance premiums.
(13) Consists of $283,462 in annual salary and $462 of retroactive salary that was paid in 2000.
(14) Consists of $122,020 incentive bonus and $85,000 retention bonus.
(15) Consists of $12,000 for car allowance, $59,197 relocation payment and $16,871 for Company contributions to 401(k) plan and 401(k) Wraparound Deferred Compensation Plan.
(16) Consists of $1,610 for executive life insurance payments and $28,482 for distribution of amounts under the Company's 401(k) Wraparound Deferred Compensation Plan.
(17) Consists of $239,615 in annual salary and $539 of retroactive salary that was paid in 1999.
(18) Consists of $3,000 for car allowance and $16,288 for Company contributions to 401(k) plan and 401(k) Wraparound Deferred Compensation Plan.
(19) Consists of $52,000 for retention bonus and $66,000 for 2001 incentive bonus which was paid in 2002.
(20) Consists of $12,000 for car allowance and $5,100 for Company contributions to 401(k) plan.
(21) Consists of $38,837 incentive bonus and $13,000 retention bonus.
(22) Consists of $7,500 for car allowance and $9,428 for Company contributions to 401(k) plan.
(23) Consists of $111,103 in annual salary and $846 of retroactive salary that was paid in 1999.
(24) Consists of $2,500 reward and recognition bonus and $25,140 incentive bonus.
(25) Consists of Company contributions to 401(k) plan.
(26) Consists of $80,000 for retention bonus and $57,792 for 2001 incentive bonus which was paid in 2002.
(27) Consists of $9,000 for car allowance and $5,100 for Company contributions to 401(k) plan.
(28) Consists of quarterly bonus of $59,070 and retention bonus of $20,000.
(29) Consists of $9,000 for car allowance and $12,648 for Company contributions to 401(k) plan and 401(k) Wraparound Deferred Compensation Plan.
(30) Consists of $4,712 of accrued for and unused vacation and $19,249 for distribution of amounts under the Company's 401(k) Wraparound Deferred Compensation Plan.
(31) Consis ts of $34,874 for quarterly bonus and $115 for reward and recognition bonus.
(32) Consists of $6,000 for car allowance and $11,064 for Company contributions to 401(k) Wraparound Deferred Compensation Plan.
(33) Consists of forgiveness of $100,000 loan; $583,702 in severance payments and $53,060 in accrued and unused vacation.
(34) Consists of $448,077 in annual salary and $19,904 in retroactive salary that was paid in 2000.
(35) Consists of $183,793 incentive bonus and $142,400 retention bonus.
(36) Consists of $35,724 for car allowance, $35,200 for relocation expenses and $32,530 for Company contributions to 401(k) plan and 401(k) Wraparound Deferred Compensation Plan.
(37) Consists of executive life insurance payments.
(38) Consists of $7,800 for car allowance, $156,379 for relocation expenses and $215 for non-taxable relocation expenses.
(39) Consists of taxable interest on loan.
(40) Consists of $385,817 in severance payments; $64, 960 of accrued and unused vacation.
(41) Consists of quarterly bonuses of $51,635, retention bonus of $60,000 and reward and recognition bonus of $130,000.
(42) Consists of $8,400 for car allowance and $27,283 for Company contributions to 401(k) plan and 401(k) Wraparound Deferred Compensation Plan.
(43) Consists of amounts distributed under the Company's 401(k) Wraparound Deferred Compensation Plan
(44) Consists of $8,400 for car allowance, Company contributions to 401(k) Wraparound Deferred Compensation Plan in the amount of $7,793 and $660 for group term life insurance payments.

Option/SAR Grants in Last Fiscal Year

The Company granted no stock appreciation rights nor did it grant any stock options during the year ended December 31, 2001 to the Named Officers.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

No options were exercised by the Named Officers during the year ended December 31, 2001. Further, while the Company's common stock is trading on certain over-the-counter markets, the shares are believed by management to carry no value and will be cancelled if the Company's Plan of Reorganization is approved.

DIRECTOR COMPENSATION

The Company compensates its non-employee directors for attendance at meetings of the Board of Directors or a committee of the Board of Directors as follows: $4,000 for attendance at a meeting in person, plus reimbursement of expenses, and $1,500 for participation in a telephonic meeting; provided that when meetings of the Board of Directors and/or one or more committees are held on the same day, the non-employee directors are entitled to be compensated only for one such meeting. In addition, the Vice-Chairman of the Board of Directors, Mr. Laggett, receives an annual fee of $80,000 payable in quarterly installments and Messrs. Moorhead, Teryazos and Threadgill receive an annual fee of $60,000 payable in quarterly installments.

EXECUTIVE EMPLOYMENT AGREEMENTS

The Company and its subsidiaries have employment agreements with Randall E. Curran, Richard E. Fish, Jr., Michael D. Kallet, Bernard L. Zuroff, Robert Athey, Brian Cato, Darlinda Coe, John V. Colgan, Kimberly Gordon, Gayle Landis, Gary Lindgren, and James F. Smith.

In July 2001, the Bankruptcy Court approved the terms of an amended employment agreement for Mr. Curran. The amended agreement provides for the continued employment of Mr. Curran on a month-to-month term at an annual base salary of $900,000 which may be increased from time to time in accordance with normal business practices of the Company. Subject to the Company achieving certain financial targets established by the Company's Board and the Special Committee, the amended agreement also provides for a performance bonus of up to $900,000 for fiscal year 2001 and for performance bonuses in subsequent years in amounts of up to twelve months' base salary at the rate then in effect based upon performance targets to be established at the discretion of the Company's Board or the compensation committee thereof. Mr. Curran will also be eligible to receive a reorganization bonus of up to twelve months' base salary in the event that a plan of reorganization for the Company is consummated and confirmed in its currently pending Chapter 11 case, depending on the timing thereof, or if there is a sale of all or substantially all of the Company's assets. In addition, Mr. Curran is entitled to benefits as are generally provided to the Company's senior executives including reimbursement of reasonable out-of-pocket expenses incurred on behalf of the Company. If the amended agreement is terminated by the Company for any reason other than Mr. Curran's death, disability, or for cause, or is terminated by Mr. Curran for good reason, Mr. Curran will receive a lump sum severance in an amount equal to fifteen months' base salary at the rate then in effect. If Mr. Curran's employment is terminated in the case of death, his estate will receive an amount equal to twelve months' base salary.

The Company's employment agreements with Richard E. Fish, Jr., Michael D. Kallet, Bernard L. Zuroff, Robert Athey, Brian Cato, Darlinda Coe, John V. Colgan, Kimberly Gordon, Gayle Landis, Gary Lindgren, and James F. Smith provide for base salaries and such other benefits as are generally provided to senior executives, including reimbursement of reasonable out-of-pocket expenses incurred on behalf of the Company. Mr. Kallet's agreement also provides for a bonus payment if Mr. Kallet is actively employed upon either: (a) the consummation of a sale of all or substantially all of the Company's assets; or (b) the date a reorganization plan is confirmed. These employment agreements may be terminated by the Company with or without cause or by the employee upon the occurrence of a constructive dismissal. If an agreement is terminated by the Company for any reason other than the employee's death, disability or for cause, or if there is a constructive dismissal, the employee will receive an amount equal to twelve months' salary at the rate then in effect. 50% will be paid in a lump sum within 15 days of termination and the remaining 50% is payable in twelve installments commencing 30 days after termination. If the employee obtains new employment within such twelve-month period, the severance is subject to mitigation on a dollar for dollar basis. If the employee's employment is terminated in the case of death, his/her estate will receive an amount equal to three months' base salary. Messrs. Kallet, Zuroff, Athey, Cato, Ms. Coe, Mr. Colgan, Ms. Gordon, Ms. Landis, and Messrs. Lindgren and Smith are also subject to a ten-year confidentiality covenant and a one-year non-interference commitment following termination of employment.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of three non-employee Directors: William J. Laggett, Vice-Chairman of the Board of Directors, Leontis Teryazos and Walter Threadgill.

Board Compensation Committee Report on Executive Compensation

The Compensation Committee of the Board of Directors evaluates compensation levels of senior management as well as the various factors that affect the compensation of the Company's highest paid officers. During the pendancy of the Company's bankruptcy, all major issues regarding compensation have been decided by the Special Executive Committee of the Board of Directors. The Compensation Committee established the existing executive compensation program to encourage and reward management's efforts to strengthen the Company's business. The Company operates in a competitive marketplace and needs to retain well-qualified executive talent. Executive compensation is reviewed regularly to ensure compliance within existing guidelines and for competitiveness in the marketplace.

The Company has employment agreements with certain of its executive officers. See "*Executive Employment Agreements*" for descriptions of those agreements. All senior management is compensated with base salaries that are intended to compensate executives for their ongoing leadership skills and management responsibility. As a result of the Company's filing for Chapter 11 bankruptcy protection, the Company implemented a retention bonus program designed to stabilize and retain the existing workforce. Payments under the retention bonus program were made in installments, the final payment of which was made in the second quarter of 2001. Subsequently, the Company implemented an incentive bonus program under which eligible employees, including executive management, received bonuses for the third and fourth quarters of 2001. Such bonuses were dependent upon Company performance and were paid in 2002. See "*Summary Compensation Table*" for the definition of Named Officers and the bonuses paid to them.

The Compensation Committee has reviewed the compensation of the Company's executive officers and has concluded that their compensation is reasonable and appropriate. The Compensation Committee continually evaluates the compensation of the Company's executive officers, including an assessment of compensation reports for comparable companies and for the telecommunications industry. The Compensation Committee believes that maintaining suitable executive compensation programs is necessary to support the future progress of the Company and its successful emergence from bankruptcy.

William J. Laggett
Leontis Teryazos
Walter Threadgill
(Members of the Compensation Committee)

Consulting Arrangements

The Company's agreement with William S. Beans, Jr. provided for, among other things, Mr. Beans' resignation of employment as of February 4, 2001. Mr. Beans received severance pay of $528,895, as well as continued participation in the Company's welfare benefit plans for a period of one (1) year. Mr. Beans continued as a consultant during this payment period and is currently a director. The Company also forgave a $100,000 loan that was made to Mr. Beans in 1999.

STOCK PERFORMANCE GRAPH

The Company has not included a performance graph as the Company's stock has been delisted.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

CERTAIN BENEFICIAL OWNERS

To the best of the Company's knowledge, based on filings with the Securities and Exchange Commission, the following are the only persons who own beneficially five percent or more of the Company's voting securities outstanding, as of April 9, 2002. If the Company's Plan of Reorganization is approved, however, all the preferred and common stock will be canceled.

Name and Address of Beneficial Owner	Series A Preferred Stock(1)	Percent of Series A Preferred Stock(2)	Common Stock(3)	Percent of Common Stock(4)
IDT Investments, Inc.(5) 520 Broad Street Newark, New Jersey 07102	73,000	97.4%	38,098,994	41.5%

(1) The Series A Preferred Stock includes the 8% Series A-1 Convertible Preferred Stock due 2015 (the "Series A-1 Preferred Stock"), the 8% Series A-2 Convertible Preferred Stock due 2015 (the "Series A-2 Preferred Stock") and the 8% Series A-3 Convertible Preferred Stock due 2015 (the "Series A-3 Preferred Stock"). Except in relation to director appointment rights, the powers, preferences and relative, participating, optional and other special rights of the Series A-1 Preferred Stock, the Series A-2 Preferred Stock and the Series A-3 Preferred Stock are identical.

(2) Based on 75,000 shares of Series A Preferred Stock outstanding as of April 9, 2002.

(3) Amounts include shares of Common Stock issuable upon conversion of the Series A Preferred Stock and upon exercise of warrants. This holder reported all amounts on a Schedule 13D on May 4, 2001.

(4) Based on 53,706,777 shares of Common Stock issued and outstanding as of April 9, 2002, plus shares of Common Stock issuable to such beneficial owner upon conversion or exercise of Preferred Stock and warrants, as the case may be. All share percentages assume that each respective beneficial owner has converted its shares of Series A Preferred Stock, if any, into Common Stock and has exercised its warrants to purchase shares of Common Stock, if any.

(5) On April 18, 2001 IDT issued 7,500 shares of Class B Common Stock and 30,000 shares of Class A Convertible Preferred Stock in exchange for 50,000 shares of the 8% Series A-1 Convertible Preferred Stock and warrants to purchase an aggregate of 6,666,667 shares of ICG Common Stock pursuant to the terms of the Stock Exchange Agreement dated April 18, 2001 between IDTI, IDTC, IDT America, Corp, 225 Old NB Road, Inc., 226 Old NB Road, Inc., 60 Park Place Holding Company, Inc., Liberty Media Corporation, Microwave Holdings, L.L.C., and TP Management. Pursuant to the terms of the Certificate of Designation, each share of the Series A-1 Convertible Preferred Stock was automatically converted to a share of the 8% Series A-3 Convertible Preferred Stock.

On May 2, 2001 IDT issued 8,188 shares of Series B Convertible Preferred Stock in exchange for 23,000 shares of the 8% Series A-2 Convertible Preferred Stock and warrants to purchase an aggregate of 3,066,667 shares of ICG Common Stock pursuant to the terms of the Stock Exchange Agreement dated May 2, 2001 between IDTI, IDTC, IDT America, IDT Ventures, Inc., HM4 Teligent Qualified Fund, LLC, HM4 Teligent Private Fund, LLC, NM 4-SBS Teligent Coinvestors, LLC, HM PG-IV Teligent, LLC, HM 4-EQ Teligent Coinvestors, LLC, HM4 ICG Qualified Fund, LLC, HM4 ICG Private Fund, LLC, HM PG-IV ICG, LLC, HM 4-SBS ICG Coinvestors, LLC, and HM 4-EQ ICG Coinvestors, LLC. Pursuant to the terms of the Certificate of Designation, each share of Series A-2 Convertible Preferred Stock was automatically converted to a share of the 8% Series A-3 Convertible Preferred Stock. All information is based on a Schedule 13D filed by IDT with the SEC.

OWNERSHIP OF MANAGEMENT

The following table sets forth, as of April 9, 2002, the number of shares of ICG voting securities owned by all Named Officers, directors and nominees of ICG individually and as a group. The persons named in the table below have sole voting and investment power with respect to all of the shares of ICG voting securities owned by them, unless otherwise noted. If the Company's Plan of Reorganization is approved, however, all Common Stock will be canceled.

Name of Beneficial Owner	Amount/Nature of Beneficial Ownership	Percent (1)
William J. Laggett(2) Vice Chairman of the Board of Directors	157,797	*
Randall E. Curran Chief Executive Officer	—	*
Richard D. Fish, Jr.(3). Executive Vice President, Chief Financial Officer	14,060	*
Michael D. Kallet(4) Executive Vice President — Operations and Chief Technology Officer	156,961	*
Bernard L. Zuroff(5) Executive Vice President, General Counsel & Secretary	14,782	*
John Colgan(6) Senior Vice President, Finance and Controller	41,496	*
Harry R. Herbst(7) Former Chief Financial Officer	4,198	*
William S. Beans, Jr.(8) Director, former President	8,361	*
J. Shelby Bryan(9) Chairman Director, former Chief Executive Officer and Vice Chairman of the Board of Directors	58,763	*
John U. Moorhead II(10) Director	72,500	*
Leontis Teryazos(11) Director	152,500	*
Walter Threadgill(12) Director	82,500	*
All Named Officers and directors as a group (12 persons)	763,918	1.42%

* Less than one percent of the outstanding shares of Common Stock.

(1) Based on 53,706,777 issued and outstanding shares of Common Stock on April 9, 2002, plus shares of Common Stock that may be acquired by the person or group indicated pursuant to any options and warrants exercisable, or

pursuant to the conversion of any outstanding shares of the Company's Preferred Stock, or pursuant to any shares vesting under the Company's 401(k) Plan, within 60 days.

(2) Includes 157,797 shares of ICG Common Stock that may be acquired pursuant to the exercise of outstanding stock options.

(3) Includes 360 shares of ICG Common Stock held by a 401(k) plan in Mr. Fish's name, 13,500 shares of ICG Common Stock that may be acquired pursuant to the exercise of outstanding stock options, and 200 shares beneficially owned by Mr. Fish and his wife in joint tenancy with rights of survivorship.

(4) Includes 1,139 shares of ICG Common Stock held by a 401(k) plan in Mr. Kallet's name, 977 shares of ICG Common Stock held in ICG's Employee Stock Purchase Plan and 154,845 shares of ICG Common Stock that may be acquired pursuant to the exercise of outstanding stock options.

(5) Includes 875 shares of ICG Common Stock held by a 401(k) plan in Mr. Zuroff's name, 1,089 shares of ICG Common Stock held in ICG's Employee Stock Purchase Plan and 12,818 shares of ICG Common Stock that may be acquired pursuant to the exercise of outstanding stock options.

(6) Includes 3,523 shares of Common Stock held by a 401(k) plan in Mr. Colgan's name, 2,485 shares of Common Stock held in ICG's Employee Stock Purchase Plan, and 35,488 shares of ICG Common Stock that may be acquired pursuant to the exercise of outstanding stock options.

(7) Includes 680 shares of Common Stock held by an IRA in Mr. Herbst's name and 3,518 shares of Common Stock held in ICG's Employee Stock Purchase Plan.

(8) Includes 8,361 shares of ICG Common Stock held by a 401(k) plan in Mr. Beans's name.

(9) Includes 58,763 shares of ICG Common Stock held by a 401(k) plan in Mr. Bryan's name.

(10) Includes 72,500 shares of ICG Common Stock that may be acquired pursuant to the exercise of outstanding stock options.

(11) Includes 152,500 shares of ICG Common Stock that may be acquired pursuant to the exercise of outstanding stock options.

(12) Includes 82,500 shares of ICG Common Stock that may be acquired pursuant to the exercise of outstanding stock options.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORT ON FORM 8-K

(A) (1) FINANCIAL STATEMENTS

The following financial statements are included in Item 8 of Part II:

	Page
Independent Auditors' Report	F-2
Consolidated Balance Sheets, December 31, 2000 and 2001	F-3
Consolidated Statements of Operations, Years Ended December 31, 1999, 2000 and 2001	F-5
Consolidated Statements of Stockholders' Deficit, Years Ended December 31, 1999, 2000 and 2001	F-7
Consolidated Statements of Cash Flows, Years Ended December 31, 1999, 2000 and 2001	F-8
Notes to Consolidated Financial Statements	F-11

(2) FINANCIAL STATEMENT SCHEDULE

The following Financial Statement Schedule is submitted herewith:

Independent Auditors' Report	S-1
Schedule II: Valuation and Qualifying Accounts	S-2

(3) LIST OF EXHIBITS

(2) Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession

2.1: Plan of Arrangement under Section 192 of the Canada Business Corporations Act. [Incorporated by reference to Exhibit 2.1 to Registration Statement on Form S-4 of ICG Communications, Inc., File No. 333-4226].

2.2 Joint Plan of Reorganization of ICG Communications, Inc. and Its Affiliated Debtors and Debtors in Possession [Incorporated by reference to Exhibit 2.2 to ICG Communications, Inc.'s Current Report on Form 8-K dated December 19, 2001].

2.3 Disclosure Statement with Respect to Joint Plan of Reorganization of ICG Communications, Inc. and Its Affiliated Debtors and Debtors in Possession [Incorporated by reference to Exhibit 2.3 to ICG Communications, Inc.'s Current Report on Form 8-K dated December 19, 2001].

(3) Corporate Organization

3.1: Certificate of Incorporation of ICG Communications, Inc. dated April 11, 1996. [Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-4 of ICG Communications, Inc., File No. 333-4226].

3.2: By-laws of ICG Communications, Inc. [Incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-4 of ICG Communications, Inc., File No. 333-4226].

3.3: Agreement and Plan of Reorganization by and among ICG Communications, Inc., ICG Canadian Acquisition, Inc., ICG Holdings (Canada), Inc. and ICG Holdings (Canada) Co., dated November 4, 1998. [Incorporated by reference to Exhibit 3.3 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998.]

3.4: Order of Amalgamation between ICG Holdings (Canada), Inc. and ICG Holdings (Canada) Co., dated December 22, 1998. [Incorporated by reference to Exhibit 3.4 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998.]

3.5: Memorandum and Articles of Association of ICG Holdings (Canada) Co. filed with the Registrar of Joint Stock Companies, Halifax, Nova Scotia. [Incorporated by reference to Exhibit 3.5 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998.]

(4) **Instruments Defining the Rights of Security Holders, Including Indentures**

4.1: Note Purchase Agreement, dated as of July 14, 1995, among the Registrant, IntelCom Group (U.S.A.), Inc., Morgan Stanley Group Inc., Princes Gate Investors, L.P., Acorn Partnership I, L.P., PGI Investments Limited, PGI Investments Limited, PGI Sweden AB, and Gregor von Opel and Morgan Stanley Group, Inc., as Agent for the Purchasers [Incorporated by reference to Exhibit 4.1 to Form 8-K of IntelCom Group Inc., dated July 18, 1995].

4.2: Warrant Agreement, dated as of July 14, 1995, among the Registrant, the Committed Purchasers, and IntelCom Group (U.S.A.), Inc., as Warrant Agent [Incorporated by reference to Exhibit 4.2 to Form 8-K of IntelCom Group Inc., dated July 18, 1995].

4.3: First Amended and Restated Articles of Incorporation of ICG Holdings, Inc. [Incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-4 of IntelCom Group (U.S.A.), Inc., File No. 333-04569].

4.4: Indenture, dated August 8, 1995, among IntelCom Group (U.S.A.) Inc., IntelCom Group Inc. and Norwest Bank Colorado, National Association [Incorporated by reference to Exh ibit 4.6 to Registration Statement on Form S-4 of IntelCom Group (U.S.A.) Inc., File Number 33-96540].

4.5: Indenture, dated April 30, 1996, among IntelCom Group (U.S.A.) Inc., IntelCom Group Inc. and Norwest Bank Colorado, National Association [Incorporated by reference to Exhibit 4.14 to Registration Statement on Form S-4 of IntelCom Group (U.S.A.) Inc., File No. 333-04569].

4.6: Indenture, dated March 11, 1997, among ICG Holdings, Inc., ICG Communications, Inc. and Norwest Bank Colorado, National Association [Incorporated by reference to Exhibit 4.15 to Registration Statement on Form S-4 of ICG Communications, Inc., File No. 333-24359].

4.7: Written Action of the Manager of ICG Funding, LLC, dated as of September 24, 1997, with respect to the terms of the 6 $^{3}/_{4}$% Exchangeable Limited Liability Company Preferred Securities [Incorporated by reference to Exhibit 4.8 to Registration Statement on Form S-3 of ICG Funding, LLC, File No. 333-40495].

4.8: Amended and Restated Limited Liability Company Agreement of ICG Funding, LLC, dated as of September 23, 1997 [Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 of ICG Funding, LLC, File No. 333-40495].

4.9: Indenture, between ICG Services, Inc. and Norwest Bank Colorado, National Association, dated as of February 12, 1998 [Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-4 of ICG Services, Inc., File No. 333-51037].

4.10: Indenture, between ICG Services, Inc. and Norwest Bank Colorado, National Association, dated as of April 27, 1998 [Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-4 of ICG Services, Inc., File No. 333-60653, as amended].

4.11: Second Amended and Restated Articles of Incorporation of ICG Holdings, Inc., dated March 10, 1997. [Incorporated by reference to Exhibit 4.11 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998.]

4.12: Loan Agreement, dated as of January 1, 1999, by and among TriNet Realty Capital, Inc. and ICG Services, Inc. [Incorporated by reference to Exhibit 10.3 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999].

4.13: Promissory Note, dated as of January 1, 1999, by and among TriNet Realty Capital, Inc. and ICG Services, Inc. [Incorporated by reference to Exhibit 10.4 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999].

4.14: Deed of Trust, Assignment of Rents and Security Agreement, ma de as of January 1, 1999, granted by ICG Services, Inc. for the benefit of TriNet Realty Capital, Inc. [Incorporated by reference to Exhibit 10.5 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999].

4.15: Amended and Restated Loan Agreement, dated as of May 1, 1999, by and among TriNet Realty Capital, Inc. and ICG 161, L.P. [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

4.16: Credit Agreement, dated as of August 12, 1999, among ICG Equipment, Inc. and ICG NetAhead, Inc., as Borrowers, ICG Services, Inc., as Parent, the Initial Lenders and the Initial Issuing Bank, as Initial Lenders and Initial Issuing Bank, Royal Bank of Canada, as Administrative Agent and Collateral Agent, Morgan Stanley Senior Funding, Inc., as Sole Book-Runner and Lead Arranger and Bank of America, N.A. and Barclays Bank Plc, as Co-Documentation Agents [Incorporated by reference to Exhibit 10.11 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

4.17: Security Agreement, dated August 12, 1999, from ICG Equipment, Inc. and ICG NetAhead, Inc., as Grantors to Royal Bank of Canada, as Collateral Agent [Incorporated by reference to Exhibit 10.12 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

4.18: Amendment No. 1 to Credit Agreement, dated as of December 31, 1999, among ICG Equipment, Inc. and ICG NetAhead, Inc., as Borrowers, ICG Services, Inc., as Parent, certain Initial Lender Parties thereto, Morgan Stanley Senior Funding, Inc., as Sole Book-Runner and Lead Arranger, Royal Bank of Canada, as Collateral Agent and as Administrative Agent for such Lender Parties, and Bank of America, N.A. and Barclays Bank Plc, as Co-Documentation Agents [Incorporated by reference to Exhibit 10.8 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999].

4.19: Amendment and Waiver No. 2 to the Loan Documents, dated as of December 29, 1999, among ICG Equipment, Inc., ICG NetAhead, Inc., ICG Services, Inc., as Parent, certain Initial Lender Parties party thereto, Morgan Stanley Senior Funding, Inc., as Sole Book-Runner and Lead Arranger, Royal Bank of Canada, as Collateral Agent and as Administrative Agent for such Lender Parties, Bank of America, N.A., as Documentation Agent and Barclays Bank Plc, as Co-Documentation Agent. [Incorporated by reference to Exhibit 4.19 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999.]

4.20: Amendment No. 3 to the Loan Documents, dated as of February 11, 2000, among ICG Equipment, Inc., ICG NetAhead, Inc., ICG Services, Inc., as Parent, certain Initial Lender Parties party thereto, Morgan Stanley Senior Funding, Inc., as Sole Book-Runner and Lead Arranger, Royal Bank of Canada, as Collateral Agent and as Administrative Agent for such Lender Parties, Bank of America, N.A., as Documentation Agent and Barclays Bank Plc, as Co-Documentation Agent. [Incorporated by reference to Exhibit 4.20 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999.]

4.21: Certificate of Designation of the Powers, Preferences and Relative, Participating, Optional and Other Special Rights of 8% Series A-1 Convertible Preferred Stock Due 2015, 8% Series A-2 Convertible Preferred Stock Due 2015 and 8% Series A-3 Convertible Preferred Stock Due 2015, and Qualifications, Limitations and Restrictions Thereof, Filed on April 7, 2000 with the Delaware Secretary of State. [Incorporated by reference to Exhibit 10.4 to ICG Communications, Inc.'s Quarterly Report of Form 10-Q for the quarterly period ended March 31, 2000.]

4.22: Registration Rights Agreement dated as of April 7, 2000, by and between ICG Communications, Inc. and Liberty Media Corporation, HMTF Bridge ICG, LLC, HM4 ICG Qualified Fund, LLC, HM4 ICG Private Fund, LLC, HM PG-IV ICG, LLC, HM 4-SBS ICG Coinvestors, LLC, HM 4-EQ ICG Coinvestors, LLC and Gleacher/ICG Investors LLC. [Incorporated by reference to Exhibit 10.5 to ICG Communications, Inc.'s Quarterly Report of Form 10-Q for the quarterly period ended March 31, 2000.]

4.23: Amendment to the Preferred Stock and Warrant Purchase Agreement dated as of April 10, 2000 between ICG Communications, Inc. and Liberty Media Corporation, HMTF Bridge ICG, LLC, HM4 ICG Qualified Fund, LLC, HM4 ICG Private Fund, LLC, HM PG-IV ICG, LLC, HM 4-SBS ICG Coinvestors, LLC, HM 4-EQ ICG Coinvestors, LLC and Gleacher/ICG Investors LLC. [Incorporated by reference to Exhibit 10.6 to ICG Communications, Inc.'s Quarterly Report of Form 10-Q for the quarterly period ended March 31, 2000.]

4.24 Form of Common Stock Warrant Agreement dated April 10, 2000. [Incorporated by reference to Exhibit 10.7 to ICG Communications, Inc.'s Quarterly Report of Form 10-Q for the quarterly period ended March 31, 2000.]

4.25 Amendment and Waiver No. 4 to the Loan Documents, dated as of September 29, 2000, among ICG Equipment, Inc., ICG NetAhead, Inc., ICG Services, Inc., as Parent, certain Initial Lender Parties party thereto, Morgan Stanley Senior Funding, Inc., as Sole Book-Runner and Lead Arranger, Royal Bank of Canada, as Collateral Agent and as Administrative Agent for such Lender Parties, Bank of America, N.A., as Documentation Agent and Barclays Bank Plc, as Co-Documentation Agent. [Incorporated by reference to Exhibit 10.4 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000.]

4.26 Revolving Credit Agreement, dated as of December 4, 2000, among ICG Communications, Inc. and each of its subsidiaries party hereto, as Borrowers, and the Chase Manhattan Bank, as Agent. [Incorporated by reference to Exhibit 4.26 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

4.27 Security and Pledge Agreement, dated as of December 4, 2000 by and among ICG Communications, Inc. and each of its subsidiaries party hereto, as Borrowers and the Chase Manhattan Bank, as Agent. [Incorporated by reference to Exhibit 4.27 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

4.28 First Amendment to Credit Agreement, dated as of January 31, 2001, among ICG Communications, Inc. and each of its subsidiaries party hereto, as Borrowers, the Chase Manhattan Bank and each of the other commercial banks, finance companies, insurance companies or other financial institutions or funds from time to time party to the Agreement, and the Chase Manhattan Bank, as Agent. [Incorporated by reference to Exhibit 4.28 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

4.29 Waiver to Credit Agreement, dated as of March 30, 2001, among ICG Communications, Inc. and each of its subsidiaries party hereto, as Borrowers, the Chase Manhattan Bank and each of the other commercial banks, finance companies, insurance companies or other financial institutions or funds from time to time party to the Agreement, and the Chase Manhattan Bank, as Agent. [Incorporated by reference to Exhibit 4.29 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

4.30 Amendment to Waiver to Credit Agreement, dated as of March 30, 2001, among ICG Communications, Inc. and each of its subsidiaries party hereto, as Borrowers, the Chase Manhattan Bank and each of the other commercial banks, finance companies, insurance companies or other financial institutions or funds from time to time party to the Agreement, and the Chase Manhattan Bank, as Agent. [Incorporated by reference to Exhibit 4.30 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

4.31 Second Amendment to Waiver to Credit Agreement, dated as of March 30, 2001, among ICG Communications, Inc. and each of its subsidiaries party hereto, as Borrowers, the Chase Manhattan Bank and each of the other commercial banks, finance companies, insurance companies or other financial institutions or funds from time to time party to the Agreement, and the Chase Manhattan Bank, as Agent. [Incorporated by reference to Exhibit 4.31 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

4.32 Second Amendment to Credit Agreement, dated as of May 2, 2001, among ICG Communications, Inc. and each of its subsidiaries party hereto, as Borrowers, the Chase Manhattan Bank and each of the other commercial banks, finance companies, insurance companies or other financial institutions or funds from time to time party to the Agreement, and the Chase Manhattan Bank, as Agent. [Incorporated by reference to Exhibit 4.32 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

4.33 Loan Modification Agreement dated as of June 28, 2001 between Trinet Realty Capital, Inc. as lender and Trinet Realty Investors V, Inc. as borrower. [Incorporated by reference to Exhibit 4.33 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

(10) Material Contracts

10.1: Arrangement and Support Agreement dated June 27, 1996 between ICG Communications, Inc. and IntelCom Group Inc. [Incorporated by reference to Exhibit 2.1 to Registration Statement on Form S-4 of ICG Communications, Inc., File No. 333-4226].

10.2: Incentive Stock Option Plan #2 [Incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.3: Form of Stock Option Agreement for Incentive Stock Option Plan #2 [Incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.4: Incentive Stock Option Plan #3 [Incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.5: Form of Stock Option Agreement for Incentive Stock Option Plan #3 [Incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.6: 1994 Employee Stock Option Plan [Incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.7: Form of Stock Option Agreement for 1994 Employee Stock Option Plan [Incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-8 of IntelCom Group Inc., File No. 33-86346, filed November 14, 1994].

10.8: Employment Agreement, dated as of May 30, 1995, between IntelCom Group Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.5 to Form 8-K of IntelCom Group Inc., as filed on August 2, 1995].

10.9: Stock Option Agreement, dated as of May 30, 1995, between IntelCom Group Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.6 to Form 8-K of IntelCom Group Inc., as filed on August 2, 1995].

10.10: Indemnification Agreement, dated as of May 30, 1995, between IntelCom Group Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.7 to Form 8-K of IntelCom Group Inc., as filed on August 2, 1995].

10.11: Placement Agreement, dated as of August 3, 1995, among IntelCom Group Inc., IntelCom Group (U.S.A.), Inc., certain subsidiaries of IntelCom Group (U.S.A.), Inc. and Morgan Stanley & Co. Incorporated [Incorporated by reference to Exhibit 10.1 to Form 8-K of IntelCom Group Inc., as filed on August 9, 1995].

10.12: ICG Communications, Inc., 401(k) Wrap Around Deferred Compensation Plan. [Incorporated by reference to Exhibit 10.42 to ICG Communications, Inc.'s Annual Report on Form 10-K/A for the fiscal year ended September 30, 1996].

10.13: ICG Communications, Inc. 1996 Employee Stock Purchase Plan. [Incorporated by reference to the Registration Statement on Form S-8 of ICG Communications, Inc., File No. 33-14127, filed on October 14, 1996].

10.14: Consulting Services Agreement, by and between IntelCom Group Inc. and International Communications Consulting, Inc., effective January 1, 1996 [Incorporated by reference to Exhibit 10.44 to ICG Communications, Inc.'s Transition Report on Form 10-K/A for the three months ended December 31, 1996].

10.15: Confidential General Release and Covenant Not to Sue, by and between ICG Communications, Inc. and John D. Field, dated November 5, 1996 [Incorporated by reference to Exhibit 10.45 to ICG Communications, Inc.'s Transition Report on Form 10-K/A for the three months ended December 31, 1996].

10.16: Amendment, dated as of March 26, 1997, between ICG Communications, Inc. and J. Shelby Bryan, to Employment Agreement, dated as of May 30, 1995, between IntelCom Group Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997].

10.17: 1996 Stock Option Plan [Incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-8 of ICG Communications, Inc., File No. 333-25957, filed on April 28, 1997].

10.18: Amendment No. 1 to the ICG Communications, Inc. 1996 Stock Option Plan. [Incorporated by reference to Exhibit 10.46 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997.]

10.19: Employment Agreement, dated as of April 22, 1997, between ICG Communications, Inc. and Don Teague [Incorporated by reference to Exhibit 10.2 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997].

10.20: Amendment No. 2 to the ICG Communications, Inc. 1996 Stock Option Plan [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997].

10.21a: Purchase Agreement between ICG Holdings, Inc. and TriNet Corporate Realty Trust, Inc., dated December 9, 1997. [Incorporated by reference to Exhibit 10.52a to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997.]

10.21b: First Amendment to Purchase Agreement, by and between ICG Holdings, Inc. and TriNet Essential Facilities X, Inc., dated January 15, 1998. [Incorporated by reference to Exhibit 10.52b to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997.]

10.21c: Assignment of Purchase Agreement, by and between TriNet Corporate Realty Trust, Inc., dated January 15, 1998. [Incorporated by reference to Exhibit 10.52c to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997.]

10.21d: Commercial Lease—Net between TriNet Essential Facilities X, Inc. and ICG Holdings, Inc., dated January 15, 1998. [Incorporated by reference to Exhibit 10.52d to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997.]

10.21e: Continuing Lease Guaranty, by ICG Communications, Inc. to TriNet Essential Facilities X, Inc., dated January 20, 1998. [Incorporated by reference to Exhibit 10.52e to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997.]

10.21f: Continuing Lease Guaranty, by ICG Holdings (Canada), Inc. to TriNet Essential Facilities X, Inc., dated January 20, 1998. [Incorporated by reference to Exhibit 10.52f to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997.]

10.22: Agreement and Plan of Merger, dated October 12, 1997, by and among ICG Communications, Inc., ICG Acquisition, Inc. and NETCOM On-Line Communication Services, Inc. [Incorporated by reference to Exhibit 2.1 to Form 8-K, dated January 21, 1998].

10.23: Amendment to Agreement and Plan of Merger, dated December 15, 1997, by and among ICG Communications, Inc., ICG Acquisition, Inc. and NETCOM On-Line Communication Services, Inc. [Incorporated by reference to Exhibit 2.2 to Form 8-K, dated January 21, 1998].

10.24: Employment Agreement, dated July 1, 1998, between ICG Communications, Inc. and Harry R. Herbst [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998].

10.25: Employment Agreement, dated September 23, 1998, between ICG Communications, Inc. and Douglas I. Falk [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998].

10.26: Asset Purchase Agreement by and between MindSpring Enterprises, Inc. and NETCOM On-Line Communication Services, Inc., dated as of January 5, 1999 [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Current Report on Form 8-K, dated March 4, 1999].

10.27: ICG Communications, Inc. 1998 Stock Option Plan. [Incorporated by reference to Attachment A to ICG Communications, Inc.'s Proxy Statement for the year ended December 31, 1997.]

10.28: Form of Stock Option Agreement for 1998 Stock Option Plan. [Incorporated by reference to Exhibit 10.28 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998.]

10.29: Amendment No. 1 to the ICG Communications, Inc. 1998 Stock Option Plan, dated December 15, 1998. [Incorporated by reference to Exhibit 10.29 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998.]

10.30: Form of Agreement regarding Gross-Up Payments, by and between ICG Communications, Inc. and each of J. Shelby Bryan, Harry R. Herbst, Douglas I. Falk and H. Don Teague, dated December 16, 1998. [Incorporated by reference to Exhibit 10.30 to ICG Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998.]

10.31: Extension and Amendment to Employment Agreement, dated as of March 10, 1999, by and between ICG Communications, Inc. and J. Shelby Bryan. [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999].

10.32: Deferred Compensation Agreement, dated as of April 1, 1999, by and between ICG Communications, Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.2 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999].

10.33: Purchase Agreement, dated as of January 1, 1999, by and among TriNet Essential Facilities X, Inc. and ICG Services, Inc. [Incorporated by reference to Exhibit 10.6 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999].

10.34: Assumption and Modification Agreement, dated as of May 1, 1999, by and among ICG Services, Inc., ICG 161, L.P. and TriNet Realty Capital, Inc. [Incorporated by reference to Exhibit 10.2 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

10.35: Employment Agreement, dated as of May 19, 1999, between ICG Communications, Inc. and Harry R. Herbst [Incorporated by reference to Exhibit 10.3 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

10.36: Employment Agreement, dated as of May 19, 1999, between ICG Communications, Inc. and H. Don Teague [Incorporated by reference to Exhibit 10.4 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

10.37: Employment Agreement, dated as of May 19, 1999, between ICG Communications, Inc. and John Kane [Incorporated by reference to Exhibit 10.5 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

10.38: Employment Agreement, dated as of June 1, 1999, between ICG Communications, Inc. and Douglas I. Falk [Incorporated by reference to Exhibit 10.6 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

10.39: Amendment to Employment Agreement, dated as of June 9, 1999, between ICG Communications, Inc. and John Kane [Incorporated by reference to Exhibit 10.7 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

10.40: Employment Agreement, dated as of June 28, 1999, between ICG Communications, Inc. and William S. Beans, Jr. [Incorporated by reference to Exhibit 10.8 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

10.41: Share Price Appreciation Vesting Non-Qualified Stock Option Agreement, dated as of June 28, 1999, between ICG Communications, Inc. and William S. Beans, Jr. [Incorporated by reference to Exhibit 10.9 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

10.42: Employment Agreement, dated as of July 1, 1999, between ICG Communications, Inc. and Michael D. Kallet [Incorporated by reference to Exhibit 10.10 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999].

10.43: Amendment to the Stock Option Agreement between J. Shelby Bryan and IntelCom Group, Inc. dated May 30, 1995, dated as of March 10, 1999, between ICG Communications, Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999].

10.44: Amendment to the Stock Option Agreement between J. Shelby Bryan and IntelCom Group, Inc. dated November 13, 1995, dated as of March 10, 1999, between ICG Communications, Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.2 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999].

10.45: Promissory Note, dated as of August 6, 1999, between ICG Telecom Group, Inc. and John Kane [Incorporated by reference to Exhibit 10.3 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999].

10.46: Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and John Kane [Incorporated by reference to Exhibit 10.4 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999].

10.47: Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and Don Teague [Incorporated by reference to Exhibit 10.5 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999].

10.48: Amendment to Employment Agreement, dated as of August 22, 1999, between ICG Communications, Inc. and Harry R. Herbst [Incorporated by reference to Exhibit 10.6 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999].

10.49: Amendment to Employment Agreement, dated as of September 14, 1999, between ICG Communications, Inc. and J. Shelby Bryan [Incorporated by reference to Exhibit 10.7 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999].

10.50: Promissory Note, dated as of December 10, 1999, between ICG Telecom Group, Inc. and John Kane. [Incorporated by reference to Exhibit 10.50 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.]

10.51: General Release, Covenant Not to Sue and Agreement, dated as of January 1, 2000, between ICG Communications, Inc. and John Kane. [Incorporated by reference to Exhibit 10.51 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.]

10.52: Letter of Understanding to Douglas I. Falk, dated December 15, 1999, from ICG Communications, Inc. regarding Section 4 of the Employment Agreement between ICG Communications, Inc. and Douglas I. Falk. [Incorporated by reference to Exhibit 10.52 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.]

10.53: Employment Agreement, dated as of July 1, 1999, by and between ICG Communications, Inc. and Carla J. Wolin. [Incorporated by reference to Exhibit 10.53 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.]

10.54: Amendment to Employment Agreement, dated as of August 22, 1999, by and between ICG Communications, Inc. and Carla J. Wolin. [Incorporated by reference to Exhibit 10.54 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.]

10.55: Employment Agreement, dated as of January 7, 2000, by and between ICG Communications, Inc. and James Washington. [Incorporated by reference to Exhibit 10.55 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.]

10.56: General Release, Covenant Not to Sue and Agreement, dated as of January 17, 2000, between ICG Communications, Inc. and Douglas I. Falk. [Incorporated by reference to Exhibit 10.56 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.]

10.57: Employment Agreement, dated as of February 1, 2000, by and between ICG Communications, Inc. and Cindy Z. Schonhaut. [Incorporated by reference to Exhibit 10.57 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.]

10.58: Employment Agreement, dated as of March 8, 2000, by and between ICG Communications, Inc. and Pamela S. Jacobson. [Incorporated by reference to Exhibit 10.58 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999.]

10.59: Employment Agreement dated as of December 22, 1999 by and between ICG Communications, Inc. and William S. Beans, Jr. [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.]

10.60: Employment Agreement dated as of March 23, 2000 by and between ICG Communications, Inc. and W. Terrell Wingfield, Jr. [Incorporated by reference to Exhibit 10.2 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.]

10.61: Deferred Compensation Agreement dated as of March 31, 2000 by and between ICG Communications, Inc. and J. Shelby Bryan. [Incorporated by reference to Exhibit 10.3 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.]

10.62: Amendment to Employment Agreement dated as of April 13, 2000 by and between ICG Communications, Inc. and William S. Beans, Jr. [Incorporated by reference to Exhibit 10.8 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.]

10.63: Amendment to Employment Agreement, dated as of May 10, 2000, by and between ICG Communications, Inc. and Carla J. Wolin. [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000.]

10.64: Amendment to Employment Agreement, dated as of May 10, 2000, by and between ICG Communications, Inc. and James Washington. [Incorporated by reference to Exhibit 10.2 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000.]

10.65: Amendment to Employment Agreement, dated as of May 10, 2000, by and between ICG Communications, Inc. and Cindy Z. Schonhaut. [Incorporated by reference to Exhibit 10.3 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000.]

10.66: Amendment to Employment Agreement, dated as of May 10, 2000, by and between ICG Communications, Inc. and Don Teague. [Incorporated by reference to Exhibit 10.4 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000.]

10.67: Amendment to Employment Agreement, dated as of July 12, 2000 by and between ICG Communications, Inc. and Michael D. Kallet. [Incorporated by reference to Exhibit 10.1 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000.]

10.68: Employment Agreement, dated as of August 7, 2000 by and between ICG Communications, Inc. and John Colgan. [Incorporated by reference to Exhibit 10.2 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000.]

10.69: Employment Agreement, dated as of September 24, 2000 by and between ICG Communications, Inc. and Randall Curran. [Incorporated by reference to Exhibit 10.3 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000.]

10.70: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and Robert Athey. [Incorporated by reference to Exhibit 10.70 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.71: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and Brian Cato. [Incorporated by reference to Exhibit 10.71 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.72: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and Darlinda Coe. [Incorporated by reference to Exhibit 10.72 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.73: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and John Colgan. [Incorporated by reference to Exhibit 10.73 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.74: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and Richard E. Fish. [Incorporated by reference to Exhibit 10.74 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.75: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and Kimberly Gordon. [Incorporated by reference to Exhibit 10.75 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.76: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and David Hurtado. [Incorporated by reference to Exhibit 10.76 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.77: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and Michael D. Kallet. [Incorporated by reference to Exhibit 10.77 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.78: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and Gayle Landis. [Incorporated by reference to Exhibit 10.78 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.79: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and Gary Lindgren. [Incorporated by reference to Exhibit 10.79 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.80: Employment Agreement, dated as of February 26, 2001 by and between ICG Communications, Inc. and Bernard L. Zuroff. [Incorporated by reference to Exhibit 10.80 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.81: Fourth Amendment to Lease, dated as of June 28, 2001 between Trinet Realty Investors V, Inc. as landlord and ICG Holdings, Inc. as tenant. [Incorporated by reference to Exhibit 10.81 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.82: Agreement Regarding Option and Exercise of Option dated as of June 28, 2001 by Trinet Realty Investors V, Inc. and ICG Corporate Headquarters, L.L.C. [Incorporated by reference to Exhibit 10.82 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.83: Consulting Agreement, dated January 10, 2001 by and between ICG Communications, Inc. and William S. Beans, Jr. [Incorporated by reference to Exhibit 10.83 to ICG Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.]

10.84: Amended and Restated Employment Agreement, dated June 21, 2001, by and between ICG Communications, Inc., ICG Holdings, Inc., ICG Services, Inc., ICG Equipment, Inc., and ICG Telecom, Inc., and Randall Curran. [Incorporated by reference to Exhibit 10.84 to ICG Communications, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001].

(21) Subsidiaries of the Registrant

21.1: Subsidiaries of the Registrant.

(23) Consents

23.1: Consent of KPMG LLP.

(B) REPORT ON FORM 8-K

The following reports on Form 8-K were filed by the Registrants during the quarter ended December 31, 2001:

(i) Current Report on Form 8-K dated December 19, 2001, announcing the Company had filed a proposed Plan of Reorganization and Disclosure Statement in the United States Bankruptcy Court in the District of Delaware on December 19, 2001.

(C) EXHIBITS

The exhibits required by this item are listed under Item 14(A)(3).

(D) FINANCIAL STATEMENT SCHEDULE

The financial statement schedule required by this item is listed under Item 14(A)(2).

EXHIBIT 21.

Subsidiaries of the Registrant

Name of Subsidiary	State of Incorporation	Doing Business As
Bay Area Teleport, Inc.	Delaware	—
Communications Buying Group, Inc.	Ohio	—
ICG DataChoice Network Services, L.L.C.	Nevada	—
DownNorth, Inc. *(formerly known as UpSouth Corporation)*	Georgia	—
ICG Access Services—Southeast, Inc. *(formerly known as PrivaCom, Inc.)*	Delaware	—
ICG Canadian Acquisition, Inc.	Delaware	—
ICG ChoiceCom, L.P. *(formerly known as CSW/ICG ChoiceCom, L.P.)*	Delaware	—
ICG ChoiceCom Management, LLC *(formerly known as Southwest TeleChoice Management, LLC and CSW/ICG ChoiceCom Management, LLC)*	Delaware	—
ICG Corporate Headquarters, L.L.C.	Colorado	—
ICG Enhanced Services, Inc.	Colorado	—
ICG Equipment, Inc.	Colorado	—
ICG Funding, LLC	Delaware	—
ICG Holdings, Inc. *(formerly known as IntelCom Group (U.S.A.), Inc.)*	Colorado	—
ICG Holdings (Canada) Co.	Nova Scotia	—
ICG Mountain View, Inc.	Colorado	—
ICG Ohio LINX, Inc. *(formerly known as Ohio Local Interconnection Network Exchange Co.)*	Ohio	—
ICG NetAhead, Inc. *(formerly known as NETCOM On-Line Communication Services, Inc. and ICG PST, Inc.)*	Delaware	—
ICG Services, Inc.	Delaware	—
ICG Telecom Canada, Inc.	Federal Canadian	—
ICG Telecom Group, Inc. *(formerly known as ICG Access Services, Inc.)*	Colorado	—
ICG Telecom Group of Virginia, Inc.	Virginia	—
ICG Telecom of San Diego, L.P. *(formerly known as Linkatel of California, L.P.)*	California	—
ICG Tevis, Inc.	Delaware	—
NikoNet, LLC	Georgia	—
PTI Harbor Bay, Inc.	Washington	—
TransAmerican Cable, Inc.	Kentucky	MidAmerican Cable
Western Plains Finance	Nevada	—

EXHIBIT 23.1

Consent of KPMG LLP

The Board of Directors
ICG Communications, Inc.:

We consent to incorporation by reference in the registration statements No. 33-96660 on Form S-3 of IntelCom Group, Inc., Nos. 333-18839, 333-38823 and 333-74167 on Form S-3 of ICG Communications, Inc., and Nos. 33-14127, 333-25957, 333-39737, 333-45213 and 333-56835 on Form S-8 of ICG Communications, Inc. of our reports dated March 31, 2002, relating to the consolidated balance sheets of ICG Communications, Inc. and subsidiaries (the Company) (a debtor-in-possession as of November 14, 2000) as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2001, and the related financial statement schedule, which reports appear in the December 31, 2001 Annual Report on Form 10-K of ICG Communications, Inc.

Our report dated March 31, 2002 contains an explanatory paragraph that states that the Company has suffered recurring losses, has a significant net capital deficiency, and, on November 14, 2000, the Company and most of its subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code, all of which raise substantial doubt about their ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty. Additionally, the consolidated financial statements do not include any adjustments that may be required in the Chapter 11 reorganization.

Our report refers to a change in the method of accounting for installation revenues.

/s/ KPMG LLP

Denver, Colorado
April 12, 2002

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.

ICG Communications, Inc.

	Randall E. Curran
By:	*Chief Executive Officer*
Date:	April 15, 2002

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:

Signature	Title	Date
/s/ RANDALL E. CURRAN Randall E. Curran	Chief Executive Officer	April 15, 2002
/s/ RICHARD E. FISH, JR. Richard E. Fish, Jr.	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	April 15, 2002
/s/ JOHN V. COLGAN John V. Colgan	Senior Vice President, Finance and Controller (Principal Accounting Officer)	April 15, 2002
/s/ WILLIAM J. LAGGETT William J. Laggett	Vice Chairman of the Board of Directors	April 15, 2002
/s/ JOHN U. MOORHEAD John U. Moorhead	Director	April 15, 2002
/s/ LEONTIS TERYAZOS Leontis Teryazos	Director	April 15, 2002
/s/ WALTER THREADGILL Walter Threadgill	Director	April 15, 2002

FINANCIAL STATEMENTS

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Independent Auditors' Report

The Board of Directors
ICG Communications, Inc.:

We have audited the accompanying consolidated balance sheets of ICG Communications, Inc. and subsidiaries (the Company) (a debtor-in-possession as of November 14, 2000) as of December 31, 2000 and 2001, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

As discussed in note 3 to the consolidated financial statements, during 2000, the Company determined that the carrying value of its long-lived tangible and intangible assets had been impaired. In accordance with Financial Accounting Standards No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*," the Company recorded an impairment charge at December 31, 2000 of approximately $1.7 billion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ICG Communications, Inc. and subsidiaries as of December 31, 2000 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in note 1 to the consolidated financial statements, the Company has suffered recurring losses, has a significant net capital deficiency and, on November 14, 2000 the Company and most of its subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code. The consolidated financial statements do not include any adjustments to the recorded amounts or classification of assets or liabilities or reflect any amounts that may ultimately be paid to settle liabilities and contingencies which may be required in the Chapter 11 reorganization or the effect of any changes which may be made in connection with the Company's capitalization or operations resulting from its plan of reorganization. The Company filed the Second Amended Joint Plan of Reorganization and Disclosure Statement (the "Plan") with the Bankruptcy Court on March 26, 2002, which Plan will be amended. The Plan is subject to acceptance by the Company's impaired creditors and stockholders and approval by the bankruptcy court which acceptance and approval is not assured. These factors, among others, raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As explained in note 2 to the consolidated financial statements, during the year ended December 31, 2000, the Company changed its method of accounting for installation revenue.

/s/ KPMG

Denver, Colorado
March 31, 2002

**ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES**

(Debtor-in-Possession as of November 14, 2000)

Consolidated Balance Sheets

December 31, 2000 and 2001

	December 31,	
	2000	2001
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 196,980	$ 146,587
Short-term investments available for sale	17,733	—
Receivables:		
Trade, net of allowance of $94 million and $44 million at December 31, 2000 and 2001, respectively	132,095	42,365
Other	994	559
Total net receivables	133,089	42,924
Prepaid expenses and deposits	13,234	13,559
Total current assets	361,036	203,070
Property and equipment, net of accumulated depreciation of $2.5 million and $61 million at December 31, 2000 and 2001, respectively (note 6)	590,500	531,187
Restricted cash	9,278	7,299
Investments (note 7)	1,650	100
Deferred financing costs, net of accumulated amortization of $1 million and $2 million at December 31, 2000 and 2001, respectively	10,969	3,050
Deposits and other assets	7,019	10,459
Total Assets (note 1)	$ 980,452	$ 755,165

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

(Debtor-in-Possession as of November 14, 2000)

Consolidated Balance Sheets (Continued)

December 31, 2000 and 2001

	December 31,	
	2000	2001
	(in thousands)	
Liabilities and Stockholders' Deficit		
Current liabilities not subject to compromise:		
Accounts payable	$ 8,774	$ 8,871
Accrued liabilities	57,888	73,853
Deferred revenue	14,840	9,067
Total current liabilities not subject to compromise	81,502	91,791
Liabilities subject to compromise	2,870,130	2,729,590
Long-term liabilities not subject to compromise:		
Capital lease obligations (notes 8 and 9)	—	50,708
Long-term debt, net of discount (notes 9 and 15)	33,077	—
Other long-term liabilities	1,090	1,088
Total liabilities	2,985,799	2,873,177
Preferred stock, at liquidation value (notes 10 and 15):		
Redeemable preferred stock of ICG Holdings	449,056	449,056
Mandatorily redeemable preferred securities of ICG Funding	132,251	92,336
8% Series A Convertible Preferred Stock	785,353	785,353
Total preferred stock	1,366,660	1,326,745
Stockholders' deficit:		
Common stock, $.01 par value, 100,000,000 shares authorized; 52,045,443 and 53,706,777 shares issued and outstanding at December 31, 2000 and 2001, respectively	520	537
Additional paid-in capital	882,142	922,040
Accumulated deficit	(4,254,669)	(4,367,334)
Total stockholders' deficit	(3,372,007)	(3,444,757)
Commitments and contingencies (note 12)		
Total Liabilities and Stockholders' Deficit (notes 1 and 12)	$ 980,452	$ 755,165

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

(Debtor-in-Possession as of November 14, 2000)

Consolidated Statements of Operations

Years Ended December 31, 1999, 2000 and 2001

	Years ended December 31,		
	1999	2000	2001
	(in thousands, except per share data)		
Revenue	$ 479,226	$ 598,283	$ 499,996
Operating costs and expenses:			
Operating costs	238,927	440,090	351,973
Selling, general and administrative expenses	179,737	199,508	94,155
Bad debt expense	60,019	84,457	14,236
Depreciation and amortization	174,239	318,771	67,768
Provision for impairment of long-lived assets (note 3)	31,815	1,701,466	27,943
Loss (gain) on disposal of long-lived assets	(906)	2,415	9,537
Other, net	1,293	1,693	2,412
Total operating costs and expenses	685,124	2,748,400	568,024
Operating loss	(205,898)	(2,150,117)	(68,028)
Other income (expense):			
Interest expense (contractual interest of $30.3 million and $249.3 million not recorded during the years ended December 31, 2000, and 2001 respectively)	(212,420)	(233,643)	(32,214)
Interest income	16,300	22,370	—
Other income (expense), net, including realized gains and losses on marketable securities (note 7)	(2,522)	(15,166)	1,028
	(198,642)	(226,439)	(31,186)
Loss from continuing operations before reorganization expenses, income tax expense accretion and preferred dividends, discontinued operations, extraordinary gain, and cumulative effect of change in accounting principle	(404,540)	(2,376,556)	(99,214)
Reorganization expenses (note 4)	—	(53,897)	(13,451)
Income tax expense	(25)	—	—
Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses	(61,897)	(60,043)	—
Loss from continuing operations before discontinued operations, extraordinary gain and cumulative effect of change in accounting principle	$ (466,462)	$ (2,490,496)	$ (112,665)

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

(Debtor-in-Possession as of November 14, 2000)

Consolidated Statements of Operations (Continued)

Years Ended December 31, 1999, 2000 and 2001

	Years ended December 31,		
	1999	2000	2001
	(in thousands, except per share data)		
Discontinued operations:			
Gain (loss) from discontinued operations	$ (1,036)	$ 770	$ —
Gain on disposal of discontinued operations, net of income taxes of $4.7 million in 1999	37,825	3,572	—
Total from discontinued operations	36,789	4,342	—
Net loss before extraordinary gain and cumulative effect of change in accounting principle	(429,673)	(2,486,154)	(112,665)
Extraordinary gain on sales of operations of NETCOM, net of income taxes of $2.0 million	195,511	—	—
Cumulative effect of change in accounting principle for revenue from installation services (note 2(i))	—	(7,363)	—
Net loss	(234,162)	(2,493,517)	(112,665)
Accretion of 8% Series A Convertible Preferred Stock to liquidation value and related dividends	—	(158,249)	—
Charge for beneficial conversion feature of 8% Series A Convertible Preferred Stock	—	(159,279)	—
Net loss attributable to common stockholders	$ (234,162)	$(2,811,045)	$ (112,665)
Net loss per share — basic and diluted:			
Loss from continuing operations	$ (9.90)	$ (49.63)	$ (2.14)
Income from discontinued operations	0.78	.09	—
Extraordinary gain on sales of operations of NETCOM	4.15	—	—
Accretion, dividends and beneficial conversion of 8% Series A Convertible Preferred Stock	—	(6.33)	—
Cumulative effect of change in accounting principle	—	(.15)	—
Net loss per share — basic and diluted	$ (4.97)	$ (56.02)	$ (2.14)
Weighted average number of shares outstanding — basic and diluted	47,116	50,184	52,748

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

(Debtor-in-Possession as of November 14, 2000)

Consolidated Statements of Stockholders' Deficit

Years Ended December 31, 1999, 2000 and 2001

	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' deficit
				(in thousands)		
BALANCES AT DECEMBER 31, 1998	46,360	$ 464	$ 577,940	$(1,209,462)	$ (119)	$ (631,177)
Shares issued for cash in connection with the exercise of options and warrants	935	9	12,524	—	—	12,533
Shares issued for cash in connection with the employee stock purchase plan	206	2	3,359	—	—	3,361
Shares issued as contribution to 401(k) plan	260	3	5,457	—	—	5,460
Shares issued upon conversion of long-term debt	—	—	2	—	—	2
Reversal of cumulative foreign currency translation adjustment	—	—	—	—	119	119
Net loss	—	—	—	(234,162)	—	(234,162)
Comprehensive loss	—	—	—	—	—	(234,043)
BALANCES AT DECEMBER 31, 1999	47,761	478	599,282	(1,443,624)	—	(843,864)
Shares issued for cash in connection with the exercise of options and warrants	936	9	14,366	—	—	14,375
Shares issued for cash in connection with the employee stock purchase plan	174	1	2,728	—	—	2,729
Shares issued as contribution to 401(k) plan	178	2	4,296	—	—	4,298
Shares issued in exchange for long-term investment	2,996	30	21,595	—	—	21,625
Warrants issued in connection with 8% Series A Convertible Preferred Stock	—	—	80,596	—	—	80,596
Value ascribed to beneficial conversion feature of 8% Series A Convertible Preferred Stock	—	—	159,279	(159,279)	—	—
Accretion and dividends of 8% Series A Convertible Preferred Stock	—	—	—	(158,249)	—	(158,249)
Net loss	—	—	—	(2,493,517)	—	(2,493,517)
BALANCES AT DECEMBER 31, 2000	52,045	520	882,142	(4,254,669)	—	(3,372,007)
Shares issued upon conversion of mandatorily redeemable preferred securities of ICG Funding	1,662	17	39,898			39,915
Net loss				(112,665)		(112,665)
BALANCES AT DECEMBER 31, 2001	53,707	$ 537	$ 922,040	$(4,367,334)	$ —	$ (3,444,757)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

(Debtor-in-Possession as of November 14, 2000)

Consolidated Statements of Cash Flows

	Years ended December 31,		
	1999	2000	2001
		(in thousands)	
Cash flows from operating activities:			
Net loss	$ (234,162)	$ (2,493,517)	$ (112,665)
Reorganization expenses	—	53,897	13,451
Net income from discontinued operations	(36,789)	(4,342)	—
Extraordinary gain on sales of discontinued operations	(195,511)	—	—
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Cumulative effect of change in accounting principle	—	7,363	—
Recognition of deferred gain	(29,250)	(6,239)	—
Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses	61,897	60,043	—
Depreciation and amortization	174,239	318,771	67,768
Provision for impairment of long-lived assets	31,815	1,701,466	27,943
Loss (gain) on marketable trading securities	—	21,991	(993)
Deferred compensation	1,293	1,295	2,412
Net loss (gain) on disposal of long-lived assets	(906)	2,415	9,537
Provision for uncollectible accounts	60,019	84,457	14,236
Interest expense deferred and included in long-term debt, net of amounts capitalized on assets under construction	186,080	168,779	(1,213)
Interest expense deferred and included in capital lease obligations	5,294	4,046	6,810
Amortization of deferred financing costs included in interest expense	4,860	5,276	10,006
Contribution to 401(k) plan through issuance of common stock	5,460	4,298	—
Changes in operating assets and liabilities:			
Receivables	(120,857)	(49,619)	31,052
Prepaid expenses and deposits	3,474	(2,392)	1,224
Accounts payable and accrued and other liabilities	18,847	95,072	10,526
Deferred revenue	20,721	169,237	(5,773)
Net cash provided (used) by operating activities before reorganization items	(43,476)	142,297	74,321
Reorganization items:			
Reorganization expenses	—	(53,897)	(13,451)
Gain on settlement with major customer	—	—	(39,179)
Changes in restructuring accruals	—	8,094	(6,552)
Changes in liabilities subject to compromise	—	(10,504)	(20,600)
Changes in liabilities to priority and secured creditors	—	—	(15,440)
Write-off of deferred financing and offering costs	—	36,493	—
Loss on revaluation of assets held for sale	—	—	10,300
Disposal of assets	—	—	(874)
Forgiveness of dividend payable	—	—	(740)
Other	—	—	234
Net cash used by reorganization items	—	(19,814)	(86,302)
Net cash provided (used) by operating activities	$ (43,476)	$ 122,483	$ (11,981)

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

(Debtor-in-Possession as of November 14, 2000)

Consolidated Statements of Cash Flows (Continued)

	Years ended December 31,		
	1999	2000	2001
		(in thousands)	
Cash flows from investing activities:			
Proceeds from sales of discontinued operations, net of selling costs and cash included in sales	$ 374,897	$ —	$ —
Acquisition of property, equipment and other assets	(595,346)	(742,766)	(41,463)
Change in prepaid expenses, accounts payable and accrued liabilities for purchase of long-term assets	64,559	146,325	(2,808)
Proceeds from disposition of property, equipment and other assets	4,300	4,157	4,467
Proceeds from sale of short-term investments available for sale	29,781	22,172	17,733
Proceeds from sale of marketable securities, net of realized gain	30,000	10,634	2,542
Purchase of investments	(28,939)	(1,400)	—
Decrease (increase) in restricted cash	4,375	3,259	(617)
Purchase of minority interest in subsidiaries	(6,039)	—	—
Reorganization items:			
Proceeds from disposal of assets	—	—	31
Decrease in restricted cash due to settlement of liabilities subject to compromise	—	—	2,596
Net cash used by investing activities	(122,412)	(557,619)	(17,519)
Cash flows from financing activities:			
Proceeds from issuance of common stock	15,894	17,104	—
Proceeds of 8% Series A Convertible Preferred Stock, net of issuance costs	—	720,330	—
Proceeds from issuance of long-term debt	80,000	95,000	—
Deferred long-term debt issuance costs	(4,785)	(7,150)	(2,086)
Principal payments on capital lease obligations	(14,662)	(20,525)	—
Payments on IRU agreement	—	(179,497)	—
Principal payments on long-term debt	(502)	(90,122)	—
Payments of preferred dividends	(8,927)	(6,696)	—
Reorganization items:			
Principal payments on capital lease obligations subject to compromise	—	—	(17,495)
Payments of preferred dividends	—	—	(1,312)
Net cash provided (used) by financing activities	67,018	528,444	(20,893)
Net increase (decrease) in cash and cash equivalents	(98,870)	93,308	(50,393)
Net cash provided (used) by discontinued operations	(8,149)	384	—
Cash and cash equivalents, beginning of year	210,307	103,288	196,980
Cash and cash equivalents, end of year	$ 103,288	$ 196,980	$ 146,587

(continued)

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

(Debtor-in-Possession as of November 14, 2000)

Consolidated Statements of Cash Flows (Continued)

	Years ended December 31,		
	1999	2000	2001
		(in thousands)	
Supplemental disclosure of cash flows information of continuing operations:			
Cash paid for interest	$ 15,216	$ 32,626	$ 22,107
Capitalized interest	$ 9,022	$ 7,005	$ 1,213
Cash paid for income taxes	$ 2,848	$ 378	$ —
Supplemental disclosure of non-cash investing and financing activities of continuing operations:			
Common stock issued in connection with long-term investment	$ —	$ 21,625	$ —
Common stock issued in connection with conversion of mandatorily redeemable preferred securities of ICG Funding	$ —	$ —	$ 39,915
Acquisition of corporate headquarters assets through the issuance of long-term debt and conversion of security deposit	$ 33,077	$ —	$ —
Sale of corporate headquarters assets (note 9)	$ —	$ —	$ 36,744
Capital expenditures:			
Assets acquired pursuant to IRU agreement	$ 135,322	$ 96,903	$ —
Assets acquired under capital leases	8,393	133,915	50,547
Total	$ 143,715	$ 230,818	$ 50,547
Reorganization items:			
Forgiveness of capital lease obligations resulting in a net gain from restructuring activities	$ —	$ —	$ 317
Renegotiation of capital lease obligation	$ —	$ —	$ 557

See accompanying notes to consolidated financial statements.

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

(Debtor-in-Possession as of November 14, 2000)

Notes to Consolidated Financial Statements

(1) Organization and Nature of Business

(a) Organization

ICG Communications, Inc., a Delaware corporation ("ICG"), was incorporated on April 11, 1996 and is the publicly-traded U.S. parent company of ICG Funding, LLC, a special purpose Delaware limited liability company and wholly owned subsidiary of ICG ("ICG Funding"), ICG Holdings (Canada) Co., a Nova Scotia unlimited liability company ("ICG Holdings-Canada"), ICG Holdings, Inc., a Colorado corporation ("ICG Holdings"), and ICG Services, Inc., a Delaware corporation ("ICG Services") and their subsidiaries. ICG Mountain View, Inc., ICG Equipment, Inc. ("ICG Equipment") and ICG NetAhead, Inc. ("ICG NetAhead") are wholly owned subsidiaries of ICG Services. ICG and its subsidiaries are collectively referred to as the "Company." The Company's common stock was traded on the NASDAQ National Market ("NASDAQ") stock exchange. However, due to the bankruptcy filings described below, the NASDAQ halted trading of the Company's common stock on November 14, 2000 and delisted the stock on November 18, 2000.

The Company provides voice, data and Internet communication services. Headquartered in Englewood, Colorado, the Company operates an integrated metropolitan and nationwide fiber optic infrastructure to offer: Dial-Up Services including primary rate interface and remote access services/ managed modem services on a wholesale basis to national and regional Internet service providers ("ISP"s). Point-to-Point Broadband Service providing traditional special access service to long-distance and long-haul carriers and medium to large sized corporate customers as well as switched access and SS7 services. Corporate Services, primarily retail voice and data services to businesses.

(b) Bankruptcy Proceedings

On November 14, 2000 (the "Petition Date"), ICG and all of its subsidiaries, except certain non-operating entities, filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code in the Federal District of Delaware in order to facilitate the restructuring of the Company's debt, trade liabilities and other obligations. ICG and its bankruptcy filing subsidiaries are collectively referred to as the "Debtors." The Debtors are currently operating as debtors-in-possession under the supervision of the United States District Court for the District of Delaware (the "Bankruptcy Court").

These consolidated financial statements have been prepared in accordance with AICPA Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Pursuant to SOP 90-7, an objective of financial statements issued by an entity in Chapter 11 is to reflect its financial evolution during the proceeding. For that purpose, the financial statements for periods including and subsequent to filing the Chapter 11 petition should distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Expenses and other items not directly related to ongoing operations are reflected separately in the consolidated statement of operations as reorganization expenses (see note 4).

The filing of the Chapter 11 cases by the Debtors (i) automatically stayed actions by creditors and other parties in interest to recover any claim that arose prior to the commencement of the cases, and (ii) served to accelerate, for purposes of allowance, all pre-petition liabilities of the Company, whether or not those liabilities were liquidated or contingent as of the Petition Date. The following table sets forth the liabilities of the Company subject to compromise as of December 31, 2000 and 2001, respectively:

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

(Debtor-in-Possession as of November 14, 2000)

Notes to Consolidated Financial Statements (Continued)

	December 31,	
	2000	2001
	(in thousands)	
Unsecured long-term debt (note 9)	$ 1,968,781	$ 1,968,781
Unsecured creditors	583,749	476,243
Capital lease obligations, secured (note 8)	177,253	166,637
Capital lease obligations, unsecured (note 8)	20,721	18,881
Secured long-term debt (note 9)	85,503	85,503
Priority creditors	34,123	13,545
	$ 2,870,130	$ 2,729,590

The following summarizes the significant changes in the liabilities subject to compromise:

- Liabilities to unsecured creditors decreased primarily as a result of specific settlements with individual vendors.
- Capital lease obligations decreased primarily due to payments made under executory contracts the Company has, or plans to affirm. The contracts are, for financial reporting purposes, accounted for as capital leases.
- Liabilities to priority creditors decreased primarily due to the payment, or reclassification of, liabilities for employee benefits and sales taxes which are being assumed by on-going operations and are classified as of December 31, 2001 as accrued liabilities.

Certain 2000 balances have been reclassified to be consistent with the 2001 presentation.

Pre-petition debt that is subject to compromise must be recorded at the allowed claim amount, which generally results in the write-off of any deferred financing amounts associated with the debt. Interest on debt subject to compromise ceases to accrue when bankruptcy is filed if the debt is not adequately collateralized. Interest has been accrued and paid on the secured and collateralized long-term debt and capital lease obligations.

Under the Bankruptcy Code, the Company may elect to assume or reject real estate leases, employment contracts, personal property leases, service contracts, and other unexpired executory pre-petition contracts, subject to Bankruptcy Court approval. The Company cannot presently determine with certainty the ultimate aggregate liability, which will result from the filing and settlement of claims relating to such contracts which may be rejected.

The Debtors filed a Plan of Reorganization and a Disclosure Statement with the Bankruptcy Court on December 19, 2001 and a First Amended Plan on March 1, 2002. On March 26, 2002, the Company filed the Second Amended Joint Plan of Reorganization and Disclosure Statement (the "Plan"). The Plan contains separate classes and proposed recoveries for the holders of claims against interests in ICG Holdings and its respective subsidiaries and ICG Services and its respective subsidiaries, respectively. The Plan does not provide for the substantive consolidation of the ICG Holdings Debtors and the ICG Services Debtors. The Plan does, however, provide for the substantive consolidation of the entities that comprise the ICG Holdings Debtors and the entities that comprise the ICG Services Debtors for purposes of voting, confirmation and distribution of claims proceeds. The Plan contemplates the conversion of the

Debtors' existing unsecured debt into common equity in the post-bankruptcy, reorganized Company. The Plan also contemplates the issuance of new senior notes to the Debtors' existing secured lenders, the issuance of a new $25 million senior subordinated term loan which is subordinated to the Debtors' existing secured lenders, the issuance of $40 million in new unsecured convertible notes, and for the cancellation of all equity securities previously issued by the Debtors, including all common stock, preferred stock, options and warrants. It is anticipated that a hearing to assess the adequacy of the Disclosure Statement will be held by the Bankruptcy Court on April 3, 2002, after which time it is anticipated that the Court will submit the Amended Plan to the Company's creditors for approval. Consummation of the Amended Plan is contingent upon receiving Bankruptcy Court approval, as well as the approval of certain classes of creditors. There can be no assurance that the Plan as submitted will be approved.

Upon consummation of the Plan, the Company will apply "Fresh-Start" reporting in accordance with generally accepted accounting principles ("GAAP") and the requirements of AICPA Statement of Position ("SOP") 90-7 "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." Under Fresh Start reporting the reorganization value of the Company, which generally represents the going concern value, is determined by the Company with assistance from its financial advisors. Upon the effective date of the confirmation of the Plan, a new capital structure will be established and assets and liabilities, other than deferred taxes, will be stated at their relative fair values. Deferred taxes are determined in conformity with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 109.

The Company, assisted by its financial advisors, Dresdner Kleinwort & Wasserstein, Inc., evaluated the reorganization value of the Company in connection with the filing of the Plan. The reorganization value of the Company on a going concern basis was estimated to be between $350 million and $500 million. This evaluation of the Company resulted in a range of values for the new common equity of between approximately $102 million and $252 million. This range of reorganization values in the Plan indicates that a fair value adjustment to reduce the value of property and equipment of up to $220 million may be necessary. However, the Plan assumptions may differ from the actual business conditions at the date of emergence from bankruptcy. Therefore, the fair values assigned to assets and liabilities upon emergence from bankruptcy may also be different. The fair value adjustment to property and equipment, if any, will be recorded upon emergence from bankruptcy once the final enterprise value is determined. This value is derived by subtracting from the Company's reorganization value, the projected funded debt on the pro forma balance sheet for the Company on the date of emergence from bankruptcy. The valuation is based on numerous assumptions, including, among other things, the achievement of certain operating results, market values of publicly-traded securities of other relevant companies, and general economic and industry conditions.

The ability of the Company to continue as a going concern is dependent upon, but not limited to, the approval and confirmation of the Plan, access to adequate sources of capital, customer and employee retention, the ability to provide high quality services and the ability to sustain positive results of operations and cash flows sufficient to continue to fund operations.

No assurance can be given however that the Company will be successful in reorganizing its affairs within the Chapter 11 bankruptcy proceedings. Because of the ongoing nature of the reorganization cases, the outcome of which is not determinable until finally approved by the creditors and the Bankruptcy Court, the consolidated financial statements contained herein are subject to material uncertainties.

The bankruptcy filing and the severe downturn in telecommunications industries have had a significant affect on the Company's basic operations and its dealings with all third parties including its customers, vendors and employees. Significant amounts of both pre-petition and post-petition billings to customers and costs billed to the Company by vendors are in dispute. Some of these disputes have resulted in litigation as discussed in note 12. As a result, significant judgement is needed in determining the revenues and costs to be appropriately reflected in the financial statements. The Company expects that negotiations with major customers and vendors to settle disputed amounts could involve a lengthy process. During 2001, as discussed in note 17, the Company concluded a settlement with a major customer, the terms of which significantly affected recorded amounts of assets and liabilities. The Company cannot predict the possible outcome of such other negotiations that may be concluded in the future.

Accordingly, the consolidated financial statements do not include adjustments to the recorded amounts or classification of assets or liabilities or reflect amounts that may ultimately be required to settle such contingencies or any other contingencies which may be required pursuant to the Company's Chapter 11 proceedings.

As a result of the items discussed above, there is substantial doubt about the Company's ability to continue as a going concern.

(c) Discontinued Operations

During 1999, the Company sold the retail customer ISP business of NETCOM On-Line Communication Services, Inc. ("NETCOM"), but retained the national Tier 1 data network assets. Additionally, during 1999, the Company sold ICG Fiber Optic Technologies, Inc. and Fiber Optic Technologies of the Northwest, Inc., (collectively "Network Services") and ICG Satellite Services, Inc. and Maritime Telecommunications Network, Inc. (collectively "Satellite Services"). Network Services provided information technology services and selected networking products. Satellite Services provided satellite voice, data and video services to major cruise ship lines, the U.S. Navy, the offshore oil and gas industry and integrated communications providers. (See note 5.)

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and reflect the operations of NETCOM, Network Services and Satellite Services as discontinued for all periods presented.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

(c) Inventory

Inventory, consisting of equipment to be utilized in the installation of telecommunications systems, services and networks for customers, is recorded at the lower of cost or market in property and equipment in the accompanying balance sheet.

(d) Restricted Cash

Restricted cash consists of cash balances held by various financial institutions as collateral for various letters of credit issued in favor of landlords and as collateral for surety bonds. These deposits will not be released until the underlying obligation is satisfied.

(e) Investments

The Company invests primarily in high-grade, short-term investments that consist of money market instruments, commercial paper, certificates of deposit, government obligations and corporate bonds, all of which are considered to be available-for-sale. All short-term investments mature within one year.

Investments in partnership interests and in common or preferred stock for which there is no public trading market and which represent less than a 20% equity interest in the investee company are accounted for using the cost method, unless the Company exercises significant influence and/or control over the operations of the investee company, in which case the equity method of accounting is used. Realized gains and losses and declines in value judged to be other than temporary are included in the statement of operations.

(f) Property and Equipment

The Company assesses the impairment of long-lived assets whenever changes in circumstances indicate that their carrying value may not be recoverable. If the total expected future cash flows or salvage value is less than the carrying value of the asset, the asset is written down to its fair value. See note 3 for a discussion of the impairment of long-lived assets.

Costs of construction are capitalized, including interest costs related to construction, capitalized labor and other costs associated with network development, service installation and internal-use software development.

The Company capitalizes costs of direct labor and other employee benefits associated with installing and provisioning local access lines for new customers and providing new services to existing customers, since these costs are directly associated with multi-period, contractual, revenue-producing activities. Capitalization begins upon the acceptance of the customer order and continues until the installation is complete and the service is operational. Capitalized service installation costs are depreciated on a straight-line basis over two years, the estimated average customer contract term.

The Company capitalizes costs of direct labor and other employee benefits associated with the development of internal-use computer software in accordance with SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Internal-use software costs are depreciated over the estimated useful life of the software, typically two to five years, beginning in the period when the software is substantially complete and ready for use.

Depreciation begins in the period the network is substantially complete and available for use and is recorded on a straight-line basis over the estimated useful life of the equipment or network, ranging from eight to 20 years. Estimated useful lives of major categories of property and equipment are as follows:

Furniture, fixtures and office equipment	3 to 7 years
Internal-use software costs	2 to 5 years
Machinery and equipment	3 to 8 years
Fiber optic equipment	8 years
Switch equipment	3 to 10 years
Fiber optic networks	20 years
Buildings and improvements	31.5 years
Site improvements	7 years
Service installation costs	2 years

Equipment held under capital leases is stated at the lower of the fair value of the asset or the net present value of the minimum lease payments at the inception of the lease. For equipment held under capital leases, depreciation is provided using the straight-line method over the estimated useful lives of the assets owned, or the related lease term, whichever is shorter.

(g) ***Other Assets***

Amortization of deferred financing costs is provided over the life of the related financing agreement and is included in interest expense. The Company has written-off all deferred financing costs related to debt subject to compromise as of December 31, 2000 (see notes 4 and 9).

(h) ***Impairment of Long-Lived Assets***

The Company provides for the impairment of long-lived assets, including goodwill, pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", which requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Such events include, but are not limited to, a significant decrease in the market value of an asset, a significant adverse change in the business climate that could affect the value of an asset or a current period operating or cash flow loss combined with a history of operating or cash flow losses. An impairment loss is recognized when estimated undiscounted future cash flows, before interest, expected to be generated by the asset are less than its carrying value. Measurement of the impairment loss is based on the estimated fair value of the asset, which is generally determined using valuation techniques such as the discounted present value of expected future cash flows, appraisals or other pricing models as appropriate. See note 3 for a discussion of the impairments.

(i) ***Revenue Recognition***

The Company recognizes revenue from services provided to its business end-user and ISP customers as such services are provided and charges direct selling expenses to operations as incurred. Maintenance revenue is recognized as services are provided.

Generally, the Company recognizes revenue earned under indefeasible rights-of-use ("IRU") and constructed fiber ratably over the term of the agreement. In the event that the IRU meets the definition of

a sales-type lease pursuant to SFAS No. 13, "Accounting for Leases", and the Company transfers ownership of the underlying assets to the customer, the Company will apply sales-type lease accounting and recognize revenue and related costs at the inception of the agreement. Prior to June 30, 1999, the Company applied sales-type lease accounting to IRUs whether or not the agreement provided for the transfer of ownership of the underlying assets if the IRU met the criteria included in SFAS No. 13. Under either application, revenue recognition begins in the period that facilities are available for use by the customer. Approximately $18 million, $14 million and $9 million of revenue was recognized in each of the three years ended December 31, 2001, respectively from IRU agreements. Revenue earned on the portion of IRUs attributable to the provision of maintenance services is recognized ratably over the term of the agreement.

Deferred revenue includes amounts billed, in compliance with customer contracts, before service is provided.

The Company records reciprocal compensation and carrier access revenue in accordance with regulatory authority approval and pursuant to interconnection agreements with incumbent local exchange carriers ("ILEC"s) and interexchange carriers ("IXC"s) for the origination, transport and /or termination of traffic originated by ILEC and IXC customers, including Internet traffic. Disputed billings are not recognized as revenue until realization is assured.

Due to changes in the regulatory environment and as a means of gaining certainty with respect to the continued collection of reciprocal compensation revenue, the Company negotiated voluntary settlement agreements with certain of its ILEC customers in the first half of 2000 that provide for the payment of reciprocal compensation for terminating Internet bound traffic, but at rates lower than the Company had historically received.

On October 1, 2000, the Company adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the Securities and Exchange Commission. Effective January 1, 2000, installation revenue is recognized ratably over a two-year period. Prior to the adoption of SAB No. 101, the Company recognized installation revenue as services were performed. As required by generally accepted accounting principles, the Company has reflected the effects of the change in accounting principle as if such change had been adopted as of January 1, 2000, and has included in the results of operations for the year ended December 31, 2000, a charge of approximately $7.4 million relating to the cumulative effect of this change in accounting principle. In addition, the change in accounting principle resulted in an increase in revenue for the year ended December 31, 2000 of approximately $0.9 million.

The Company provides for uncollectible receivables using the allowance method. An allowance for uncollectible accounts is provided when it is determined the receivable may not be collectible. The Company maintains the accounts receivable balance and the related allowance until collection efforts are exhausted and the account is written off or the accounts are determined to be collectible. The Company has, as of December 31, 2001, an allowance for uncollectible accounts of approximately $44 million, substantial amount of which is for accounts which were determined to be uncollectible prior to December 31, 2000, but for which collection efforts have not been exhausted.

(j) *Income Taxes*

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) *Net Loss Per Share*

Net loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding. Net loss per share is determined in accordance with SFAS No. 128, "Earnings Per Share." Under SFAS No. 128, basic loss per share is computed on the basis of weighted average common shares outstanding. Diluted loss per share considers potential common stock instruments in the calculation of weighted average common shares outstanding. Potential common stock instruments, which include options, warrants and convertible subordinated notes and preferred securities, are not included in the Company's net loss per share calculation, as their effect is anti-dilutive.

(l) *Stock-Based Compensation*

The Company accounts for its stock-based employee and non-employee director compensation plans using the intrinsic value based method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations.

(m) *Use of Estimates*

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

(n) *Reclassifications*

Certain prior period amounts have been reclassified to conform to the current period's presentation.

(3) Provision for Impairment of Long-Lived Tangible and Intangible Assets

As a result of adverse changes in the capital markets, specifically as related to the availability of capital to finance competitive local exchange carrier's growth, downward trends in certain segments of the economy, particularly with respect to expected growth of demand in technology and telecommunications segments, the Company's Chapter 11 filing and the subsequent deterioration in the value of the Company's operating assets, the Company undertook an extensive analysis of its business plan during the fourth quarter of 2000 and the first quarter of 2001. As a result, the Company prepared a detailed business plan that gave appropriate consideration to the environmental factors noted above.

SFAS No. 121 requires that assets to be held and used be measured for impairment on the basis of undiscounted future cash flows before interest determined at the lowest level for which there are identifiable cash flows. Due to the Company's inability to allocate significant amounts of central support costs to the various markets, the impairment analysis was performed on a Company-wide basis. This analysis indicated that there was a shortfall of undiscounted cash flows before interest compared to the carrying value of the Company's long-lived tangible and intangible assets and that an impairment had occurred. For purposes of calculating the amount of the impairment the Company segregated its long-lived assets into three categories: intangible assets, consisting primarily of goodwill, tangible assets to be disposed of, and tangible assets to be utilized in ongoing operations.

As a result of the analysis of shortfalls of cash flows to carrying values of assets noted above, all intangibles, consisting primarily of goodwill relating to the Company's acquisitions under the purchase method of accounting, were written off as of December 31, 2000, resulting in an impairment charge of approximately $80 million.

Additionally, the Company has determined that certain assets that will not be utilized under the business plan will be held for disposal or sale. The fair value of assets to be disposed of is based on current appraisals or purchase offers, less cost to sell. Assets to be disposed of are comprised primarily of 1) assets which were under construction in late 2000 and for which the incremental capital required to place the asset in service for revenue generation was not available, and 2) assets in service which were not required to meet expected future customer demand as defined in the business plan. An impairment of approximately $124 million and $28 million was reflected in the financial statements during 2000 and 2001, respectively, to reduce these assets to their fair value of approximately $8 million. These assets have not been segregated as current assets in the accompanying consolidated financial statements and are included in property and equipment because the sales are subject to final Bankruptcy Court approval.

The fair value of tangible assets to be utilized in ongoing operations was determined to be $550 million at December 31, 2000. This value was derived primarily from the discounted cash flows from future operations; however, the Company also took into consideration several other valuation techniques. The following describes the different methods used and the resulting ranges of value under those techniques.

- Discounted cash flows—The Company, as noted above, developed a new business plan in late 2000 and early 2001. The Company hired external third-party consultants to assist during the bankruptcy process and help in the formulation of the business plan. The Company's business plan process was a comprehensive, zero-based assessment of the markets in which the Company believes it can provide profitable service offerings in the future. The business plan also includes substantial capital expenditures to complete the network and generate the revenues projected within the business plan. Additionally, the plan contemplated significant future restructuring of the Company's basic operating costs including, but not limited to, additional significant reductions in selling, general and administrative expenses and line costs. This valuation technique resulted in a range of fair values of the Company's long-lived assets from $400 million to $900 million.

- Asset appraisal—In connection with securing the Company's Credit Agreement (see note 11), appraisals were performed with an effective date of December 22, 2000. These appraisals indicated that the value of the Company's long-lived assets ranged from $640 to $740 million. These appraisals were prepared on the basis of an orderly liquidation, which is not part of the Company's plans.

- Current market capitalization—This analysis was based on the public market capitalization as determined by reference to recent trading prices for the Company's debt and equity securities. For this calculation, the preferred securities were assumed to have no value and the senior discount notes were

valued at 8-10% of the face value based on recent trading prices. Fully secured debt balances (such as capital leases and the Senior Facility) were valued at 100% of their book value. This valuation technique resulted in a range of fair values of the Company's long-lived assets from $400 million to $600 million.

In order to reduce tangible assets to be used in ongoing operations to the fair value of $550 million, the Company recorded an impairment charge as of December 31, 2000 of approximately $1,500 million. No adjustment was made to recorded depreciation during the year ended December 31, 2000.

The book value of the impaired assets became the new cost basis of the assets. This amount is being depreciated over the remaining estimated useful life of the assets.

The Company, during the year ended December 31, 1999, also recorded a provision for impairment of long-lived assets of $32 million, which relates to the impairment of software and other capitalized costs associated with Telecom Services' billing and provisioning system projects under development. The provision for impairment of long-lived assets was based on management's decision to abandon the billing and provisioning systems under development and to select new vendors for each of these systems, which vendors were expected to provide the Company with billing and provisioning solutions with improved functionality and earlier delivery dates at significantly lower costs. The Company's billing and provisioning systems under development were either not operational or were serving minimal customers at the time management determined the carrying value of the underlying assets was not recoverable.

(4) Reorganization Expenses

Under bankruptcy accounting (note 1 (b)), the Company is required to segregate and classify costs not directly related to ongoing operations as reorganization costs.

The following reorganization expenses were incurred during the year ended December 31, 2000 and 2001, respectively (in thousands):

	2000	2001
Gain on settlement with major customers and vendors (note 17)	$ —	$ (39,179)
Estimated loss on equipment returned to vendors	—	10,300
Debt and equity restructuring costs (notes 9 and 10)	36,493	(236)
Severance and employee retention costs	9,647	13,154
Legal and professional fees	6,260	16,498
Switch site closure costs	—	5,187
Line cost termination expenses	—	9,296
Interest income	(1,412)	(6,661)
Other	2,909	5,092
Total	$ 53,897	$ 13,451

(5) Sale of Assets and Discontinued Operations

Income (loss) from discontinued operations consists of the following:

	Years ended December 31,		
	1999	2000	2001
	(in thousands)		
NETCOM (a)	$ —	$ —	$ —
Network Services (b)	(1,349)	—	—
Satellite Services (c)	313	770	—
Income (loss) from discontinued operations	$ (1,036)	$ 770	$ —

(a) NETCOM

On February 17, 1999, in accordance with a plan of disposition adopted on November 3, 1998, the Company sold certain of the operating assets and liabilities of NETCOM to MindSpring Enterprises, Inc. (MindSpring), predecessor to EarthLink, Inc. for total proceeds of $245.0 million. Assets and liabilities sold to MindSpring included those directly related to the domestic operations of NETCOM's Internet dial-up, dedicated access and Web site hosting services.

Additionally, on March 16, 1999, the Company sold all of the capital stock of NETCOM's international operations (including NETCOM Canada and NETCOM U.K.) for total proceeds of approximately $41.1 million.

In conjunction with the sale to MindSpring, the Company entered into an agreement to lease to MindSpring for a one-year period the capacity of certain network operating assets formerly owned by NETCOM and retained by the Company (the MindSpring Capacity Agreement). Under the agreement, MindSpring utilized the Company's network capacity to provide Internet access to the dial-up services customers formerly owned by NETCOM. In addition, the Company received for a one-year period 50% of the gross revenue earned by MindSpring from the dedicated access customers formerly owned by NETCOM. As the Company expected to generate operating losses under the MindSpring Capacity Agreement, and the terms of the sale agreement were dependent upon and negotiated in conjunction with the terms of the sale of the operating assets of NETCOM, the Company deferred approximately $35.5 million of the proceeds from the sale agreement to be applied on a periodic basis to losses incurred under the MindSpring Capacity Agreement. Accordingly, the Company did not recognize any revenue, operating costs or selling, general and administrative expenses from services provided to MindSpring for the twelve-month term of the agreement which expired February 17, 2000. Any incremental revenue or costs generated by other customers, or by other services provided to MindSpring was recognized in the Company's consolidated statement of operations as incurred.

As discussed above, the terms of the MindSpring Capacity Agreement were negotiated in conjunction with and were dependent upon the terms of the sale of the operating assets of NETCOM to MindSpring. As such, these transactions are collectively referred to as "Sale of Operating Assets of NETCOM".

(b) *Network Services*

On October 22, 1999, in accordance with a plan of disposition adopted on July 15, 1999, the Company completed the sale of all of the capital stock of Network Services for total proceeds of $23.9 million in cash.

(c) *Satellite Services*

On November 30, 1999, in accordance with a plan of disposition adopted on July 15, 1999, the Company completed the sale of all of the capital stock of Satellite Services for total proceeds of $98.1 million in cash.

(6) Property and Equipment

See note 3 for a discussion regarding the impairment of long-lived assets.

Property and equipment, at cost, including assets held under capital leases, is comprised of the following:

	December 31,	
	2000	2001
	(in thousands)	
Land	$ 8,708	$ 1,214
Buildings and improvements	36,307	50,358
Furniture, fixtures and office equipment	11,799	33,593
Machinery and equipment	9,450	14,548
Switch equipment	104,947	136,133
Fiber optic equipment	119,146	150,982
Fiber optic networks	56,242	90,137
Site improvements	—	11,245
Construction in progress	205,881	95,415
Assets to be disposed of	40,500	8,570
	592,980	592,195
Less accumulated depreciation	(2,480)	(61,008)
	$ 590,500	$ 531,187

Property and equipment includes approximately $95 million and $9 million of equipment that has not been placed in service or is being held for sale, respectively, at December 31, 2001, and accordingly, is not being depreciated.

The Company had property and equipment held under capital leases at December 31, 2000 and 2001, with net book values of approximately $158 million and $120 million, respectively. Amortization of these assets are included in depreciation and amortization in the Company's consolidated statements of operations for all periods presented.

The Company capitalized interest costs on assets under construction of approximately $9 million, $7 million and $1 million, in each of the years ended December 31, 1999, 2000 and 2001, respectively. However, in connection with the asset impairment discussed in note 3, all previously capitalized interest amounts were written-off as of

December 31, 2000. The Company recognized interest expense of approximately $212 million, $234 million, and $32 million in each of the years ended December 31, 1999, 2000 and 2001, respectively.

Substantially all of the assets of ICG Services have been pledged as security for the Senior Facility, as of December 31, 2001. The net book value of ICG Services property and equipment is approximately $353 million as of December 31, 2001.

(7) Investments

On February 22, 2000, the Company purchased restricted Series D 8% Convertible Preferred Stock (Cyras Preferred Stock) of Cyras Systems, Inc. (Cyras), which was subsequently purchased by Ciena, for approximately $1.0 million. During 2001, the Company sold $900,000 of its investment for proceeds of approximately $2,542,000, resulting in a gain of approximately $1,642,000, which is included in other income in the accompanying consolidated statement of operations for the year ended December 31, 2001.

On July 6, 2000, a subsidiary of the Company acquired 1,000,000 shares of unregistered common stock of Teligent, Inc., a fixed wireless broadband communications provider (Teligent), from a subsidiary of Teligent in exchange for 2,996,076 shares of ICG Common Stock. The Teligent shares were valued at $21.625 per share for a total investment of approximately $21.6 million. As of December 31, 2000, the decrease in the value of the Teligent shares of $21.6 million, based on the market price at December 31, 2000, was deemed to be other than temporary and, accordingly, the charge related to the write off of the value of such shares is included in the accompanying consolidated statement of operations.

On November 15, 1999, the Company entered into an agreement to purchase a limited partnership interest in Centennial Strategic Partners VI, L.P. (Centennial). The primary purpose of the partnership is to invest in venture capital investments, principally by investing in equity or equity-oriented securities of privately held companies in the electronic communications industry. Through December 31, 2001, the Company had contributed approximately $650,000 to the partnership. The Company has accounted for its investment in Centennial under the cost method of accounting. As of December 31, 2001, management determined the investment to have no value and the full amount was written off.

Investments are summarized as follows:

	December 31,	
	2000	2001
	(in thousands)	
Ciena preferred stock	$ 1,000	$ 100
Limited partnership interest — Centennial	650	—
	$ 1,650	$ 100

(8) Capital Lease Obligations

As a result of the Company's bankruptcy proceedings, all Debtors' capital lease payments related to capital leases existing at the date of the filing are suspended and subject to negotiation on a lease by lease basis. Leases subject to compromise could be amended or rejected. The capital lease for the Corporate Headquarters was entered into in June 2001 and is not subject to compromise (see note 9(c)). The Company continued to accrue and make interest payments on approximately $55 million of executory contracts the Company has or plans to affirm. These

contracts are, for financial reporting purposes, accounted for as capital leases. The following table represents contractual payments under the original terms of the Company's capital lease obligations (in thousands):

	Not Subject to Compromise	Subject to Compromise		
	Corporate Headquarters	Unsecured	Secured	Total
Year:				
2002	$ 5,338	$ 16,878	$ 124,770	$ 146,986
2003	5,498	5,414	30,199	41,111
2004	5,663	90	12,126	17,879
2005	5,833	90	11,907	17,830
2006	6,008	90	4,953	11,051
Thereafter	124,733	1,051	66,419	192,203
Total minimum lease payments	153,073	23,613	250,374	427,060
Less amounts representing interest	(102,365)	(4,732)	(83,737)	(190,834)
Present value of net minimum lease payments	$ 50,708	$ 18,881	$ 166,637	$ 236,226

(9) Long-term Debt

As a result of the Company's bankruptcy proceedings, all prepetition contractual debt payments are suspended and subject to revised payment terms during the bankruptcy process on a specific case basis. As of December 31, 2001, the Company is in default with respect to all of its prepetition debt. However, under bankruptcy accounting, no reclassifications are made from long-term to short-term as a result of the defaults. Additionally, debt subject to compromise should be recorded at the allowed amount of the claim. Based on this, the Company has written-off during 2000 all deferred financing costs related to the $9\,^7/_8$%, 10%, $11\,^5/_8$%, $12\,^1/_2$% and $13\,^1/_2$% Senior discount notes. Such amounts totaled approximately $27 million and are included in reorganization expenses in the accompanying consolidated statement of operations. In addition, the Company ceased accreting the discounts or accruing interest on all unsecured debt subject to compromise as of the Petition Date. The Company continued to accrue and make interest payments on all fully secured long-term debt in the accompanying table of approximately $85 million.

The Plan contemplates the conversion of unsecured debt into common equity (see note 1(b)) of the post bankruptcy Company. The payment of principal due under the Senior Facility and mortgage payable have been stayed by the Bankruptcy Court.

Long-term debt is summarized as follows:

	December 31,	
	2000	2001
	(in thousands)	
Long-term debt not subject to compromise:		
Credit Agreement (a)	$ —	$ —
Mortgage loan payable (c)	33,077	—
Total long-term debt not subject to compromise	33,077	—
Long-term debt subject to compromise:		
Secured long-term debt:		
Senior Facility with adjustable rate of interest secured by assets of ICG Services, ICG Equipment and ICG NetAhead (b)	84,574	84,574
Mortgage payable with interest at $8\ ^1/_2$%, secured by building	929	929
Total secured long-term debt	85,503	85,503
Unsecured long-term debt, net of discount (d):		
$9\ ^7/_8$% Senior discount notes of ICG Services	319,564	319,564
10% Senior discount notes of ICG Services	393,311	393,311
$11\ ^5/_8$% Senior discount notes of ICG Holdings	151,342	151,342
$12\ ^1/_2$% Senior discount notes of ICG Holdings	520,264	520,264
$13\ ^1/_2$% Senior discount notes of ICG Holdings	584,300	584,300
Total unsecured long-term debt	1,968,781	1,968,781
Total long-term debt subject to compromise	2,054,284	2,054,284
Total long-term debt	$ 2,087,361	$ 2,054,284

(a) Debtor-in-Possession Financing

On December 4, 2000, the Company finalized its Debtor-in-Possession Revolving Credit Agreement (the "Credit Agreement") with Chase Manhattan Bank. The Credit Agreement, as amended, provided for up to $200 million in financing, subject to certain conditions. The Company paid monthly commitment fees at an annual rate of $1\ ^1/_2$% on the average daily unused commitment, which were expensed monthly. On November 7, 2001, the Company terminated the Credit Agreement without ever having drawn any amounts under this agreement. Deferred financing costs were written off to interest expense at that time.

(b) Senior Facility

On August 12, 1999 and amended on December 29, 1999, ICG Equipment and ICG NetAhead (the "Debtors") entered into a $200 million senior secured financing facility (the "Senior Facility") consisting of a $75 million term loan, a $100 million term loan and a $25 million revolving line of credit. The Senior Facility is guaranteed by ICG Services and ICG Mountain View, Inc. and is secured by the assets of ICG Services, ICG Equipment and ICG NetAhead.

On December 19, 2000, the Bankruptcy Court issued an order (the "Order") granting adequate protection to the Lenders of the Senior Facility. This Order, among other things, requires the Debtors to pay all accrued and unpaid Prepetition interest and expenses, grant the Lenders a valid, perfected, first priority

postpetition security interest and lien upon on all property of ICG Services, ICG Equipment and ICG NetAhead acquired after the Petition date, grant an administrative claim under the Bankruptcy Code for any diminution of the Prepetition collateral, provide cash collateral in accordance with the Plan, provide monthly financial reports and pay all out-of-pocket costs incurred by the Lenders.

At December 31, 2001, the $36.0 million outstanding under the $75.0 million term loan bears annual interest at the prime rate plus 4.25%, or 9%.

At December 31, 2001, the $48.6 million outstanding under the $100.0 million term loan bears annual interest at the prime rate plus 3.875%, or 8.625%.

The terms of the Senior Facility provide various covenants, limitations and terms. Due to the bankruptcy proceedings, the Company is in default with respect to the terms of the Senior Facility. The Company is currently renegotiating the terms of the Senior Facility as part of the Plan of Reorganization.

The amortization of the debt issuance costs during 1999 and through the Petition Date in 2000 is included in interest expense in the accompanying consolidated statement of operations. The unamortized debt issuance cost balance was written-off as of December 31, 2000 and is included in reorganization expenses in the accompanying consolidated statement of operations.

(c) ***Mortgage Loan Payable / Capital Lease Obligation***

Effective January 1, 1999, the Company purchased its corporate headquarters, land and improvements (collectively, the "Company Headquarters") for approximately $43.4 million. The Company financed the purchase primarily through a loan secured by a mortgage on the Company Headquarters. The seller ("Seller") of the Company Headquarters retained an option to repurchase the Company Headquarters at the original sales price.

In June 2001, the Seller exercised its right to repurchase the Company Headquarters from the Company for approximately $33 million. In connection with the repurchase, the Seller agreed to assume from the Company the mortgage loan payable and other accrued liabilities related to completing the Company Headquarters. The Company recognized a $7.6 million loss on the sale. In addition, the Company agreed to lease the Company Headquarters back from the Seller under a capital lease agreement initially valued at $50.4 million ($50.7 million at December 31, 2001). (See note 8).

(d) ***Senior Discount Notes***

The principal balance of all of the Senior Discount Notes (the "Notes") is unsecured and is subject to compromise and is likely to be converted to equity upon the company's emergence from bankruptcy. Accordingly, no interest has been accrued, accreted or paid on the Notes subsequent to the Petition Date.

Prior to the Petition Date, the original discount on all of the Notes was being accreted over the period from the issue date to the date that the notes may first be redeemed. The accretion was included in interest expense for the periods prior to the petition date in the accompanying consolidated statements of operations.

Contractual principal maturities of long-term debt as of December 31, 2001, which are expected to be substantially altered as a result of the bankruptcy proceedings, are as follows (in thousands):

Year:	
2002	$ 7,670
2003	15,207
2004	18,795
2005	605,468
2006	572,646
Thereafter	1,071,567
	2,291,353
Less unaccreted discount	(237,069)
	$ 2,054,284

(10) Preferred Stock

(a) Redeemable Preferred Securities of Subsidiaries

It is anticipated the Redeemable Preferred Stock of Subsidiaries will be deemed to be cancelled and extinguished on the effective date of the Plan. Accordingly, no accretion and preferred dividends have been recorded or paid subsequent to the Petition Date.

The Company is prohibited from declaring or paying any preferred dividends as a result of the Bankruptcy petitions. The Company has fully written off during 2000 the offering costs and fully accreted the discount associated with the preferred stock totaling approximately $10 million. Such amounts are included in reorganization expenses in the accompanying consolidated statement of operations.

Accretion and preferred dividends on preferred securities of subsidiaries, net of minority interest in share of losses is approximately $62 million and $60 million for the years ended December 31, 1999 and 2000 respectively. Accretion and preferred dividends are associated with the accretion of issuance costs, discount and preferred security dividend accruals for the 6 3/4% Preferred Securities, the 14% Preferred Stock and the 14 1/4% Preferred Stock and the Redeemable Preferred Stock through the Petition Date.

Redeemable preferred stock of subsidiaries is summarized as follows:

	December 31,	
	2000	2001
	(in thousands)	
14% Exchangeable preferred stock of ICG Holdings	$ 165,831	$ 165,831
14 1/4% Exchangeable preferred stock of ICG Holdings	283,225	283,225
	$ 449,056	$ 449,056
6 3/4% Mandatorily redeemable preferred securities of ICG Funding	$ 132,251	$ 92,336

Dividends on the 14% and 14 1/4% Exchangeable Preferred Stock paid prior to the Petition Date were paid through the issuance of additional 14% and 14 1/4% Preferred Stock.

In 2001, due to the Bankruptcy proceedings, the Company did not declare or pay the dividend that was otherwise payable in November 2000 on the 6 3/4% mandatorily redeemable preferred securities of ICG

Funding The Company however, paid from the proceeds of amounts held in escrow approximately $1.3 million of dividends on this security.

During 2001, 798,296 shares with a carrying value of approximately $40 million of the ICG Funding Preferred Stock was exchanged for 1,661,334 shares of the Company's Common Stock.

ICG Funding owns shares valued at $112.4 million of ICG Preferred Stock, which has been eliminated, in consolidation of the Company's consolidated financial statements.

(b) ***Mandatorily Redeemable 8% Series A Convertible Preferred Stock***

Pursuant to the Company's Plan of Reorganization, the Mandatorily Redeemable 8% Series A Convertible Preferred Stock will be deemed to be cancelled and extinguished on the effective date of the Plan. Accordingly, no accretion and preferred dividends have been recorded or paid subsequent to the Petition Date.

On April 10, 2000, the Company sold 75,000 shares of mandatorily redeemable 8% Series A-1, A-2 and A-3 Convertible Preferred Stock of ICG (the 8% Series A Convertible Preferred Stock) and 10,000,000 warrants to purchase ICG Common Stock for net proceeds of $708 million. The value allocated to the warrants was $81 million at the time of the transaction.

The Company has fully written off the offering costs and fully accreted the discount associated with the 8% Series A Convertible Preferred Stock totaling $118 million prior to the petition date. Such amounts are included in accretion of 8% Series A Convertible Preferred Stock and related dividends in arriving at net loss attributable to common stockholders in the accompanying consolidated statement of operations.

Additionally, the Company allocated $159 million of the proceeds from the issuance of the 8% Series A Convertible Preferred Stock to the intrinsic value of the embedded beneficial conversion feature of the convertible preferred securities to additional paid-in capital. The accompanying consolidated statement of operations for the year ended December 31, 2000, includes approximately $40 million of accretion and dividends related to the 8% Series A Convertible Preferred Stock through the Petition Date.

(11) Stockholders' Deficit

(a) ***Stock Options and Employee Stock Purchase Plan***

The Company has recorded no compensation expense in connection with its stock-based employee and non-employee director compensation plans pursuant to the intrinsic value based method of APB 25 for the periods presented.

As of December 31, 2001, the Company had approximately 5,177,000 options outstanding. No options were granted nor exercised in 2001. Pursuant to the Company's Plan of Reorganization, the Common Stock of the Company will be deemed to be cancelled and extinguished on the effective date of the Plan. Accordingly, if the Plan is approved, all outstanding stock options in the Company's Stock Option Plan will be cancelled on the effective date of the Plan.

In October 1996, the Company established an Employee Stock Purchase Plan, which the Company discontinued in the third quarter of 2000. Under this plan, employees could elect to designate 1% to

30% of their annual salary to be used to purchase shares of ICG Common Stock, up to a limit of $25,000 each year, at a 15% discount to fair market value. The Company sold 205,568 and 173,772 shares of ICG Common Stock to employees under this plan during the years ended December 31, 1999 and 2000, respectively.

(b) *Warrants*

Pursuant to the Company's Plan of Reorganization, the Common Stock of the Company will be deemed to be cancelled and extinguished on the effective date of the Plan. Accordingly, all outstanding warrants shall be cancelled on the effective date of the Plan. As of December 31, 2000 and 2001, the Company had approximately 11,646,000 warrants outstanding. The exercise price of such warrants ranged from $12.51 to $34.00 per share.

(c) *Preferred Stock*

The Company is authorized to issue 5,000,000 shares of preferred stock, of which no shares were outstanding as of December 31, 2001.

(12) Commitments and Contingencies

As a result of the Company's filing for bankruptcy protection, all commitments and contingencies could be substantially modified during the Company's bankruptcy restructuring process.

(a) *Network Capacity and Construction*

In January 2000, the Company signed an agreement with a major customer, whereby the Company will provide, for $126.5 million over the initial six-year term of the agreement, exclusive service over designated portions of the Company's local fiber optic networks. The Company will recognize revenue ratably over the term of the agreement, as the network capacity is available for use. The agreement was amended in March 2000 to include additional capacity for proceeds of $53.8 million. The customer may, at its option, extend the initial term of the agreement for an additional four-year period and an additional ten-year period for incremental payment at the time the option exercises. In July 2001, as part of a settlement agreement reached with the customer (see note 17), deferred revenue was reduced by $21.5 million, with a corresponding reduction in trade receivables. At December 31, 2001, $147.3 million of deferred revenue related to this agreement is reflected in liabilities subject to compromise. The customer has not yet ordered from the Company, and the Company has not yet delivered, certain equipment and services required by this agreement. The Company recognized approximately $9 million of revenue from this agreement in the year ended 2001.

(b) *Telecommunications and Line Purchase Commitments*

The Company had entered into two agreements with a major interexchange carrier (the "Carrier") that required the Company to provide the Carrier with certain minimum monthly revenue, which if not met, would require payment by the Company for the difference between the minimum commitment and the actual monthly revenue. Under a settlement reached with the Carrier in September 28, 2001, no deficiency payments were required nor will the Company be subject to minimum monthly revenue commitments.

(c) ***Other Commitments***

The Company has entered into various equipment purchase agreements with certain of its vendors. Under these agreements, if the Company does not meet a minimum purchase level in any given year, the vendor may discontinue certain discounts, allowances and incentives otherwise provided to the Company. In addition, either the Company or the vendor upon prior written notice may terminate the agreements.

(d) ***Reciprocal Compensation and Carrier Access Revenue***

The Company records reciprocal compensation and carrier access revenue in accordance with regulatory authority approval and pursuant to interconnection agreements with incumbent local exchange carriers ("ILEC"s) for the transport and termination of traffic originated by ILEC customers, including Internet traffic. Disputed billings are not recognized as revenue until realization is assured.

Due to changes in the regulatory environment and as a means of gaining certainty with respect to the continued collection of reciprocal compensation revenue in the first half of 2000, the Company negotiated voluntary settlement agreements with certain of its ILEC customers that provide for the payment of reciprocal compensation for terminating Internet bound traffic, but at rates lower than the Company had historically received.

The Company has, as of December 31, 2001, a net receivable of approximately $14 million for reciprocal compensation revenue. Approximately $9 million has been acknowledged as due by certain LECs, but payment is being withheld pending resolution of line cost disputes. The Company received cash of approximately $61 million during the year ended December 31, 2001, from certain ILECs for terminating local and toll traffic.

The Company has recognized revenue of approximately $143 million, $139 million and $64 million in each of the three years ended December 31, 2001, respectively, for terminating local and toll traffic. Revenue for the year ended December 31, 1999 includes approximately $22 million for the tandem switching and common transport rate elements. ICG ceased, effective July 1, 1999, recognition of these rate elements as revenue until cash receipts were either received or the uncertainty of receipt had been removed (such as the execution of a binding agreement).

The Company has as of December 31, 2001 a net receivable balance of carrier access revenue of approximately $3 million. Approximately $22 million of access carrier revenue was recognized during the year ended December 31, 2001.

(e) ***Hardware and Software Maintenance Contracts***

The Company is committed to various vendors for hardware and software maintenance as follows (in thousands):

Year:		
2002	$	2,619
2003		200
2004		400
	$	3,219

(f) ***Operating Leases***

Under the Bankruptcy Code, the Company may elect to assume or reject all leases noted below, subject to Bankruptcy Court approval.

The Company leases office space, warehouse space, switch sites, points of presence and equipment under non-cancelable operating leases. Lease expense was approximately $21 million, $30 million and $21 million for each of the three years ended December 31, 2001, respectively. Lease expense included in reorganization expenses was approximately $3.3 million for the year ended December 31, 2001.

Minimum lease payments due each year on or before December 31 under the Company's current contractual operating leases are as follows (in thousands):

Year:		
2002	$	20,593
2003		17,125
2004		15,543
2005		14,447
2006		13,977
Thereafter		56,251
	$	137,936

(g) ***Litigation***

During the third and fourth quarters of 2000, the Company was served with fourteen lawsuits filed by various shareholders in the Federal District Court for the District of Colorado. All of the suits were consolidated in October 2001 and further amended in February 2002. The consolidated amended complaint names as defendants the Company's former CEO, J. Shelby Bryan, the Company's former President, William S. Beans, Jr. and the Company's former CFO, Harry R. Herbst. The consolidated amended complaint does not name the Company as a defendant. The consolidated amended complaint seeks unspecified damages for alleged violations of Rules 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaints seek class action certification for similarly situated shareholders. At this time, the Company has not been named a defendant because all claims against the Company have been stayed pursuant to the Company's filing for bankruptcy.

In January 2001, certain shareholders of ICG Funding, a wholly owned subsidiary of the Company, filed an adversary proceeding in the United States Bankruptcy Court against the Company and ICG Funding. In April 2001, the Company and ICG Funding finalized a settlement agreement with the shareholders, which has been approved by the Bankruptcy Court. Under the terms of the settlement, the shareholders received approximately two thirds of the funds in the escrow account and the Company received the

remaining one third of the escrowed funds, subject to certain contingencies and holdbacks related to shareholders that did not participate in the settlement.

In January 2002, SBC Communications, Inc., on behalf of various subsidiaries (collectively "SBC") filed a motion in the Company's Bankruptcy case seeking permission to terminate the services it provides the Company pursuant to its interconnection agreements. SBC contends that the Company owes SBC in excess of $24 million related to past billing, and, as a result, should be entitled to terminate services and pursue an administrative claim for the alleged past due receivable. SBC also has filed a motion objecting to the Company's Disclosure Statement on the grounds that it does not adequately provide sufficient information with respect to the Company's ability to pay its alleged obligations to SBC. The Company filed a response to SBC's motions stating that it does not owe a significant portion of the alleged past due amount. Additionally, the Company's response provides that SBC owes the Company more for services the Company provided SBC than the Company owes SBC. The Company retained legal counsel to vigorously defend itself against SBC's claims and is aggressively pursuing its counterclaims.

On or about March 29, 2002 the Company and SBC entered into a settlement agreement regarding wholesale services provided to the Company by SBC pursuant to its Interconnection Agreements, leaving only amounts allegedly owed for the retail services to be resolved. The terms of the settlement are subject to review and approval by the Bankruptcy Court. If the settlement agreement is approved by the Bankruptcy Court, the Company's operating results would be favorably impacted by approximately $5 million. The impact of the settlement will be recognized when realization is assured. The Company anticipates that SBC's motions will be amended and/or withdrawn, leaving only amounts allegedly owed for the retail services to be resolved. The Company believes that the ultimate resolution of the remaining items relating to retail services will be immaterial to the Company's operating results.

The Company is a party to certain other litigation that has arisen in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(g) ***Line Cost Disputes***

The Company significantly reduced facilities leased from LECs and other CLECs throughout the year ended 2001. In addition, these facilities providers changed ICG's billing account numbers ("BANs") throughout the year in an attempt to segregate pre- and post-petition billing activity. Frequently, disconnected services were not reflected on ICG's invoices or not reflected in a timely manner, resulting in inaccurate invoices and significant disputes. The assignment of new BANs frequently resulted in incorrect balances being carried forward on invoices. As a result of these and other types of billing issues, the Company is in negotiations with these providers regarding amounts owed by the Company for leased facilities. The Company believes line cost expenses and related accrued liabilities are properly stated and that disputed amounts will be resolved in the Company's favor.

(13) Income Taxes

Current income tax expense for the year ended December 31, 1999, represents state and federal income tax relating to operations of a subsidiary company during periods when this entity's taxable income could not be offset by the Company's current period losses or net operating loss ("NOL") carryforwards.

Income tax benefit differs from the amounts computed by applying the U.S. federal income tax rate to loss before income taxes primarily because the Company has not recognized the income tax benefit of certain of its net operating loss carryforwards and other deferred tax assets due to the uncertainty of realization.

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 2001 are as follows:

	December 31,	
	2000	2001
	(in thousands)	
Deferred income tax liabilities:		
Interest expense	$ —	$ 40,645
Net deferred income tax liabilities	—	40,645
Deferred income tax assets:		
Deferred revenue	(65,000)	(60,109)
Net operating loss carryforwards	(510,877)	(625,110)
Property and equipment	(318,116)	(540,157)
Unrealized loss on investments	(34,904)	(35,994)
Accrued interest on high yield debt obligations	(194,435)	(192,264)
Accrued expenses	(11,745)	(9,584)
Allowance for doubtful accounts	(37,714)	(88,578)
Net deferred income tax assets	(1,172,791)	(1,551,796)
Less valuation allowance	1,172,791	1,511,151
Net deferred income tax liability	$ —	$ —

As of December 31, 2001, the Company has federal NOL carryforwards of approximately $1.56 billion, which expire in varying amounts through December 31, 2021. Due to the provisions of Internal Revenue Code ("Code") sections 108, 382 and certain other Code and Treasury Regulations, it is anticipated the major portion of the NOLs will be reduced by cancellation of indebtedness and that a change in ownership will occur as a result of the Plan. If the Plan results in the issuance of new stock and or the cancellation of existing stock, the remaining amount of NOLs (if any) that can be utilized each year will be limited.

The Company is also subject to certain state income tax laws, which may also limit the amount and utilization of NOLs at the state level.

Considering the net reversals of future taxable and deductible amounts and that management is not presently able to determine when the Company will generate future taxable income, the Company has established a valuation allowance for all deferred tax assets. After application of the valuation allowance, the Company's net deferred tax assets and liabilities are zero.

(14) Employee Benefit Plans

The Company has established a salary reduction savings plan under Section 401(k) of the Code that the Company administers for participating employees. All full-time employees are covered under the plan after meeting minimum service and age requirements. Through the second quarter of 2000, the Company made matching contributions of ICG Common Stock up to a maximum of 6% of the employee's eligible earnings. Beginning in the third quarter of 2000, the Company matching was made in cash, up to 3% of the employee's eligible earnings.

Aggregate matching contributions under the Company's employee benefit plans were approximately, $5.5 million, $6.1 million and $1.5 million during the years ended December 31, 1999, 2000 and 2001, respectively.

(15) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents and short-term investments available-for-sale:

The carrying amount approximates fair value because of the short maturities of such instruments.

Long-term investments:

The fair values of long-term investments for which it is practicable are estimated based on the quoted market prices for those or similar investments. The long-term investments for which it is not practicable to estimate the fair value relate to cost investments in unrelated entities for which there is no public market.

Long-term debt:

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues for the Senior Discount Notes that are publicly traded. The fair value of both the Senior Facility and the mortgage loan are estimated to be the carrying amount of the debt as the debt instruments are not publicly traded and have stated fixed or LIBOR or Prime plus a fixed percent interest rates.

Redeemable preferred stock:

The fair value of the preferred stock, which was issued in a private placement is not traded in the open market, is estimated to be zero due to the bankruptcy proceedings.

The estimated fair values of the Company's financial instruments are as follows:

	December 31,			
	2000		2001	
	(in thousands)			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents and short-term investments available-for-sale	$ 214,713	$ 214,713	$ 146,587	$ 146,587
Restricted cash	9,278	9,278	7,299	7,299
Long-term investments:				
Practicable	—	—	—	—
Not practicable	1,650	—	100	—
Long-term debt:				
Secured long-term debt	85,503	85,503	85,503	85,503
Senior discount notes	1,968,781	176,472	1,968,781	135
Mortgage loan payable	33,077	33,077	—	—
Redeemable preferred stock	1,366,660	—	1,326,745	—

(16) Summarized Financial Information for Non-Bankruptcy Filing Subsidiaries (Unaudited)

As discussed in note 1, the majority of the Company's subsidiaries filed voluntary petitions for protection under Chapter 11. The following table summarizes financial information as of and for the year ended December 31, 2001 for the Company's non-bankruptcy and bankruptcy filing subsidiaries:

	Non-Bankrupt Companies	Bankrupt Companies	Eliminations	Consolidated
Current assets	$ —	$ 203,070	$ —	$ 203,070
Property and equipment, net	4	531,183	—	531,187
Other non-current assets, net	237	20,671	—	20,908
Total Assets	241	754,924	—	755,165
Current liabilities	193	91,596	2	91,791
Liabilities subject to compromise	—	2,729,590	—	2,729,590
Long-term debt	—	50,708	—	50,708
Other long-term liabilities	2,500	1,088	(2,500)	1,088
Due to Intercompany	10,814	(13,312)	2,498	—
Redeemable preferred stock	—	1,326,745	—	1,326,745
Stockholders' deficit	(13,266)	(3,431,491)	—	(3,444,757)
Total Liabilities and Stockholders' Deficit	$ 241	$ 754,924	$ —	$ 755,165

	Non Bankrupt Companies	Bankrupt Companies	Eliminations	Consolidated
Total revenue	$ 2,579	$ 499,996	$ (2,579)	$ 499,996
Total operating costs and expenses	8,116	562,487	(2,579)	568,024
Operating loss	$ (5,537)	$ (62,491)	$ —	$ (68,028)
Loss from continuing operations	$ (8,107)	$ (104,558)	$ —	$ (112,665)
Net loss	$ (8,107)	$ (104,558)	$ —	$ (112,665)

(17) Major Customer

A significant amount of the Company's revenue is derived from long-term contracts with large customers, including one major customer (the "Customer"). For the year ended December 31, 2001, the Customer accounted for approximately 18%, or $89 million, of total revenue. Revenue from the Customer represented less than 10% of total revenue for the years ended December 31, 1999 and 2000.

Prior to the bankruptcy filing, the Customer and the Company developed a number of important and mutually valuable business relationships, governed by a plethora of contracts (collectively the "Pre-Petition Agreements"). During the pendancy of the Chapter 11 cases, both the Company and the Customer asserted various breaches of, and claims under, the Pre-petition Agreements. Following lengthy negotiations, the parties agreed to enter into a settlement resolving all of the claims and issues between the parties (the "Settlement Agreement") in order to continue a cooperative, mutually beneficial relationship and to avoid potentially costly litigation. The Settlement Agreement was approved by the Bankruptcy Court in June 2001.

Under the Settlement Agreement, the Company agreed to assume certain executory contracts, as amended to mutually benefit both parties. In addition, the Settlement Agreement resolved issues related to pre-petition setoffs. The Company received significant benefits from the Settlement Agreement including (i) eliminating all pre-petition unsecured claims; (ii) receiving $10 million in cash; and (iii) modifying its service contract with the Customer to eliminate the risk that current revenue levels could materially decrease.

Pursuant to the terms of the Settlement Agreement, the Company settled a $54 million net receivable from the Customer for $10 million, and was relieved of $60 million in accruals and payables and $22 million in deferred revenue. The remaining $147 million of deferred revenue at December 31, 2001, related to an agreement to provide the Customer with exclusive service over designated portions of the Company's local fiber optic networks (see note 1 (b)) was not fully settled and remains reflected in liabilities subject to compromise. Based on the terms of the Settlement Agreement, the Company has recorded a gain of approximately $39 million, $37.5 million of which is reflected in reorganization items and $1.5 million in interest expense in the accompanying consolidated statement of operations (see note 4). The settlement agreement contemplates the transfer of certain assets with a net carrying value at December 31, 2001 of approximately $13 million and a remaining economic life of approximately 2 years. The transfer requires the approval by a major vendor whose approval is contingent upon acceptance of the plan of reorganization by the Bankruptcy Court. Further, the transfer requires approval by the secured lender. Management believes that the release of pre-existing liens on this equipment by the secured lender is remote. Therefore, the transfer of the assets has not been reflected in the financial statements as of December 31, 2001.

(18) New Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement deals with the costs of closing facilities and removing assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the underlying asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. SFAS No. 143 is effective starting in 2003. Adoption of this pronouncement as of December 31, 2001 would not have a material impact on future financial results.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Assets to be Disposed of" and certain provisions of APB Opinion 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (i) can be distinguished from the rest of the entity and (ii) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 is effective starting in 2002. Adoption of this pronouncement as of December 31, 2001 would not have a material impact on future financial results.

Independent Auditors' Report

The Board of Directors and Stockholders
ICG Communications, Inc.:

Under the date of March 31, 2002, we reported on the consolidated balance sheets of ICG Communications, Inc. and subsidiaries (the Company) (a debtor-in-possession as of November 14, 2000) as of December 31, 2000 and 2001 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the three-year period ended December 31, 2001 as contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. In connection with our audits of the aforementioned consolidated financial statements, we have also audited the related financial statement Schedule II: Valuation and Qualifying Accounts. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, based on our audits, the related 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.

The consolidated financial statements and financial statement schedule have been prepared assuming the Company will continue as a going concern. As discussed in note 1 to the consolidated financial statements, the Company has suffered recurring losses, has a significant net capital deficiency and, on November 14, 2000 the Company and most of its subsidiaries filed voluntary petitions for protection under Chapter 11 of the United States Bankruptcy Code. The consolidated financial statements and financial statement schedule do not include any adjustments to the recorded amounts or classification of assets or liabilities or reflect any amounts that may ultimately be paid to settle liabilities and contingencies which may be required in the Chapter 11 reorganization or the effect of any changes which may be made in connection with the Company's capitalization or operations resulting from a plan of reorganization. The Company filed the Second Amended Joint Plan of Reorganization and Disclosure Statement (the "Plan") with the Bankruptcy Court on March 26, 2002, which Plan will be amended. The Plan is subject to acceptance by the Company's impaired creditors and stockholders and approval by the bankruptcy court which acceptance and approval is not assured. These factors, among others, raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of this uncertainty.

As explained in note 2 to the consolidated financial statements, during the year ended December 31, 2000, the Company changed its method of accounting for installation revenue.

/s/ KPMG LLP

Denver, Colorado
March 31, 2002

Schedule II

ICG COMMUNICATIONS, INC.
AND SUBSIDIARIES

Valuation and Qualifying Accounts

Description	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Deductions	Balance at end of period
			(in thousands)		
Allowance for uncollectible trade receivables:					
Year ended December 31, 1999	$ 14,351	$ 60,019	$ 4,312	$ —	$ 78,682
Year ended December 31, 2000	$ 78,682	$ 84,457	$ —	$ (68,854)	$ 94,285
Year ended December 31, 2001	$ 94,285	$ 14,236	$ —	$ (64,307)	$ 44,214
Allowance for uncollectible note receivable:					
Year ended December 31, 1999	$ 1,300	$ —	$ —	$ (1,300)	$ —
Year ended December 31, 2000	$ —	$ —	$ —	$	$ —
Year ended December 31, 2001	$ —	$ —	$ —	$ —	$ —

See accompanying independent auditors' report.

EXHIBIT 4

Proposed Tariff

TITLE PAGE

Schedule of Rates, Rules and Regulations Governing
Competitive Local Exchange Telecommunications Services
Provided in the State of South Dakota

Furnished By

ICG TELECOM GROUP, INC.
161 Inverness Drive West
Englewood, Colorado 80112
(888) 424-1144

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of local exchange telecommunications services provided by ICG Telecom Group, Inc. within the State of South Dakota. This tariff is on file with the South Dakota Public Utility Commission. Copies may also be inspected during normal business hours at the Company's principal place of business.

CHECK SHEET

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* - Indicates pages submitted with most recent filing.

TARIFF FORMAT

A. **Page 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. **Page 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 most current sheet number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the sheet currently 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 this page if these are the only changes made to it (i.e., the format, etc. remain 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 page is the most current on file with the Commission.

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EXPLANATION OF SYMBOLS

The following symbols shall be used in this tariff for the purpose indicated below:

(C) To signify Changed Regulation

(D) Delete or Discontinue

(I) Change Resulting in an Increase to a rate

(M) Moved from Another Tariff Location (N) New

(R) Change Resulting in a Reduction to a rate

(S) Matter Appearing Elsewhere or Repeated for Clarification

(T) Change in Text But No Change to Rate or Charge

APPLICATION OF TARIFF

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of local exchange telecommunications services provided by ICG Telecom Group, Inc. within the State of South Dakota. This tariff governs the Company's services that originate and terminate in South Dakota.

The Company's services are available to non-residential business customers. The Company's service territory is identified in Section 4.0 Service Areas. The rates and rules contained herein are subject to change pursuant to the rules and regulations of the South Dakota Public Utilities Commission.

1.0 DEFINITIONS

For the purpose of this tariff, the following definitions will apply:

Access: Is connection to one carrier by a second carrier to obtain the services of any or all network facilities and services within the network, including unbundled elements.

Access Service Request ("ASR"): A written request for special access services executed by the Customer and the Company in the format devised by the Company. The signing of an ASR by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date. Should a Customer use the Company's access service without an executed ASR, the Company will then request the Customer to submit one.

Account Codes: Permits Centrex Stations and attendants to dial an account code number of up to eight digits. For use when placing calls over facilities arranged for Automatic Message Accounting (AMA) recording. The account or project number must be input prior to dialing the called number.

Advance Payment: Part or all of a payment required before the start of service.

Alternative Operator Services: Alternative Operator Services are those services provided by the carrier in which the customer and the End User are totally separate entities. The carrier contracts with the customer to provide the alternative operator services; however, the carrier does not directly contract with the End User to provide the services even though it is the End User who actually pays for the processing of the operator assisted calls.

Automatic Number Identification ("ANI"): Allows the automatic transmission of a caller's billing account telephone number to a local exchange company, interexchange carrier or a third party subscriber. The primary purpose of ANI is to allow for billing of toll calls.

1.0 DEFINITIONS (cont'd)

Automatic Location Identification (ALI): An E911 feature that provides the name or address or both associated with the calling party's telephone number (identified by ANI as defined below) to the PSAP for display. Additional telephones with the same number as the calling party's (secondary locations, off-premise extensions, etc.) are identified with the address of the telephone number at the main location.

Bit: The smallest unit of information in the binary system of notation.

Collocation: An arrangement whereby the Company's switching equipment is located in a local exchange Company's central office.

Commission: The South Dakota Public Utilities Commission.

Communications Services: The Company's intrastate toll and local exchange switched telephone services offered for both intraLATA and interLATA use.

Company or Carrier: ICG Telecom Group, Inc.

Customer or Subscriber: The person, firm or corporation which orders service and is responsible for the payment of charges and compliance with the Company's regulations.

Dedicated Inbound Calls: Refers to calls that are terminated via dedicated access facilities connecting the Customer's premises and the Company's Point of Presence ("POP"). This service is offered to the extent facilities are available and where the Company and the Customer jointly arrange for the establishment of dedicated access facilities connecting the Customer's trunk-compatible PBX or other suitable equipment to the Company's POP. The Customer shall be responsible for all costs and charges associated with the dedicated access facilities.

Dedicated Outbound Calls: Refers to service that is offered to the extent facilities are available in those cases where the Company and the Customer jointly arrange for the establishment of dedicated access facilities connecting the Customer's trunk-compatible PBX or other suitable equipment to the Company's (POP). The Customer shall be responsible for all costs and charges associated with the dedicated access facilities.

1.0 DEFINITIONS (cont'd)

Deposit: Refers to a cash or equivalent of cash security held as a guarantee for payment of the charges.

DID Trunk (Direct Inward Dial Trunk): A form of local switched access that provides the ability for an outside party to call an internal extension directly without the intervention of the Company operator.

Dial Pulse (or "DP"): The pulse type employed by rotary dial station sets.

Direct Inward Dial (or "DID"): A service attribute that routes incoming calls directly to stations, by-passing a central answering point.

Direct Outward Dial (or "DOD"): A service attribute that allows individual station Users to access and dial outside numbers directly.

Dual Tone Multi-Frequency (or "DTMF"): The pulse type employed by tone dial station sets.

Duplex Service: Service which provides for simultaneous transmission in both directions.

Emergency Number Service: A telephone exchange communication service whereby a Public Safety Answering Point (PSAP) designated by the Customer may receive telephone calls dialed to the telephone number 911. The 911 Services includes lines and equipment necessary for transferring and dispatching public emergency telephone calls originated by persons within the telephone central offices areas arranged for 911 calling.

Emergency Service Number (ESN): An ESN is a Selective Routing (SR) code assigned to each telephone number in an exchange where SR is provided to route E911 calls to an appropriate PSAP. The ESN defines the set of emergency services (e.g., police, fire, PSAP and medical) within a particular serving area. An ESN is associated with a primary possibly one or more secondary PSAPs.

1.0 DEFINITIONS (cont'd)

Emergency Telephone Service Charge: A charge for the network start-up costs, custom notification costs, billing costs including an allowance for uncollectibles and network nonrecurring and recurring installation, maintenance, service, and equipment network charges of the Company providing 911 service.

End Office: With respect to each NPA-NXX code prefix assigned to the Company, the location of the Company's "end office" for purposes of this tariff shall be the point of interconnection associated with that NPA-NXX code in the Local Exchange Routing Guide ("LERG"), published by Bellcore.

Exchange Telephone Company or Telephone Company Denotes any individual, partnership, association, joint-stock company, trust, or corporation authorized by the appropriate regulatory bodies to engaged in providing public switched communication service throughout an exchange area, and between exchange areas within the LATA.

Fiber Optic Cable: A thin filament of glass with a protective outer coating through which a light beam carrying communications signals may be transmitted by means of multiple internal reflections to a receiver, which translates the message.

Hearing Impaired: Those persons with communication impairments, including those hearing impaired, deaf, deaf/blind, and speech impaired persons who have an impairment that prevents them from communicating over the telephone without the aid of a telecommunications device for the deaf.

Hunting: Routes a call to an idle station line in a prearranged group when the called station line is busy.

Getting Started Package: Refers to package the Company gives to each new customer. The package includes information about the Company's services, service orders and contact numbers.

1.0 DEFINITIONS (cont'd)

In-Only: A service attribute that restricts outward dial access and routes incoming calls to a designated answer point.

IXC or Interexchange Carrier: A long distance telecommunications services provider.

Kbps: Kilobits per second, denotes thousands of bits per second.

LATA: A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4.

Local Interconnection Trunking Service: A local circuit administration point, other than a cross-connect or an information outlet, that provides capability for routing and re-routing circuits.

Mbps: Megabits, denotes millions of bits per second.

Minimum Point of Presence ("MPOP"): The main telephone closet in the Customer's building.

Monthly Recurring Charges: The monthly charges to the Customer for services, which continue for the agreed upon duration of the service.

Multi-Frequency or ("MF"): An inter-machine pulse-type used for signaling between telephone switches, or between telephone switches and PBX/key systems.

911 Service Area: The geographic area in which the Company will respond to all 911 calls and dispatch appropriate emergency assistance.

911 Trunks: Trunks between a serving central office and a PSAP or between two central offices, except where one of the central offices is a remote unit.

1.0 DEFINITIONS (cont'd)

Non-Proprietary Calling Card: Refers to a calling card or travel card which can be billed by any carrier and used on any network, such as an Ameritech card issued in conjunction with local services; as opposed to a card issued by an IXC which can only be used on that carrier's network and billed by that carrier.

Non-Recurring Charge ("NRC"): The initial charge, usually assessed on a one-time basis, to initiate and establish service.

NPA: Numbering plan area or area code.

NXX: First three digits in a local phone number. Identifies the specific telephone company central office which serves that number.

Off-Net: A means for carrying traffic to or from the Customer's premises, where the Company leases Other Telephone Company's facilities to deliver traffic to Customer location. (Off-Net traffic consists of all traffic that is not considered to be On-Net traffic.)

On-Net: A means for carrying traffic to or from the Customer's premises, where the Company connects to the MPOP in a Customer building or on a Customer's premises using only Company-owned fiber. On-Net traffic is delivered to Customer exclusively over facilities of the Company.

Other Telephone Company: An Exchange Telephone Company, other than the Company.

PBX: Private Branch Exchange

Point of Presence ("POP"): Point of Presence

PSAP Data Base Establishment and Update Service: Provides the PSAP with the initial list, as well as periodic updates of Customer names, telephone numbers and addresses for ALI.

1.0 DEFINITIONS (cont'd)

Public Safety Answering Point (PSAP) - a communications facility operated or answered on a 24-hour basis, assigned responsibility by a public agency or county to receive 911 calls and, as appropriate, to directly dispatch emergency response services, or to transfer or relay emergency 911 calls to other public safety agencies. It is the first point of reception by a public safety agency of a 911 call, and serves the jurisdictions in which it is located and other participating jurisdictions, if any.

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment which continue for the agreed upon duration of the service.

Service Commencement Date: The first day following the date on which the Company notifies the Customer that the requested service is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and Customer may mutually agree on a substitute Service Commencement Date.

Service Order: The written request for Company Services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

Shared: A facility or equipment system or subsystem that can be used simultaneously by several Customers.

Shared Inbound Calls: Refers to calls that are terminated via the Customer's Companyprovided local exchange line.

Shared Outbound Calls: Refers to calls in Feature Group D (FGD) exchanges whereby the Customer's local telephone lines are presubscribed by the Company to the Company's outbound service such that "1 + 10-digit number" calls are automatically routed to the Company's or an IXC's network. Calls to stations within the Customer's LATA may be placed by dialing "IOXXX" or "IOIXXXX" with 1 + 10-digit number."

1.0 DEFINITIONS (cont'd)

Tandem: A class 4 switch facility to which NPA and NXX codes are subtended.

Three-Way Calling: Allows a station line User to add a third party to an existing conversation.

Traditional Operator Services: Traditional Operator Services are those services provided by the carrier in which the End User has a customer relationship with the carrier, contracts with the customer/End User to provide the services, and the customer/End User pays for the actual processing of the operator assisted calls.

Two Way: A service attribute that includes outward dial capabilities for outbound calls and can also be used to carry inbound calls to a central point for further processing.

Usage Based Charges: Charges for minutes or messages traversing over local exchange facilities.

User or End User: A Customer, Joint User, or any other person authorized by a Customer to use service provided under this tariff.

2.0 REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

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 originating from points within the state of South Dakota, and terminating within a local calling area as defined herein.

The Company is responsible under this tariff only for the services provided hereunder, and it assumes no responsibility for any service provided by any other entity that purchases the Company network in order to originate or terminate its own services, or to communicate with its own Customers.

2.1.2 Shortage of Equipment or Facilities

A) 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 facilities the Company obtains from other carriers to furnish service from time to time as required at the sole discretion of the Company, in a non-discriminatory manner consistent with the authority as granted by the Commission.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.3 Terms and Conditions

A. Service is provided on the basis of a minimum period of at least one month, 24-hours per day. For the purpose of computing charges in this tariff, a month is considered to have thirty (30) days.

B. Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the tariff or other approved rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.

C. Except as otherwise stated in the tariff, at the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party upon thirty (30) days written notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.

D. Service may be terminated upon written notice to the Customer if:

1. the Customer is using the service in violation of this tariff; or
2. the Customer is using the service in violation of the law.

E. This tariff shall be interpreted and governed by the laws of the state of South Dakota without regard for its choice of laws provision.

F. The Company hereby reserves its rights to establish service packages specific to a particular Customer. These contracts may or may not be associated with volume and/or term discounts. All such offerings shall be consistent with the rates and conditions specified herein, or shall require approval of the Commission.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 Limitations on Liability

A. Except as otherwise stated in this section, the liability of the Company for damages arising out of either: (1) the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representatives, or use of these services or (2) the failure to furnish its service, whether caused by acts or omission, shall be limited to the extension of allowances to the Customer for interruptions in service as set forth in Section 2.6.

B. Except as specified in this tariff, the Company and its contractors shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages of any kind or nature arising out of or in connection with the installation, use, repair, performance or removal of the equipment, or other services in connection with the performance or failure to perform its obligations, including, but not limited to, loss of revenue or profits, regardless of the foreseeability thereof for any reason whatsoever, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure in or breakdown of facilities associated with the service.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 Limitations on Liability (cont'd)

C. In cases where the Customer does not have alternative local exchange service available, the liability of the Company for failure to provide basic local exchange service within 30 calendar days of the service order due date shall be limited to a waiver of all installations charges and a credit to the Customer's account equal to the pro rata monthly local exchange charge for each day thereafter that service is not provided, plus, at the Customer's option, either (1) reimbursement not to exceed $150.00 per month for the Customer to obtain alternative service if unregulated or (2) provision of a regulated service alternative charging the Customer no more than the Company's tariff rate for basic local exchange service. See Section 2.1.6.

D. The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a 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.

E. The Company shall not have any liability for or be responsible for any losses, costs, expenses, claims, liabilities or damages resulting from the Customer's failure to timely comply with the requirements in Section 2.3.1. below regarding emergency 911 service; the Company shall be indemnified by Customer from any losses, costs, expenses, claims, liabilities or damages, including, but not limited to, third party claims, resulting from customer's failure to comply with the requirements of Section 2.3.1.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 Limitations on Liability (cont'd)

F. The Company shall have no responsibility or liability for responding to emergency 911 or other emergency referral calls. The Company will make reasonable effort to determine the nearest public safety or law enforcement authorities and then route such calls to those authorities.

G. The Company shall not be liable for and shall be indemnified and saved harmless by the Customer from and against all loss, liability, damage and expense, due to:

1. Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services provided by the Company; or (c) common carriers or warehousemen, except as contracted by the Company;

2. Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;

3. Any unlawful or unauthorized use of the Company's services;

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 Limitations on Liability (cont'd)

G. (cont'd)

4. Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the material transmitted by means of Company-provided services; or by means of the combination of Company-provided facilities or services;

5. Changes in any of the operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in paragraph (A) of this Subsection 2.1.4.

6. Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises by the Company or any other carrier, installation or removal thereof;

7. Injury to property or injury or death to persons, including claims for payments made under Workers' 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 facilities of any other carrier;

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 <u>Limitations on Liability</u> (cont'd) G. (cont'd)

8. Failure of Customer to comply with the requirements of Section 2.3.1.

9. Any noncompletion of calls due to network busy conditions;

10. Any calls not actually attempted to be completed during any period that service is unavailable;

11. And any other claim resulting from any act or omission of the Customer or patron(s) of the Customer relating to the use of the Company's services.

H. The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere.

I. 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.

J. Failure by the Company to assert its rights pursuant to one provision of this tariff does not preclude the Company from asserting its rights under other provisions.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.4 Limitations on Liability (cont'd)

K. The Company shall not be liable to Customer or any other person, firm or entity for any failure of performance hereunder if such failure is due to any cause or causes beyond the reasonable control of the Company. Such causes shall include, without limitation, acts of God, fire, explosion, vandalism, cable cut, storm or other similar occurrences, any law, order, regulation, direction, action or request of the United States government or of any other government (including state and local governments or of any department agency, board, court, bureau, corporation or other instrumentality of any one or more of said governments) or of any civil or military authority, national emergencies, insurrections, riots, wars, strikes, lockouts or work stoppages or other labor difficulties, supplier failures, shortages, breaches or delays.

If the Company's failure of performance by reason of force majeure specified above shall be for thirty (30) days or less, then the service shall remain in effect, but an appropriate percentage of charges shall be abated and/or credited in the discretion and determination of the Company; if for more than thirty (30) days, then the service may be canceled by either party without any liability.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of serviceaffecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

2.1.6 Non-Routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours, or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.7 Availability of Service

A. The Company shall use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with the regulations contained in the tariffs of the Company.

B. The Company shall negotiate a mutually agreed to installation date based on availability of services and facilities and the Customer's requested date.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.8 Universal Emergency Telephone Number Service

A. This tariff does not provide for the inspection or constant monitoring of facilities to discover errors, defects or malfunctions in the service, nor does the Company undertake such responsibility.

B. 911 information consisting of the names, addresses and telephone numbers of all telephone customers is confidential. The Company will release such information via the Data Management System only after a 911 call has been received, on a call by call basis, only for the purpose of responding to an emergency call in progress.

C. The 911 calling party, by dialing 911, waives the privacy afforded by non-listed and non-published service to the extent that the telephone number, name, and address associated with the originating station location are furnished to the Public Safety Answering Point.

D. After the establishment of service, it is the Public Safety Agency's responsibility to continue to verify the accuracy of and to advise the Company of any changes as they occur in street names, establishment of new streets, changes in address numbers used on existing streets, closing and abandonment of streets, changes in police, fire, ambulance or other appropriate agencies' jurisdiction over any address, annexations and other changes in municipal and county boundaries, incorporation of new cities or any other similar matter that may affect the routing of 911 calls to the proper Public Safety Answering Point.

2.0 REGULATIONS (cont'd)

2.1 Undertaking of the Company (cont'd)

2.1.8 Universal Emergency Telephone Number Service (cont'd)

E. The Company assumes no liability for any infringement, or invasion of any right of privacy or any person or persons caused, or claimed to be caused, directly or indirectly by the use of 911 Service. Under the terms of this tariff, the Public Safety Agency must agree, except where the events, incidents, or eventualities set forth in this sentence are the result of the Company's gross negligence or willful misconduct, to release, indemnify, defend and hold harmless the Company from any and all loss or claims whatsoever, whether suffered, made, instituted, or asserted by the Public Safety Agency or by any other party or person, for any personal injury to or death of any person or persons, or for any loss, damage, or destruction of any property, whether owned by the customer or others. Under the terms of this tariff, the Public Safety Agency must also agree to release, indemnify, defend and hold harmless the Company for any infringement of invasion of the right of privacy of any person or persons, caused or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion, or use of 911 Service features and the equipment associated therewith, or by any services furnished by the Company in connection therewith, including, but not limited to, the identification of the telephone number, address, or name associated with the telephone used by the party or parties accessing 911 Service hereunder, and which arise out of the negligence or other wrongful act of the Public Safety Agency, its User, agencies or municipalities, or the employees or agents of any one of them, or which arise out of the negligence, other than gross negligence or willful misconduct, of the Company, its employees or agents.

2.0 REGULATIONS (cont'd)

2.2 Prohibited Uses

2.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.

2.2.2 The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and the Commission's regulations, policies, orders, and decisions.

2.2.3 The Company may block any signals being transmitted over its Network by Customers which cause interference to the Company or other Users. Customer shall be relieved of all obligations to make payments for charges relating to any blocked service and shall indemnify the Company for any claim, judgment or liability resulting from such blockage.

2.2.4 A Customer, joint User, or authorized User may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated communications services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this tariff will apply.

2.0 REGULATIONS (cont'd)

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

A. the payment of all applicable charges pursuant to this tariff;

B. providing the Company with the following information which is needed by the Company in order to identify the source of certain emergency calls:

1. PBX Information. Customer shall provide the Company with detailed information related to multi-location private branch exchanges ("PBX") and one customer PBXs operating within the Customer's premises or otherwise connected to the Company's telecommunication service through Customer. Such information shall include the End-User addresses corresponding to all telephone lines operating through the PBX and such other information, as requested by the Company, which will enable the Company to determine, in the event of an emergency 911 call routed through a PBX, the physical location from which the call was made. Customer shall continually update this information and shall immediately notify the Company of any changes related to this information. Customer shall indemnify and hold the Company harmless from any and all losses, damages, costs, expenses, claims, or liabilities resulting from the Customer's failure to immediately provide or update this information to the Company, including, but not limited to, any and all losses, costs, expenses, claims, liabilities or damages, including third party claims, related to the failure to respond to an emergency 911 telephone call.

2.0 REGULATIONS (cont'd)

2.3 Obligations of the Customer (cont'd)

2.3.1 General (cont'd)

B. (cont'd)

2. Automatic Number Identification. In addition to providing the information requested in Subsection 2.3.1.B.1 above, Customer shall provide and continually update the Company with the correct true automatic number identification (ANI) for each telephone line operating through a PBX on Customer's premises or otherwise connected to the Company's telecommunication service(s) through Customer. Customer recognizes that it may be necessary to purchase and install additional equipment in order to provide the ANI information and that Customer is solely responsible for all costs and expenses related to this equipment. Customer shall indemnify and hold the Company harmless from any and all losses, damages, costs, expenses, claims, or liabilities arising from the Customer's failure to immediately provide or update this information to the Company, including, but not limited to, any and all losses, damages, costs, expenses, liabilities or claims, including third party claims, related to the failure to respond to an emergency 911 phone call.

2.0 REGULATIONS (cont'd)

2.3 Obligations of the Customer (cont'd)

2.3.2 Liability of the Customer

A. The Customer shall not assert any claim against any other Customer or User of the Company's services for damages resulting in whole or in part from or arising in connection with the furnishing of service under this tariff including but not limited to mistakes, omissions, interruptions, delays, errors or other defects or misrepresentations, whether or not such other Customer or User contributed in any way to the occurrence of the damages, unless such damages were caused solely by the negligent or intentional act or omission of the other Customer or User and not by any act or omission of the Company. Nothing in this tariff is intended either to limit or to expand Customer's right to assert any claims against third parties for damages of any nature other than those described in the preceding sentence.

2.0 REGULATIONS (cont'd)

2.4 Customer Deposits and Advance Payments

2.4.1 Advance Payments

To safeguard its interests, the Company may require a Business Customer to make an advance payment before services are furnished, where special construction is involved. The advance payment will not exceed an amount equal to the nonrecurring charge(s) and one (1) month's charges for the service or facilities. In addition, the advance payment may also include an amount equal to the estimated non-recurring charges for the special construction and recurring charges (if any) for a period to be set between the Company and the Customer. The advance payment will be credited to the Customer's initial bill. Advance payments do not accrue interest. An advance payment may be required in addition to a deposit.

2.0 REGULATIONS (cont'd)

2.4 Customer Deposits and Advance Payments

2.4.2 Deposits:

A. To safeguard its interests, the Company may require the Customer to make a deposit to be held as a guarantee for the payment of charges. A deposit may be required if the customer's financial condition is not acceptable to the Company or cannot be ascertained from general accepted credit reporting sources. A deposit does not relieve the Customer of the responsibility for the prompt payment of bills on presentation. The deposit will not exceed an amount equal to two (2) month's charges for tariffed services or a maximum of $50.00 plus 30% of the monthly estimated charge for a specified customer or; two (2) month's charges for a service or facility which has a minimum payment period of one month.

B. In the event the deposit as computed under Section 2.4.2.A. above exceeds $75.00 per access line, the Customer shall pay one half of the deposit prior to the provision of service, with the remainder of the deposit due thirty (30) days after provision of the service.

C. A deposit may be required in addition to an advance payment.

D. The Company shall review accounts of Customers with deposits and shall refund deposits with interest if the accounts have been current for the preceding six (6) months.

E. Upon discontinuance of service, the Company, shall automatically refund the Customer's deposit plus accrued interest, or the balance, if any, in excess of the unpaid bills including any penalties assessed for service furnished by the Company.

F. Deposits will accrue interest at the rate of 6.00% annually or the highest rate permitted by law.

G. The Company will assume the service obligation of the reseller under the terms, conditions, and rates of the facilities-based providers of local exchange telecommunications services, should the reseller be unable or unwilling to continue service provision.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements

2.5.1 Payment for Service

Customer shall pay the Company, monthly in advance (commencing the first month following the Service Commencement Date), a monthly charge equal to the rates set forth in the Section 6 or equal to the monthly charge as adjusted under the terms hereof, provided, however, that the first such payment shall be for the period from the Service Commencement Date through the end of the next full month and shall be due after the Service Commencement Date and then thirty (30) days following the date the billing statement was mailed to the Customer. The installation charges contained in the Section 6 are due with such first payment. Residential customers will be provided with the option of having installation charges prorated in four equal portions over four monthly billing periods. The Customer is responsible for the payment of all charges incurred by the Customer or other users for services furnished to the Customer by the Company. Billing for service will commence on the Service Commencement Date. The Customer must notify the Company of any errors or discrepancies in the billing statement within thirty (30) days of the date the billing statement was mailed to the Customer. Customer will be obligated to pay all charges shown on the billing statement if the Customer fails to provide such notice.

Taxes. The Customer is responsible for the payment of federal excise taxes, state and local sales and use excise or privilege taxes and similar taxes imposed by governmental jurisdictions, all of which shall be separately designated on the Company's invoices. Any taxes imposed by a local jurisdiction (e.g., county and municipal) will only be recovered from those Customers residing in the affected jurisdictions.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.2 Billing and Collection of Charges

A. Non-recurring Charges: The non-recurring charges contained in the service description are due with the Customer's first payment for charges, which payment shall be for the period from the start of service through the end of the next full month. Non-recurring charges not included with installation charges are billed to the Customer, as set forth in Section 2.5.1, and shall be due and payable within thirty (30) days after the date the invoice is mailed to the Customer by the Company.

Customer shall be responsible to pay all of the Company's charges for time and material resulting from diagnosing problems which were caused by Customer's equipment.

B. Recurring Charges: The Company shall present invoices for recurring charges monthly to the Customer, in advance of the month in which service is provided, and recurring charges shall be due and payable within thirty (30) days after the date the invoice is mailed to the Customer by the Company. When billing is based upon Customer usage, usage charges will be billed monthly for the preceding billing period.

C. When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have thirty (30) days.

D. Billing of the Customer by the Company will begin on the Service Commencement Date, and accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

E. If any portion of the payment is received by the Company after the date due, or if any portion of the payment is received by the Company in funds which are not immediately available upon presentment, then a late payment penalty shall be due to the Company. A late payment charge in the amount of the lesser of 1^{1}/z% of the unpaid balance per month or the maximum lawful rate per month, for bills not paid within thirty (30) days of receipt, is not applicable to subsequent rebilling of any amount to which a late payment charge has already been applied. Late payment charges are to be applied without discrimination.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.2 Billing and Collection of Charges (cont'd)

F. Customer's liability for charges hereunder shall not be reduced by untimely installation or non-operation of the Customer's or a third party's facilities and equipment.

G. The Customer shall notify the Company of any disputed items on an invoice within thirty (30) days of receipt of the invoice. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the Commission in accordance with the Commission's rules of procedure. The Company shall advise the Customer that the Customer may make a formal or informal complaint to the Commission. The address of the Commission is as follows:

South Dakota Public Utility Commission

500 E. Capital Avenue

Pierre, South Dakota 57501

800-332-1782

H. If service is disconnected by the Company (in accordance with Section 2.5.3 following) and later re-installed, re-installation of service will be subject to all applicable installation charges. If service is suspended by the Company (in accordance with Section 2.5.3 following) and later restored, restoration of service will be subject to the rates in Section 7.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.3 Discontinuance of Service for Cause

A. Upon nonpayment of a delinquent account amounting to $25.00 or more owing to the Company, the Company may, by giving fifteen (15) business days prior written notice to the Customer, discontinue service without incurring any liability. The Company shall provide the customer with a written reminder notice five (5) days prior to and place a telephone call to the customer two (2) days prior to the discontinuance of service. Service may be reinstated at such time as Customer pays in full all arrearages, including late payment charges.

B. Upon violation of any of the other material terms or conditions of this tariff the Company may discontinue service without incurring any liability. The Company shall give Customer fifteen (15) notice of discontinuance to give Customer an opportunity to arrange for an alternate service provider.

C. Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

D. Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may, by notice to the Customer, immediately discontinue or suspend service without incurring any liability.

E. Upon any governmental prohibition or governmental required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.3 Discontinuance of Service for Cause (cont'd)

F. In the event of fraudulent use of the Company's network, the Company may without notice suspend or discontinue service. The Customer will be liable for all related costs. The Customer will also be responsible for payment of any reconnection charges.

G. Upon the Company's discontinuance of service to the Customer under Section 2.5.3(A) or 2.5.3(B), the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff, may declare all future monthly and other charges which would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent).

H. The Customer is responsible for providing adequate access lines to enable the Company to terminate all 800 Service calls to the Customer's telephone equipment. Should the Customer have insufficient access lines on which to terminate 800 Service calls, the Company reserves the right to request the Customer to add additional lines for call terminations. If, after ninety (90) days, the Customer has not made the requested change, the Company, without incurring any liability, reserves the right to terminate the Customer's 800 Service, with thirty (30) days written notice.

2.5.4 Notice to Company for Cancellation of Service

Customers desiring to terminate service shall provide the Company thirty (30) days written notice of desire to terminate service.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.5 Cancellation of Application for Service

A. Where the Company permits the Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

B. Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the

Company incurred, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun.

C. Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred, less net salvage, may apply. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.

D. The special charges described in 2.5.5(B) through 2.5.5(C) will be calculated and applied on a case-by-case basis.

2.0 REGULATIONS (cont'd)

2.5 Payment Arrangements (cont'd)

2.5.6 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

2.5.7 Bad Check Charge

A charge will be assessed for all checks returned by drawee bank or other financial institution for: Insufficient or uncollected funds, closed account, apparent tampering, missing signature or endorsement, or any other insufficiency or discrepancy necessitating return of the instrument at the discretion of the drawee bank or other financial institution.

Bad check charge is $25.00 per check plus any statutory remedy available to the Company.

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruptions in Service

2.6.1 General

A. A credit allowance will be given when service is interrupted, except as specified in Section 2.6.2 following. A service is interrupted when it becomes inoperative to the Customer, e.g., the Customer is unable to transmit or receive, because of a failure of a component furnished by the Company under this tariff.

B. An interruption period begins when the Customer reports a service, facility or circuit to be inoperative and, if necessary, releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.

C. If the Customer reports a service, facility or circuit to be interrupted but declines to release it for testing and repair, or refuses access to its premises for test and repair by the Company, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service, facility or circuit considered by the Company to be impaired.

D. During any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;

E. A service will not be deemed to be interrupted if a Customer continues to voluntarily make use of such service. If the service is interrupted, the Customer can get a service credit, use another means of communications provided by the Company (pursuant to Section 2.6.3), or utilize another service provider;

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruptions in Service (cont'd)

2.6.1 General (cont'd)

F. Interruptions of 24 Hours or Less

Length of Interruption	Interruption Period To Be Credited
30 minutes to 3 hours	1/10 Day
3 hours up to but not including 6 hours	1/4 Day
6 hours up to but not including 8 hours	3/4 Day
8 hours up to but not including 24 hours	One Day

G. Over 24 Hours and Less Than 72 Hours. Interruptions over 24 hours and less than 72 hours will be credited one day for each 8-hour period or fraction thereof. No more than one full day's credit will be allowed for any period of 24 hours.

Interruptions Over 72 Hours. Interruptions over 72 hours will be credited 2 days for each full 24-hour period. No more than thirty (30) days credit will be allowed for any one month period.

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruptions in Service (cont'd)

2.6.1 General (cont'd)

H. The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

I. A credit allowance will be given for interruptions of thirty (30) minutes or more. Two or more interruptions of fifteen (15) minutes or more during any one 24-hour period shall be combined into one cumulative interruption. For calculating credit allowances, every month is considered to have thirty (30) days.

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruptions in Service (cont'd)

2.6.2 Limitations of Allowances

No credit allowance will be made for any interruption in service:

A. Due to the negligence of or noncompliance with the provisions of this tariff by any person or entity other than the Company, including but not limited to the Customer;

B. Due to the failure of power, equipment, systems, connections or services not provided by the Company;

C. Due to circumstances or causes beyond the reasonable control of the Company;

D. During any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;

E. A service will not be deemed to be interrupted if a Customer continues to voluntarily make use of such service. If the service is interrupted, the Customer can get a service credit, use another means of communications provided by the Company (pursuant to Section 2.6.3), or utilize another service provider;

2.0 REGULATIONS (cont'd)

2.6 Allowances for Interruptions in Service (cont'd)

2.6.2 Limitations of Allowances (cont'd)

F. During any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;

G. That occurs or continues due to the Customer's failure to authorize replacement of any element of special construction; and

H. That was not reported to the Company within thirty (30) days of the date that service was affected.

2.6.3 Use of Another Means of Communications

If the Customer elects to use another means of communications during the period of interruption, the Customer must pay the charges for the alternative service used.

2.6.4 Application of Credits for Interruptions in Service

A. Credits for interruptions in service that is provided and billed on a flat rate basis for a minimum period of at least one month, beginning on the date that billing becomes effective, shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the period of service during which the event that gave rise to the claim for a credit occurred. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.

2.6.5 Cancellation For Service Interruption

The Customer may terminate for service interruption only if any circuit experiences a single continuous outage of eight (8) hours or more or cumulative service credits equaling sixteen (16) hours in a continuous twelve (12) month period. The right to cancel service under this provision applies only to the single circuit which has been subject to the outage or cumulative service credits.

2.0 REGULATIONS (cont'd)

2.7 Cancellation of Service/Termination Liability

If a Customer cancels a service order or terminates services before the completion of the term for any reason (i) other than a service interruption (as defined in Section 2.6.1) or (ii) where the Company breaches the terms in the service contract, Customer may be requested by the Company to pay to the Company termination liability charges, which are defined below. These charges shall become due and owing as of the effective date of the cancellation or termination and be payable within the period set forth in Section 2.5.2.

2.7.1 Termination Liability

A. Customer's termination liability for cancellation of service shall be equal to:

1. all unpaid non-recurring charges reasonably expended by the Company to establish service to the Customer, including any installation charges which may have been waived by the Company, provided Customer has been notified of the amount of the waived charges and of Customer's liability therefore on cancellation, plus;

2. Any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of Customer, plus;

3. The difference between the total actual monthly recurring charges to Customer for the Service during the entire time the Service was provided to Customer and the total monthly recurring charges which Customer would have paid or which Customer would have been required to pay if the Service had been based on a month to month term using the Company's most recent tariff prices at the time of cancellation.

B. Either party shall have the right to cancel services without liability if the Company is prohibited from furnishing the Service or if any material rate or term contained herein is substantially changed by order of the Commission, the Federal Communications Commissions, or highest court of competent jurisdiction to which the matter is appealed, or other local, state or federal government authority.

C. Customer shall also have the right to terminate this Agreement if the agreed Service is interrupted to Customer for over forty-eight (48) hours in any ninety (90) day period, provided the interruption was not caused by an event of force majeure, or any action of Customer or its agents or employees.

2.0 REGULATIONS (cont'd)

2.8 Customer Liability for Unauthorized Use of the Network

Unauthorized use of the network occurs when a person or entity that does not have actual, apparent, or implied authority to use the network, obtains the Company's services provided under this tariff.

2.8.1 Customer Liability for Fraud and Unauthorized Use of the Network

A. The Customer is liable for the unauthorized use of the network obtained through the fraudulent use of a Company calling card, if such a card is offered by the Company, or an accepted credit card, provided that the unauthorized use occurs before the Company has been notified.

B. A Company calling card is a telephone calling card issued by the Company at the Customer's request, which enables the Customer or User(s) authorized by the Customer to place calls over the Network and to have the charges for such calls billed to the Customer's account.

An accepted credit card is any credit card that a cardholder has requested or applied for and received, or has signed, used, or authorized another person to use to obtain credit. Any credit card issued as a renewal or substitute in accordance with this paragraph is an accepted credit card when received by the cardholder.

C. The Customer must give the Company written or oral notice that an unauthorized use of a Company calling card or an accepted credit card has occurred or may occur as a result of loss, and/or theft.

D. The Customer is responsible for payment of all charges for calling card services furnished to the Customer or to Users authorized by the Customer to use service provided under this tariff, unless due to the negligence of the Company. This responsibility is not changed due to any use, misuse, or abuse of the Customer's service or Customer-provided equipment by third parties, the Customer's employees, or the public.

The liability of the Customer for unauthorized use of the Network by credit card fraud will not exceed the lesser of fifty dollars ($50.00) or the amount of money, property, labor, or services obtained by the unauthorized User before notification to the Company.

2.0 REGULATIONS (cont'd)

2.9 Use of Customer's Service by Others

2.9.1 Resale and Sharing

Any service provided under this tariff may be resold to or shared with other persons at the option of Customer, subject to compliance with any applicable laws or Commission regulations governing such resale or sharing. The Customer remains solely responsible for all use of services ordered by it or billed to its telephone number(s) pursuant to this tariff, for determining who is authorized to use its services, and for notifying the Company of any unauthorized use.

2.9.2 Joint Use Arrangements

Joint use arrangements will be permitted for all services provided under this tariff. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. The Company will accept orders to start, rearrange, relocate, or discontinue service only from the Customer. Without affecting the Customer's ultimate responsibility for payment of all charges for the service, each joint user shall be responsible for the payment of the charges billed to it.

2.0 REGULATIONS (cont'd)

2.10 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties:

A. to any subsidiary, parent company or affiliate of the Company; or

B. pursuant to any sale or transfer of substantially all the assets of the Company; or

C. pursuant to any financing, merger or reorganization of the Company.

2.0 REGULATIONS (cont'd)

2.11 Notices and Communications

211.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.

211.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that the Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

211.3 Except as otherwise stated in this tariff, all notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.

211.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

3.0 APPLICATION OF RATES

3.1 Introduction

The regulations set forth in this section govern the application of rates for services contained in other sections of this tariff.

3.2 Usage Based Charges

Where charges for a service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

3.2.1 Calls are measured in durational increments identified for each service. All calls which are fractions of a measurement increment are rounded-up to the next whole unit.

3.2.2 Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s). Timing for operator service person-to-person calls start with completion of the connection to the person called or an acceptable substitute, or to the PBX station called.

3.2.3 Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.

3.2.4 Calls originating in one time period and terminating in another will be billed in proportion to the rates in effect during different segments of the call.

3.2.5 All times refer to local time.

3.0 APPLICATION OF RATES (cont'd)

3.3 Rates Based Upon Distance

Where charges for a service are specified based upon distance, the following rules apply:

3.3.1 Distance between two points is measured as airline distance between the rate centers of the originating and terminating telephone lines. The rate center is a set of geographic coordinates, as referenced in Local Exchange Routing Guide issued by Bellcore, associated with each NPA-NXX combination (where NPA is the area code and NXX is the first three digits of a seven-digit telephone number). Where there is no telephone number associated with an access line on the Company's network (such as a dedicated 800 or WATS access line), the Company will apply the rate center of the Customer's main billing telephone number.

3.3.2 The airline distance between any two rate centers is determined as follows:

A. Obtain the V (vertical) and H (horizontal) coordinates for each Rate Center from the above-referenced Bellcore document.

B. Compute the difference between the V coordinates of the two rate centers; and the difference between the two H coordinates.

C. Square each difference obtained in step B. above.

D. Add the square of the V difference and the square of the H difference obtained in step C. above.

E. Divide the sum of the squares by 10.

F. 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.

G. FORMULA:

$$\sqrt{\frac{[(V1-V2)^2 + (H1-H2)^2]}{10}}$$

4.0 SERVICE AREAS

4.1. Service Areas - Exchanges

4.1.1. General

The Company offers Local Exchange Service within selected exchanges and where facilities permit. The Company concurs in the Incumbent Local Exchange Carrier's (ILEC's) exchange areas, service areas and exchange maps filed with and approved by the Commission.

4.1.2. Local Exchange Service Area

The Local Exchange Service Local Calling Area is concurrent with the local calling areas of the Incumbent Local Exchange Carrier (ILEC).

4.0 SERVICE AREAS (cont'd)

4.2. List of Selected Exchanges

EXCHANGE	Extended Area Service
Aberdeen	Cresbard, Frederick Mellette l
Arlington	Lake Preston
Belle Fourche	Nisland, W. Belle Fourche
Canton-Fairview	Worthing
Cavour	Huron, Iroquois
Chamberlain	Ft. Thompson, Kimball, Pukwana, Reliance
Colman	Flandreau
Deadwood	Lead, Spearfish, Whitewood, W. Spearfish
DeSmet	Lake Preston
Elk Point	Flandreau, Colman
Harrisburg	Lennox, Sioux Falls, Tea
Hill City	Hermosa, Keystone, Rapid City
Huron	Cavour, Hitchcock, Iroquois, Wolsey
Iroquois	Cavour, Huron
Lake Preston	Arlington, (includes towns of Badger and Hetland), DeSmet
Lead	Deadwood, Spearfish, Whitewood, W. Spearfish
McIntosh	Lemmon, Morristown
Madison	Chester, Nunda, Oldham-Ramona, Wentworth, Winfred
Milbank	Revillo, Stockholm, Summit, Wilmot
Miller	
Mitchell	
Morristown	Lemmon, McIntosh
Pierre-Ft. Pierre	Hayes
Rapid City	Hermosa, Hill City, Keystone
Redfield	Doland, Tulare
Sioux Falls	Baltic, Brandon, Colton, Crooks, Dell Rapids, Garretson, Harrisburg, Hartford, Tea, Valley Springs
Spearfish	Deadwood, Lead, Whitewood, W. Spearfish
Sturgis	
Tea	Harrisburg, Lennox, Sioux Falls
Timber Lake	
Vermillion	
Volga-Bruce	Brookings, Municipal, Brookings Rural, Sinai
Watertown	Castlewood, Florence, Hayti, Lake Norden, South Shore, Willow Lake
Whitewood	Deadwood, Lead, Spearfish, W. Spearfish
Yankton	Irene (Includes community of Mayfield), Lesterville, Tabor, Wakonda (Includes towns of Gayville and Volin)

5.0 SERVICE DESCRIPTIONS

5.1 Service Offerings

The following Company Services for business Customers and for carriers certificated by the Commission are offered in this tariff:

Standard Business Line

Single and Multiple Analog PBX Trunk

Direct Inward Dial (DID)

Digital Voice Grade DS-1 Trunk Service

Integrated Services Digital Network (ISDN) Primary Rate Interface (PRI)

Directory Assistance

Operator Service

Custom Calling Features

Trunk Side Features

Main Number Retention

Non Published Service

Blocking/Unblocking

Service Order and Service Change Charges

Maintenance Visit Charges

Directory Listings

Emergency Services Calling

All services offered in this tariff are subject to service order and service change charges where the Customer requests new services or changes in existing services, as well as indicated Non-Recurring and Monthly Recurring Charges. Charges for Measured Telecommunications Service are assessed on a measured rate basis are additional to the charges shown for Standard Business Line, Key System Line, Basic PBX Trunk and PBX Trunk Service - Digital/DS-1, as are other service charges.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.2 Standard Business Line

The Standard Business Line provides a Customer with a single, analog, voice-grade telephonic communications channel which can be used to place or receive one call at a time. Standard Business Lines are provided for the connection of Customer-provided wiring and single station sets or facsimile machines.

5.3 Single and Multiple Analog PBX Trunk

Basic PBX Trunk Service provides a Customer with a single, voice-grade telephonic communications channel which can be used to place or receive one call at a time. Basic Trunks are provided for connection of Customer-provided private branch exchanges (PBX) to the public switched telecommunications network. Each Basic PBX Trunk is provided with touch tone signaling and may be configured into a hunt group with other Company-provided Basic PBX Trunks. The signal is an analog signal at the DSO level.

Basic Trunks may be equipped with Direct Inward Dialing (DID) capability and DID number blocks for additional charges.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.4 Digital Voice Grade DS-1 Trunk Service

Digital Voice Grade DS-1 Trunk Service provides business Customers with PBX or PBX-like equipment or other telephonic equipment with access to the switch port. Customers must have the ability to terminate as a digital signal at the DS-1 level. Service on a Digital Voice Grade DS-1 Trunk is available on a measured rate basis for business customers only,

Customers can subscribe to PBX Trunk Service - Digital/DS-1 for local telecommunications services. Customers can also use this service for intraLATA and interLATA toll calling capability for access to long distance carriers.

DID trunk signaling enables a PBX to switch an incoming call directly to the intended extension number without the need for an attendant. PBX Trunk Service - Digital/DS-1 includes access to 911 service.

5.5 Directory Assistance

Provides for identification of telephone directory numbers, via an operator or automated platform. Customers are provided with a maximum of 2 listings per each call to Directory Assistance.

5.6 Operator Service

Provides for live or automated operator treatment when Customer dials "0". Services include, but are not limited to, bill to originating telephone number, calling card, collect or to a third party.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.7 Custom Calling Features

Basic Caller ID: Allows the number of the calling party to be passed from the telephone company to your telephone between the first and second ring signalling an incoming telephone call.

Busy Number Re-dial: This feature automatically redials another parties phone number after the Customer's first attempt to connect to that number resulted in a busy signal. The line is checked every 45 seconds for up to 30 minutes and alerts the Customer with a distinctive ringing pattern when the busy number and the Customer's line are free. The Customer can continue to make and receive other calls while the feature is activated.

Call Waiting: Permits the end-user engaged in a call to receive a tone signal indicating a second call is waiting; and, by operation of the switch hook, to place the first call on hold and answer the waiting call. The Customer may alternate between the two calls by operation of the switch hook, but a three-way conference call cannot be established.

Call Forwarding: Permits the end-user to automatically forward (transfer) all incoming calls to an end-user designated telephone number, and permits the end-user to restore incoming calls to non Call Forwarding operation.

Call Forwarding Busy: Permits the forwarding of incoming calls when the end-user's line is busy. The forwarded number is fixed by the end-user's service order.

Call Forwarding No Answer: Permits the forwarding of incoming calls when the end-user's line remains unanswered after end user designated number of rings. The number of rings and the forwarded number are fixed by the Customer service order.

Call Forwarding Selective: Permits the end-user to automatically forward (transfer) calls from up to ten end-user pre-selected number to another telephone number and to restore it to normal operation at their discretion. Call Forwarding Selective can be used in conjunction with Call Forwarding.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.7 Custom Calling Features (cont'd)

Call Screening: Allows the end-user to automatically block incoming calls from up to ten Customer pre-selected telephone numbers (including numbers from which a Customer has just received a call. The list of numbers can be changed at any time. Callers whose numbers have been blocked will hear a recorded message and no usage charges will apply. The calling party's number will not be delivered or announced to the call recipient under any circumstances.

Remote Call Forwarding: Permits calls made to one end-user phone number to be forwarded to another end-user phone number served by a different phone company end-office.

Speed Calling (8 or 30): Permits the Customer to place calls to other telephone numbers by dialing a one- or two-digit code rather than complete telephone numbers. The feature is available as an eight code list or a thirty code list. Either code list may include local and/or toll telephone numbers. To establish or change a telephone number in a code list, the Customer dials an activating code, receives a second dial tone and dials either a one- or two-digit code (for the eight code and thirty code lists, respectively) plus the telephone number.

Three Way Calling: Permits the end-user to add a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The end-user initiating the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. The feature may be used on both outgoing and incoming calls.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.8 Trunk Side Features

Hunting: Routes a call to an idle station line in a prearranged group when the called station line is busy.

5.9 Main Number Retention

Main Number Retention is an optional feature by which a Customer, who was formally a Customer of another certified local exchange carrier at the same premises location, may retain its main telephone numbers and main fax numbers for use with the Company-provided Exchange Services. Main Number Retention service is only available in areas where the Company maintains some form of number retention arrangement with the Customer's former local exchange carrier.

5.10 Non Published Service

This service provides for suppression of printed and recorded directory listings.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.11 Service Order and Service Change Charges

Non-recurring charges apply to processing Service Orders for new service, for changes in service, and for changes in the Customer's PIC code.

5.12 Maintenance Visit Charges

Maintenance Visit Charges apply when the Company dispatches personnel to a Customer's premises to perform work necessary for resolving troubles reported by the Customer and the trouble is found to be caused by the Customer's facilities.

Maintenance Visit Charges will be credited to the Customer's account in the event trouble is not found in the Company facilities, but the trouble is later determined to be in facilities.

The time period for which the Maintenance Visit Charges is applied will commence when Company personnel are dispatched at the Customer premises and end when work is completed. The rates for Maintenance of Service vary by time per Customer request.

5.13 Directory Listings

For each Customer of Company-provided Exchange Service(s), the Company shall arrange for the listing of the Customer's main billing telephone number in the directory(ies) published by the dominant Local Exchange Carrier in the area at no additional charge. At a Customer's option, the Company will arrange for additional listings for an additional charge.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.14 Emergency Services Calling Plan

Access (at no additional charge) to emergency services by dialing 0 - or 9-1-1.

Message toll telephone calls, to governmental emergency service agencies as set forth in (a) following, having primary or principal responsibility with respect to the provision of emergency services to person and property in the area from which the call is made, meeting the definition and criteria of an emergency call as set forth in B. following are offered at no charge to Customers:

A. Governmental fire fighting, State Highway Patrol, police, and emergency squad service (as designated by the appropriate governmental agency) qualify as governmental emergency service agencies provided they answer emergency service calls on a personally attended (live) twenty-four (24) hour basis, three hundred sixty-five (365) days a year, including holidays.

B. An emergency is an occurrence or set of circumstances in which conditions pose immediate threat to human life, property, or both and necessitate that prompt action be taken. An emergency call is an originated call of short duration to a governmental emergency services agency in order to seek assistance for such an emergency.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.15 Integrated Services Digital Network (ISDN) Primary Rate Interface (PRI)

Integrated Services Digital Network (ISDN) is a set of transmission protocols that provides end-to-end digital connectivity and integration of voice, data and video, on a single Customer loop to support a wide variety of services via the public switched network. The Primary Rate Interface (PRI) consists of a 23B+D configuration with 23 64Kbps Bearer (B) digital channels and one 64Kbps Data (D) digital channel. The B channels are designed for voice, data, image and sound transmissions. B channels can support synchronous, asynchronous or isochronous services at rates up to 64Kbps. B channels can be aggregated for higher bandwidth applications. The D channel PRI provides the out of band signaling, call control and messaging.

PRI is provided through standard four wire DS-1 (1.544Mbps) point to point, private line facilities that enables Customer control of the 24 individual channels. PRI supports 1+, 0+, 7 digit, and 10 digit IntraLATA and InterLATA services, as well as 01+ and 011+ international calling. PRI allows Customers to direct InterLATA voice, data and video over the Public Switched Telephone Network to the pre-subscribed IXC carrier of their choice, as well as 10XXX casual dialing. PRI also allows access to Public Switched Company services, such as Two-Way, Incoming Only, Outgoing Only, and DID.

Multiple PRI interfaces can be combined to function as one group. Utilizing a Backup D Channel arrangement, Customers are able to link up to 20 DS-1s together, providing a maximum of 479 64Kbps B channels controlled by a single D (signaling) channel.

5.0 SERVICE DESCRIPTIONS (cont'd)

5.16 Direct Inward Dial (DID)

The Company's Direct Inward Dial Service offers the ability for a caller outside a company to call an internal extension without having to pass through an attendant.

5.17 Touch Tone

A way of signaling consisting of a push button or touchtone dial that sends out a sound which consists of two discrete tones (one low frequency and one high frequency), picked up and interpreted by telephone switches.

6.0 NETWORK SERVICES

[RESERVED FOR FUTURE USE]

7.0 RETAIL TARIFF

7.1 General

Services provided in this tariff section are available where the Company provides service, in whole or in part, over its own facilities, or where the Company provides service on a resold basis. Resold Services are provided through the use of resold switching and transport facilities obtained from Other Telephone Companies.

The rates, terms and conditions set forth in this section are applicable where the Company provides specified local exchange services to Customers through either its own facilities, through resale of Other Telephone Companies' local exchange services, or through combination of its own facilities and Other Telephone Companies' local exchange services. The rates, terms and conditions set forth in this Section are available on a retail basis only and will not be provided for resale to any other carrier.

All rates set forth in this Section are subject to change and may be changed by the Company pursuant to notice requirements established by the Commission. The rates, terms and conditions set forth in this Section are applicable, as of the effective date hereof.

7.0 RETAIL TARIFF (cont'd)

7.2 Local Exchange Service

7.2.1. General

A. Standard business line service provides intraexchange telecommunications service between subscribers within the boundaries of individual exchanges as designated on Exchange Boundary Maps. Standard business line service includes Company facilities, furnished to permit access to the telecommunications network, which extend from a central office to the Demarcation Point on the property where the subscriber is served.

B. The standard business line rates hereinafter specified, are payable in advance and entitle the customer in any given exchange to service to all lines connected within that exchange without other charges, except for messages subject to Directory Assistance charges. To the extent provided under EAS, and subject to the rates therein specified, payable in advance, customers within certain exchanges are also entitled to service to lines connected within certain other exchanges.

C. The boundaries of exchanges and certain territories in other states served by South Dakota exchanges are as described or indicated on maps for each exchange which have been filed by the Incumbent Local Exchange Carrier and are hereby made a part of this Tariff.

7.0 RETAIL TARIFF (cont'd)

7.2. Local Exchange Service (cont'd)

7.2.1. General (cont'd)

D. Flat rate and message/measured rate services are not furnished to business customers at the same location, with the exception of:

1. The non-administrative, inward terminations at a Telephone Answering Bureau.
2. A flat rate Foreign Exchange line which is switched at a location whose calling area does not include the calling area of the normal serving exchange for the Measured Service lines.
3. The selection of either flat rate service or Measured Service for all administrative lines of a Miscellaneous Common Carrier or Radio Common Carrier.

7.0 RETAIL TARIFF (cont'd)

7.2. Local Exchange Service (cont'd)

7.2.2. Application Of Rates For Business

A. Service is classified as business service and business rates apply when any of the following conditions exist:

1. When the service is furnished at a location where a business, trade or practice is performed and where use of the location is not primarily for domestic activities.

   - Service for social clubs (e.g., Elks, VFW, Eagles, etc.) will be considered business service.
   - Churches will be considered business service except as specified under A.1.

2. When the directory listing is to be a business listing.

B. Nonrecurring Charges

1. Nonrecurring charges, where applicable, are specified with services as stated in each section of the Tariff, unless otherwise specified or included in this section.

2. Charges

	NONRECURRING CHARGE BUSINESS
• Change due to regrading from business to residence service, each	$18.00
• Change from any class of local service to any other class of local service	$18.00

7.0 RETAIL TARIFF (cont'd)

7.3 Business Lines and Trunks

7.3.1 Local Exchange Service

A. Standard Business Line

	NRC	Monthly
Business Direct Line		
- Single Line Subscribers		
Each Line	$50.00	$39.00

	Per Minute
Measured Service - Minute Usage	
1st Minute	$0.08
Each Additional Minute	$0.12

7.0 RETAIL TARIFF (cont'd)

7.3 Business Lines and Trunks (cont'd)

7.3.2 Private Branch Exchange (PBX)

A. PBX Analog Trunks

	NRC	MONTHLY RATE
2-Way, 1-Way out, 1-Way in, 1-Way in with hunting for DID	$30.00	$40.00

7.0 RETAIL TARIFF (cont'd)

7.3 Business Lines and Trunks (cont'd)

7.3.3 Digital Voice Grade DS-1 Trunk Service*

Digital Trunk Charges:	**Non-Recurring Charge**	**Monthly Recurring**
DS1 Connection Per Trunk	$1100.00	$350.00
Minimum of 12 DS0's activated		$500.00
Each Additional DS0 activated		$35.00

* A Digital Trunk is available on a measured rate basis for business customers only.

7.0 RETAIL TARIFF (cont'd)

7.3 Business Lines and Trunks (cont'd)

7.3.4 Integrated Services Digital Network (ISDN) Primary Rate Interface (PRI)

:	Non-Recurring:	Monthly
ISDN PRI Installation Charge /T1 Facility	$1100.00	$450.00

Term Plan Price Standard Features Include:

- 23B+D
- 24B; Requires purchase of one 23B+D
- "D" Channel Control of Multiple ISDN Primes
- 64 Clear Channel Capability
- Direct Inward Dialing
- Dedicated Trunk Groups

Digital DS-1 Trunk is an additional fee.

(Refer to Digital DS-1 Trunk Pricing for Dialtone located in Section 7.2 of this tariff.)

ISDN PRI Optional Features: (One per Prime)

	MONTHLY RATE
23B with "D" Channel Backup	
Term Plan:	
Month to Month	$450.00
	Non-Recurring:
Installation Charge:	$1100.00

7.0 RETAIL TARIFF (cont'd)

7.3 Business Lines and Trunks (cont'd)

7.3.5 Direct Inward Dial Service (DID)*

DID Circuit Termination Charge

	Non-Recurring DID Installation Charges	Monthly Recurring Charge
Each DID trunk termination in central office, per trunk	$55.00	$40.00
Subsequent additions, deletions or rearrangements of DID trunk terminations in addition to above charges, per occasion	$50.00	
Block of 20 Assigned DID Numbers - per occasion	$25.00	$5.00

*DID Equipped Line/Trunk MRCs are in addition to the PBX Trunk MRCs. In addition, the Customer will be charged for the number of DID Number Blocks (20 numbers per block) regardless of the number of DID numbers utilized out of the available 20 numbers.

7.0 RETAIL TARIFF (cont'd)

7.4 Directory Assistance

Charges

Business	**CHARGE**
Per call	$1.35

7.0 RETAIL TARIFF (cont'd)

7.5 Operator Services

Local and long distance exchange calls may be placed on an Operated Assisted basis. The surcharges for Operator Assisted calls are set forth below, and apply in addition to any other applicable usage charges (see Section 7.3.1 for Measured Service per minute rates).

	CHARGE
• Customer-Dialed Calling Card (Mechanized)	$0.60
• Operator-Assisted Station-to-Station	$3.50
• Operator-Assisted Person-to-Person	$6.00

7.0 RETAIL TARIFF (cont'd)

7.6 Features

7.6.1 Custom Calling Features

A Rates and Charges

The following nonrecurring charge applies per line, per customer request to establish or change one or more custom calling features. The nonrecurring charge will not apply to discontinue all custom calling features. Monthly rate does not apply to customers using the service on a per activation basis.

	MONTHLY RATE
Call Forwarding	
- Busy	$3.00
- Don't Answer	$4.00
Caller Identification - Number	$8.00
Call Waiting	$6.00
Speed Calling, 8-number capacity	$4.50
Speed Calling, 30-number capacity	$9.50
Three-Way Calling	$4.00
Remote Call Forward	$9.00

	NRC
Nonrecurring charge for Custom Calling Services	$12.00

7.0 RETAIL TARIFF (cont'd)

7.6 Features (cont'd)

7.6.1 Custom Calling Features (cont'd)

A. Rates and Charges (cont'd)

	CHARGE
•Usage Basis Three-Way Calling, per activation [1]	$1.25

[1] Monthly rate does not apply to customers using the service on a per activation basis.

7.0 RETAIL TARIFF (cont'd)

7.7 Maintenance Visit Charges

Duration of time, per technician,

	Mon. - Fri. 9AM - 5PM	Mon. - Sat. All other times	Sun. & Holidays
Charge per 1st 1/4 hour	$20.00	$30.00	$40.00
Charge each additional 1/4 hour	$15.00	$20.00	$25.00

8.0 MISCELLANEOUS SERVICE

8.1 Busy Line Verify and Line Interrupt Service

8.1.1 Description

Upon request of a calling party the Company will verify a busy condition on a called line.

A. The operator will determine if the line is clear or in use and report to the calling party.

B. The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.

8.1.2 Regulations

A. A charge will apply when:

1. The operator verifies that the line is busy with a call in progress.
2. The operator verifies that the line is available for incoming calls.
3. The operator verifies that the called number is busy with a call in progress and the Customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. A separate charge will apply for both verification and interruption.

8.0 MISCELLANEOUS SERVICES (cont'd.)

8.1 Busy Line Verify and Interrupt Services (cont'd.)

8.1.2 Regulations (cont'd.)

B. No charge will apply when:

1. When the calling party advises that the call is to or from an official public emergency agency.

C. Busy Verification and Interrupt Service is furnished where and to the extent that facilities permit.

D. The Customer shall identify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.

8.1.3 Rates

	CHARGE
Call Processing	
Verification, per request	$1.50
Interrupt, per request (in addition to Verification charge)	$2.50

8.0 MISCELLANEOUS SERVICES (cont'd.)

8.2 Restoration of Service

8.2.1 Description

A restoration charge applies to the restoration of suspended service and facilities because of nonpayment of bills and is payable at the time that the restoration of the suspended service and facilities is arranged. The restoration charge does not apply when, after disconnection of service, service is later re-installed.

8.2.2 Rates

	Non-Recurring Charge
Per occasion	$30.00

8.2.3 PBX Trunks

	Non-Recurring Charge
Per PBX Trunk	$30.00

8.2.4 Nonrecurring Charges

	Installation Charge:
Additions, Deletions, Rearrangements & Changes of one or more Trunks to existing Trunk Groups: Per Interface, Occasion or Trunk Group	$30.00

8.0 MISCELLANEOUS SERVICES (cont'd.)

8.3 Primary Interexchange Carrier (PIC) Charges

This refers to an arrangement whereby a customer may select and designate an Interexchange Carrier to access, without an access code, for interLATA, intrastate calls. Where intraLATA pre-subscription is available, this charge will apply to the change of the primary interexchange carrier for intraLATA intrastate calls as well.

Customers may be presubscribed to the carrier of their choice for both interLATA and intraLATA service. The Customer will incur a charge as provided below each time there is a change in the long distance carrier associated with the Customer's intraLATA or interLATA service after the initial installation of service. For example, if a Customer changes both its interLATA and intraLATA carriers simultaneously, a total of two (2) separate charges will apply (one for the interLATA change and one for the intraLATA change).

	Non-Recurring Charge
PIC Charge, per change	$5.00

9.0 SPECIAL ARRANGEMENTS

9.1 Special Construction

9.1.1 Basis for Charges

Where the Company furnishes a facility or service for which a rate or charge is not specified in the Company's tariffs or tariffs, charges will be based on the costs incurred by the Company and may include: (1) non-recurring type charges; (2) recurring type charges; (3) termination liabilities; or (4) combinations thereof.

9.1.2 Basis for Cost Computation

The costs referred to in Section 7 preceding may include one or more of the following items to the extent they are applicable:

A. Cost installed of the facilities to be provided including estimated costs for the rearrangements of existing facilities. Cost installed includes:

1. equipment and materials provided or used,
2. engineering, labor and supervision,
3. transportation, and
4. rights of way;

B. Cost of maintenance;

C. Depreciation on the estimated cost installed of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage;

D. Administration, taxes and uncollectible revenue on the basis of reasonable average costs for these items;

E. License preparation, processing and related fees;

F. Tariff/Tariff preparation, processing and related fees;

G. Any other identifiable costs related to the facilities provided; or

H. An amount for return and contingencies.